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The BRICS Mechanism as a Platform to Support Russian Interests in the Hostile Global Economic and Financial Environment

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ABSTRACT

The **purpose** of writing this paper is to show the changes that happened over the past two decades in the role of the BRICS economies in the world financial system and the world economy in general. **Methods.** Using comparative analysis techniques, the author shows the positions of the major centers of the global economy in terms of both their GDP numbers measured at official exchange rates and purchasing power parity. The **results** of this article include suggestions for the new world economic order, a reform of the world financial system, and the creation of a financial safety network for the BRICS during the period of rising global prices, key interest rates and debt. The **practical significance** of the paper is that its main conclusions and recommendations can be used when formulating strategies for further development of the BRICS cooperation mechanisms, such as the New Development Bank and a network of mutual currency agreements to support trade and investment within the BRICS as well as their partners.

Keywords: BRICS; New Development Bank; multilateral cooperation links; global governance; international sanctions; international competitiveness; new trade routes

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Механизм БРИКС как основа поддержки российских интересов в неблагоприятной глобальной экономической и финансовой среде

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АННОТАЦИЯ

Цель исследования заключается в классификации изменений, имевших место за последние два десятилетия и определении роли, которую страны БРИКС играют в мировой экономике в целом и международной финансовой системе в частности. На основе сравнительных данных в статье показаны позиции крупнейших центров мировой экономики по индикаторам валового внутреннего продукта по официальным обменным курсам и по паритету покупательной способности. **Результаты** исследования включают соображения о новом мировом порядке, реформе мировой финансовой архитектуры и создании сети финансовой безопасности стран БРИКС в период роста глобальной инфляции, ключевых процентных ставок и внешнего долга. **Практическое значение** результатов исследования заключается в том, что его основные выводы и рекомендации могут быть использованы при разработке стратегий дальнейшего развития механизмов сотрудничества стран БРИКС, таких как Новый Банк развития и сеть взаимных валютных договоров для стимулирования взаимной торговли, инвестиций как в рамках БРИКС, так и с основными странами-партнерами.

Ключевые слова: БРИКС; Новый банк развития; многосторонние кооперационные связи; глобальное управление; международные санкции; международная конкурентоспособность; новые торговые пути

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1. Introduction

As emerging economies gathered for the 14th BRICS Summit in June 2022, the global landscape vastly changed. With emerging economies being a powerful engine for global growth, the BRICS could facilitate a fairer world order. China's President Xi Jinping offered his answers to questions of the time during a keynote speech at the opening ceremony of the BRICS Business Forum.

With the 14th BRICS Summit opening, it is a good time to look at the history of this institution. When the Soviet Union dissolved in 1991, the United States became the only superpower in the world. In 1992, the American gross domestic product (GDP) in purchasing power parity terms was one-fifth of the global total, the largest among all countries. The newly formed Russian Federation took up some 3%, and China was slightly higher, accounting for only 5%. It was clearly a unipolar world. Things have been changing, most noticeably, as the United States and China have been following diverging trends. GDP comparisons using purchasing power parity (PPP) are arguably more useful than those using nominal GDP when assessing the domestic market.

The financial crisis of 2008 was a crucial turning point for the United States. Its importance in the global economy started to drop steadily ever since, but China's jumped, and India and Brazil also saw their share growing despite the crisis. The BRICS leaders held their first official meeting in 2009. China hosted the BRICS Summit for the first time in 2011 in Southern China's city of Sanya when the world was still reeling from the impact of the financial crisis. It was also the first time after South Africa joined the meeting. By then, the five countries accounted for some 27% of the global GDP and 40% of the global population.

The second time that China hosted the BRICS Summit was in 2017 in the Southern Chinese city of Xiamen. It was also around the time when the Chinese GDP in PPP terms overtook that of the United States. The collective weight of the BRICS countries went further up to almost 29%, meanwhile, the share of the US economy continued to decline to some 16% of the world's total. It was at that summit that China first proposed BRICS Plus to invite leaders of five more developing countries to the summit.

Despite covid-19 and the global economic challenge, the overall weight of the five countries has kept rising. By 2020, the five countries accounted for some 30% of the global GDP. Now we have come to the year 2022, when the summit is being hosted by China again. The theme this time is to foster high-quality BRICS partnership ushering in a new era of global development.

Despite the pandemic, some twenty-six hundred people participated in the various meetings. With the emergence of the group of the BRICS of large economies or emerging economies, the issues and challenges faced by other emerging or developing economies could be understood better. Thailand is one of the countries that has been invited to participate in the BRICS Plus mechanism.

It must be noted that the BRICS was also one of the first multilateral groupings to come together to respond to covid-19 pandemic. President Xi Jinping also warned of worldwide disasters that could be caused by sanctions. Xi described sanctions as boomerangs and double-edge swords. He said countries that politicize and weaponize the global economy through their dominance would harm not only their targets but also others and themselves [1].

Because of the economic transition and covid-19, BRICS has shown relatively slow economic growth in recent years. Some trumpeted the theories of the BRICS as fading. However, in 2021 the GDP of BRICS countries totaled 24.6 trillion US dollars, with a yearly increase of 7.6%, higher than the global average growth rate of 5.5%, contributing an important force to the world economic recovery.

2. The analysis of the current environment for the BRICS cooperation to further develop the BRICS Plus agenda

For the first time in twelve years, the BRICS is expanding. The idea of expanding the bloc was raised in 2017, the last time China had a rotating chair. China's President expressed an idea of expanding the coverage of BRICS cooperation, delivering its benefits to more people, promoting the BRICS Plus Cooperation Approach and building an open and diversified network of development partnerships. People see the BRICS as a very attractive bloc, political bloc, and economic bloc. That is very positive. One of the characteristics of the BRICS is that they are large developing countries that face many similar challenges in different ways. They learn from each other's experience and face some of the same challenges.

The first BRICS Plus, Foreign Minister Meeting was held on May 19th, 2022. Nine interested countries from four different continents attended the event: Kazakhstan, Indonesia and Thailand in Asia; Saudi Arabia and the United Arab Emirates in the Middle East; Egypt, Nigeria and Senegal in Africa; and Argentina in Latin America. China's Foreign Minister said participating countries agreed to promote multilateralism and representativeness of developing countries in global governance, cooperation in the fight against the pandemic, supporting common development goals and building unity of the Global South. Egypt is the latest member joining the BRICS financing platform — the New Development Bank. Argentina is seeking closer development ties with China. For Argentina, it is a real opportunity to meet and participate in the new forum in which developing economies debate the Global South Agenda. That is important in terms of foreign policy. China has proposed standards and procedures for bringing in new BRICS Plus members. Together they can pave the path to innovative, coordinated, green, open and shared development to inject more positive energy into developing the world economy and promoting cooperation between all countries.

The idea of setting up the BRICS was to give a broader voice, a stronger voice, not only for these countries but also for all developing countries. That was a big element of setting up. The idea of BRICS Plus from the beginning was to create a cooperation mechanism that would empower developing countries in their agenda, not only economic agenda but social agenda. That threatens not only the United States but Europe because at the G7 and G20, they are very allied regarding their agenda for developed countries.

We need a new world nowadays, especially since there are huge uncertainties and risks for the global order. The West views each international initiative led by China with suspicion or skepticism. The government of the United States says that China is the challenge, that China is going to replace the United States to lead the world order or challenge its leadership in the Pacific region. Therefore, the United States is seeking more cooperation with India.

India is a very important part of the BRICS. Prime Minister Modi said in his speech that India is the fastest-growing economy in the world, with a 7.5% growth rate. As a huge opportunity for investment, he mentioned 1.2 trillion dollars of investments financially in India, particularly in the economy's start-ups. India is the second-largest economy in the BRICS but the fastest-growing economy. For India, it is important to build trust in terms of the economic partnership of BRICS. That will lead to a greater BRICS. That leap will allow the BRICS to achieve certain models of resilience in health care, economic development, global co-work, climate change and other challenges they might have. India's economic interests in this economic grouping are critical and clearly strong. Therefore, India is closely connected to the BRICS.

The BRICS is entering the second phase of the group's development. When the BRICS started, it was planned that it would not have a formal institutionalisation meaning there would be no secretariat and a committee that would be going around different countries. Then they saw that they could create institutions in the future, so they decided to create the New Development Bank. It was expected that this institution would support the BRICS countries' development. The second phase then came with enlargement. Enlarging the BRICS needs a form of an international organisation. It is very clear that the BRICS will expand with candidates from Latin America, the Middle East and Africa. It is very important for the future of BRICS as a multilateral and cooperation mechanism.

At the very beginning, like other international organizations, the BRICS designed the structure of the New Development Bank according to the member country's GDP value. However, the New Development Bank distributes according to the principle of equal contribution to the original capital as well as an equal discourse for all the members [2].

The New Development Bank is driven by the market, which means it operates based on market principles. So, according to this fact, it is a good trial for this kind of governance structure aimed at democratisation of international relations.

The BRICS is not a one-dimensional mechanism. It has three driving forces within the troika: politics, economics and communication. Many exist in those fields. For example, they promote the reform of global governance. Also, the BRICS has a university union. They have done a lot in global health governance. A lot of outcomes could be witnessed in the past few years. Therefore, one should look into the real contents, the actual efforts that BRICS has made so we could have a better and correct understanding of the data [3].

The BRICS aims to build partnerships in as many sectors and countries as possible. That explains why India is able to be in Western forums, as well as forums that bring Russia, India and China together, like the BRICS. Also, India chooses to be very specific on where it can benefit and where it can contribute. That explains that now in the post-pandemic world, the focus is very clearly on the resilience of the economy, and that is something that brings India further to the BRICS. India has met climate change, terrorism security, and all other areas. During the pandemic, China was developing unusually well, although all other countries brought negative things. It is a fast-growing economy. In economic and post-pandemic resilience, this has connectivity to the BRICS, which is all very important [4].

It is estimated that the BRICS will account for 50% of global GDP by 2030. However, this trend can be disrupted by obstacles such as the pandemic and possibly other economic uncertainties. We do not see this as being fought back, especially because in the next two years, we can expect the enlargement of the BRICS. So, BRICS will be more important in terms of economic growth. These meetings, especially this summit, are very important because we will discuss how the BRICS can help not only itself but also other countries in fighting for recovery after covid-19.

3. Analyzing suggestions for the new world economic order

China's President warns against expanding military alliances and weaponizing economic sanctions. Xi Jinping hosted the BRICS Summit attended by Vladimir Putin. The BRICS meeting took place against a complex geopolitical backdrop amid trade disputes between China and the US.

Xi Jinping called for coordination to prevent disruptions to the global economic recovery. It has been proven that sanctions are a boomerang and a double-edge sward to politicise, instrumentalise and weaponize the global economy and to impose sanctions by taking advantage of one's dominant status in the international financial and monetary systems. This will only end up hurting one's interests and those of others and inflict suffering on people worldwide. At the time, the world needs a blueprint looking more at long-term global warming; in the short term, they have to fight inflation. The world is probably about to experience a global recession. Xi Jinping is asking the BRICS to be the leaders, given that there have been defaults from the developed world. The general assumption was that the BRICS is an organization trying to chart its own path independently from the influence of key players. There is a feeling that the BRICS is moving towards supporting Russia. In that sense, one may get the impression that Russia will be a key actor and try to influence and strategically push the BRICS towards some kind of overall support. However, it is also essential that the BRICS countries realise the importance of where the global political arena is moving and the kind of implications we see regarding economic security and the kind of recession we are heading to in the global economy. All of the countries in the BRICS realise how important it is to try to stabilise this global political arena and the fact that the global development agenda and the overall global economic architecture are in a tailspin and have been very fragile and unstable at the moment [5].

On the other hand, the Americans widely believe that against this backdrop of the strained relations between the US and China, the Chinese are likely to use the bloc of BRICS to further advance their political agenda at the expense of the geopolitical interests of the United States of America. One would agree that this really should not be a new Cold War [6].

Each one of the BRICS is looking for its own daylights. The world is in crisis. Today a number one issue, even in developed countries, is inflation. People have the right to question their leaders. Right now, there is inflationary pressure due to a shortage of oil and food. The Federal Reserve of the US is pumping up the rates. That will not produce one barrel of oil or one basket full of wheat.

At the same time, in this geopolitical order, the West has been hoping to put more sanctions on Russia to pressure the Russian leader into political concessions. Now, when they see China and India trying to tap into this void by buying oil and gas at a cheaper rate from Russia, this is seen as a pushback against these sanctions by filling the coffers of the Russian budget. The West is trying to push countries into a particular kind of narrative and a particular trajectory. However, one might bring it back to Africa and the impact this situation has on the economies, including Africa's access to food and value chains, on commodity prices. The western approach is trying to deal with inflation through increasing interest rates and austerity measures. This approach is not working out.

With a combined population of more than three billion people and a combined GDP of more than 23 trillion US dollars, the BRICS has massive political and economic leverage. The BRICS could present itself as an alternative to the G7 or could be one of those blocs trying to mediate between the West and Russia, the West and the Third World. It is too soon to tell; however, because of our interconnectedness, we have got to come up with other resolutions to problems and sanctions that only go so far [7].

Since it was established in 2009, the BRICS has achieved strong economic growth in trade and investment. It went through the global financial crisis better than many other emerging economies. It also outperformed them during the monetary tightening by the Federal Reserve in the mid-2010s. It was mainly because of the absence of cohesion between the key members. For example, look at India and China. Both are members of the BRICS. They have been having challenging moments in recent history, and there seems to be no end in sight. But the issue right now is that both are about to agree. This is a situation where a lifeline is needed. This is not about ideology. This is a question of life or death. We have already seen the devastating effects of climate change. It is adding to the food chain problems. India is having a difficult time. They thought that they could export wheat. Now it is unclear whether they might import wheat instead. That means that the prices are going to go up globally. The same thing is happening in the United States. These types of insecurities are important today. People cannot eat. They cannot live. They do not have energy. They cannot operate their economy. These are the things that have to be dealt with now. China has said they have a blueprint that has worked in terms of covid-19 and in terms of their economy.

In 2020 India and China were on the verge of a major military confrontation. There was violence on the border between the two countries. There is a prevailing sentiment among the Indians, for example, that China will always use a force such as the BRICS to advance its political and geopolitical clout further. India is open to the notion of expanding BRICS for the sole reason of diluting the impact of China. For example, China's attempts to internationalise the yuan have attracted the attention of Indian politicians who, in their turn, thought of using opportunities it internationalise the rupee. The Reserve Bank of India concluded that it is necessary to adopt a cautious approach to the internationalisation of the rupee due to the smaller size of India's GDP in contrast to China's, a smaller presence in world trade and partial convertibility of the national currency, as well as restrictions on current capital transactions. They also added that although the rupee claims to be an international currency, it needs a start in Asia, where the yuan has gained superiority over the rupee. Despite active interest in the internationalisation of the rupee, the Government of India and the central bank do not consider this goal a priority in the short and medium term [8].

The same is true about South Africa. It is a much smaller economy in many respects. However, it is a very important country for the BRICS in Africa. It can be a gateway for countries such as India and China to enter the vast labour market on the continent. Therefore, China, in particular, keeps investing in African infrastructure to gain much needed resources for the growing industry.

South Africa itself is considering opportunities of raising its strength in the region. One of the ways for it to do so is also through internationalisation of the national currency — the rand; however, its ambitions are very limited by the region. So, we can only talk about partial internationalisation or regionalisation of the currency. That is why Africa needs cooperation in the BRICS. And the BRICS is helping it through investments, know-how and technology [9].

China has fostered the engagement of many countries, including South Africa, and ushered in a new development agenda or paradigm. The challenge is that one cannot be exclusive anymore. One has to learn to be inclusive. That is the key for the BRICS.

By now, the BRICS has put aside the political differences between the key players. The most persisting issues, particularly high inflation and grain supplies, which have been disrupted, are widely seen as potential triggers of a prolonged recession in the future. Now is the time for the BRICS to reinvent itself to move forward and adapt to these new realities [10].

China and the US seem to be on a collision course because America has made this quite clear as far as their strategy is concerned. They see China as the biggest threat to stability and American interest in the near future. This could be something that could undermine the chances for the BRICS to thrive and stay together. What we have witnessed is a multipolarity in action. The United States is not calling the chance. The United Nations, the International Monetary Fund or World Bank would, in essence, dictate things or move things around or threaten. Now the US is talking about ideology when people need food. That will push their desire to have anti-entity, including the BRICS [11].

So, the BRICS could stand for something important in the future. It could be a saviour stepping in, providing food for the world. Today it is about multipolarity in the world and strengthening it. The BRICS demonstrates consistency in the theme and the narrative. It is also about strengthening the multilateral dimension, the United Nations and the World Trade Organization. The BRICS will be evolving. When it evolves, it is going to have different iterations. That will be key to stabilisation of the global arena, which is currently in a very vulnerable context [12].

4. Discussing recommendations for the reform of the world financial system and the creation of financial stability network

As a result of the transformations in the modern international financial architecture caused by the global financial crisis of 2008–2010 and the covid-crisis of 2020, countries such as the BRICS began to look for alternative ways to organize foreign economic relations with their trading partners in order to create stabilizing mechanisms of cooperation [13]. Gradually, with the growing US trade deficit with the rest of the world, there began the fall in the profitability of dollar deposits, the strengthening of the positions of new industrial countries, in particular Latin American and BRICS countries in the world market, the increase in US foreign debt and the crisis of international debt of developed countries in general. First of all, new investment funds of developing countries have appeared, which together surpassed the funds of the IMF and the World Bank in terms of volume. New, emerging financial centers have emerged, large gold and foreign exchange reserves have been accumulated, especially by the BRICS countries [14].

One of the ways of cooperation was direct trade and direct settlements in national currencies. BRICS countries became leaders among developing countries. Their role in the global economy is determined by competitive advantages, which consist of factor endowments (Brazil, Russia, South Africa), domestic demand and market capacity (India and China), advanced factors of production in the form of high technologies, highly intelligent workforce and specialists of the rarest professions (India and China), the presence of related industries and types of production, concentrated in the form of clusters, which at a certain stage of development form a global factory (China), as well as a high potential of financial liquidity, used to create various funds for expansion into foreign markets [15].

During the first decade of the 21st century, the BRICS countries significantly increased GDP, exports, foreign investment, gold reserves and sovereign-wealth funds. As for qualitative development, there remains a significant gap between the BRICS countries and the G7 countries. This lag was especially evident during the global financial crisis when the BRICS countries faced the need to finance government spending to overcome unemployment, falling rates of industrial production and exports, gold reserves depletion, national currencies devaluation, budget deficits and trade deficits. Borrowings were required from the IMF or the World Bank [16]. However, the quotas and voting rights of the BRICS countries are not large enough to solve the problems, which raised the question of the possibility of increasing quotas and voting rights in favor of the BRICS countries. The competitiveness of a country largely depends on the volume of allocated financial resources since significant investments are required for the development. During the global crisis, the vast majority of loans from the IMF were received by developed countries, as a result of which the gap between rich and poor countries grew. The gap between developing and developed countries has thus become more noticeable. In this regard, there is a need for approaches that would allow developing countries in general and BRICS in particular to maintain a high level of financial stability. Following the model of the G7, the BRICS countries, especially China, began to conclude swap agreements between central banks and then to create international and regional financial organizations operating on similar principles as the IMF or the World Bank [17]. Thus, the New Development Bank of the BRICS, the Asian Infrastructure Investment Bank, the Reserve Anti-Crisis Fund, etc., have emerged, and the foundation for the future debt securities market in Asia has been laid out. These organizations, together with swap agreements, led to the emergence of the financial stability network of the BRICS countries and other developing countries as a parallel analogue of the existing network of developed countries. These organizations collectively are known as "financial minilateralism". Its essence goes down to the formation of the BRICS countries' parallel multilateral monetary, financial and other economic institutions, which complement the activities of the IMF, the World Bank, the European Bank for Reconstruction and Development (EBRD), the Asian Development Bank (ADB), etc. [18]. They are created to form parallel financial security networks of developing countries that do not have large quotas in the IMF and the World Bank for obtaining development loans. Financial minilateralism is an agreement of a limited number of countries on the creation and operation of small, highly specialized financial institutions, whose activities are aimed at financing mainly infrastructure projects and projects for the development of mineral deposits in developing countries when the IMF or the World Bank does not provide the necessary assistance since those countries do not meet their criteria [19].

The participation of many Asian and South American countries in financial minilateral agreements and organizations is considered by some researchers as a trend of currency polycentrism. The program and agenda of the policy stimulating the internationalization of the BRICS currencies should focus on decentralizing approaches to managing currency risks at the corporate level of the financial and non-financial sectors for the development of mutual transactions through national accounts. Initiatives, such as the agreement on Contingent Reserves and the BRICS New Development Bank can also create opportunities for the circulation of currency risk-hedging instruments during global financial stress [20].

The position of Russia in the modern world monetary and financial system is determined by the following main events. First of all, in 2006, the ruble became a fully convertible currency. In 2013, the ruble began to circulate on the foreign exchange market based on a free float regime. As a result of these two events, the offshore market of forwards without the delivery of the ruble was integrated into the national currency market of Russia. Therefore, unlike the currencies of other leading developing countries of the world, ruble non-deliverable currency forwards have the smallest share, for example, among the BRICS countries in the global offshore forwards market. The rapid integration of the offshore and national currency markets of the ruble coincided with a period of serious foreign economic challenges for the Russian economy. This period is divided into two stages. The specificity of these two stages lies in the fact that the second of them began within the first and continued to operate after its completion. The first stage, from 2013 to 2020, was characterized by the monetary tightening of the central banks of the leading countries of the world. Corona-crisis 2020 forced the developed countries to return to the program of actively expansionist policies to stimulate the economy and overcome the crisis. Meanwhile, from 2014 to the present, Russia, in addition to such an aggressive foreign economic environment and the conjuncture, has been forced to face international sanctions. Both, coupled with the regime of free-floating of the ruble exchange rate, were accompanied by sharp jumps in the currency and assets in the stock market, which led to the devaluation of the national currency, a sharp reduction in trade surplus, a fall in budget surplus, the threat of a permanent budget deficit, rising prices, falling living standards of the population, the need to carry out unpopular reforms of the pension system and taxation. China, on the other hand, used a gradualist approach to internationalizing the yuan through bilateral agreements with global offshore currency centers. China has strict internal controls on the current account and capital transactions. At the same time, the Chinese authorities allow the operation of a pool of offshore yuan currency instruments that can be freely traded and put into circulation. Due to this, China continues to show positive dynamics of GDP, trade and balance of payments, investments abroad, and increasing the welfare of society in the context of international sanctions, trade conflicts and the corona-crisis. The Chinese approach to the exchange rate policy and the international circulation of the national currency creates conditions due to which the main share of currency and financial risk is shifted to investors and speculators. Because of the Russian approach, a significant share of risks is hedged at the expense of the resident taxpayer. Russia has been pursuing the implementation of its approach for quite a long time. It was even unlikely that it could abandon it in early 2022. However, the special military operation and the new sanctions that followed changed everything. Just like in the 1990s, the Russian ruble started to fluctuate within specific borders known as the currency corridor. If this is a policy that aims to increase the international competitiveness of Russia, then it creates a depressive effect on innovation, entrepreneurship and consumption, which has a destructive effect on the formation of competitive advantage [21].

Although the Russian approach creates favorable conditions for faster internationalization of the currency, the ruble has a much smaller share in international circulation, reserves and liquidity than the yuan. The further effectiveness of the implementation of these approaches will largely depend on the degree of freedom of currency transactions carried out at the offshore and domestic exchange rates.

Expanding access to the national markets of currency, risk-hedging instruments for foreign investors, and the corresponding offshore markets for residents is one of the necessary conditions for improving the effectiveness of currency-risk management when purchasing BRICS currencies [22].

Among the group of leading countries in Latin America and Southeast Asia, there are interesting examples and experiences of reducing pressure on the national currency and the national currency market. Particular attention is drawn to the expertise of Brazil and Indonesia, which is recommended for application by the Bank of Russia to minimize the risk associated with the volatility of the national currency market.

During the period of rising interest rates and monetary tightening in the 2020s, the central banks of the developed countries began to issue a special type of derivatives for hedging currency risks, namely, national non-deliverable currency forwards, to slow down the effects of negative externalities. Until now, non-deliverable currency forwards in offshore centers have been widespread. National non-deliverable currency forwards are expressed in the national currency, and transactions in them are carried out on the national market within the jurisdiction of the issuing country. This is their fundamental difference from offshore forwards expressed in US dollars. Unlike national forwards with currency delivery, in the case of non-deliverable forwards, the entire nominal volume is returned by the time of the contract's expiration, regardless of profit or loss, i.e., net clearing of transactions.

National non-deliverable currency forwards were issued and used for the first time by the central bank of Brazil as an instrument of currency intervention. In Asia, national non-deliverable currency forwards are used only in certain volumes in Indonesia as a monetary policy tool, while transactions on the secondary market are under development. The Central Bank of the Philippines has a tool in the form of national non-deliverable currency forwards, but it is used very rarely.

The policy of the central bank when issuing national non-deliverable currency forwards is as follows: first of all, it is an intervention tool without using reserves in foreign currency. Since these derivatives are denominated in the national currency, a short position on the dollar in the case of national non-deliverable currency forwards does not imply the presence of a collateral asset denominated in dollars on the balance sheet of the central bank issuing this currency. Secondly, national non-deliverable currency forwards contribute to suppressing the demand for currency in the spot market or the forwards market with currency delivery (US dollar) by providing commercial banks with an alternative to hedging currency risk on short positions in US dollars. Thirdly, these contracts form another instrument of monetary policy — intervention, in which the central bank sets exchange rate signals. Although national non-deliverable currency forwards are not comparable to foreign currency reserves, large short positions in US dollars can create a very high risk for the central bank. If the parties to the transaction decide not to close positions on national non-deliverable currency forwards before the closing date of the contract and instead purchase US dollars on the spot market or the forward market with currency delivery, then the problem of devaluation of the national currency is aggravated. Losses from national non-deliverable currency forwards can have a negative impact on the reserves and other funds of the central bank. For commercial banks, investors and corporations, national non-deliverable currency forwards cannot act as perfect substitutes for instruments with currency delivery or non-deliverable currency forwards on offshore markets. For example, corporations may have a future demand for the US dollar, so they prefer a contract with direct delivery of the currency. The risk associated with currency convertibility matters because national non-deliverable currency forwards are expressed in the national currency at the time of contract execution. In the case of Brazil, the problems of repayment of these contracts led to an increase in the discount rate on national non-deliverable currency forwards compared to offshore non-deliverable currency forwards.

5. Conclusion

The 14th BRICS Summit in 2022 was supposed to foster partnerships within the bloc to bring in a new period for global development. First of all, Xi Jinping attended the opening ceremony of the BRICS Business Forum and delivered a keynote speech. The organiser of the forum, the China Council for the Promotion of International Trade, said the forum served as an open platform for enhancing trade and promoting world economic recovery. According to the Council, more than 1,000 officials, diplomats and business representatives from eighteen countries participated. Businesses from thirteen countries worldwide were engaged. Most business participants are world-renown enterprises, including forty of the world's top five hundred companies that cover the areas of energy, finance, aviation, manufacturing, transportation and emerging industries such as big data, e-commerce and new (or green) energy.

Considering the current world challenges such as rising inflation, covid-19 and some regional conflicts, experts believe that business owners, and stakeholders worldwide wanted to see this forum as an important open platform to strengthen cooperation and boost global recovery [23]. The summit looked at a partnership with high-quality and high-level dialogue on global development. The dialogue focused on implementing the 2030 agenda for sustainable development, and BRICS leaders and leaders of other emerging markets and developing countries attended the event.

It is nearly sixteen years since BRICS was founded to promote peace, security, development and cooperation among the five major emerging economies of the world. Through the years, it has become more inclusive. It gave other developing economies more representation. The strategic cooperation proposed solutions for developing economies. This became evident as the race of the world dealt with shockwaves from the global financial meltdown that began in the US in 2008.

The first summit in Yekaterinburg in June 2009 focused on promoting reforms in international financial institutions, including greater representation of emerging markets in these institutions. The four nations suggested a new reserve currency to break away from perceived US dominance. The leaders also adopted a joint statement on global food security. In 2010, South Africa was invited to join. A few years later, BRICS expanded representation among a particular region's developing nations. Where the BRICS Summits took place, leaders from countries of the region of the host nation were invited for dialogue. This was known as the BRICS Plus Mechanism.

In July 2014, at the summit in Fortaleza, Brazil, the BRICS held a dialogue with leaders from South America. BRICS cooperation carried not only expectations from the people of the BRICS countries but also those from emerging markets and developing countries. So, when China held its chairmanship in 2017, the dialogue held on the sidelines of the summit was upgraded to the BRICS Plus, indicating the inclusion of other developing countries worldwide.

The BRICS countries are an influential force in the global economy, accounting for 25% of world economic output in 2021. Since the first summit in 2009, two of its members, India and China, have risen in the rankings of the world's largest economies. As of 2021, India is now the sixth largest, and China is second, and it is soon expected to overtake the US. The BRICS is a constructive mechanism for developing economies seeking a bigger role in improving global governance and getting interest on the world stage. After sixteen years, the BRICS countries have become an effective cooperation mechanism for emerging markets and developing countries with global influence.

BRICS has become an economic powerhouse for the entire world. Over the past decade, the BRICS countries witnessed rapid economic growth and became super-sized economies. From 2012 to 2021, the GDP of BRICS countries grew at an average annual rate of 5.1%, 2.1 percentage points higher than the global average. Economic and trade ties between the BRICS countries also came closer. In 2021, trade in goods among the BRICS countries exceeded a record 500 billion US dollars for the first time. In 2021, their combined GDP was nearly 24 trillion US dollars, significantly bigger than eight percent in 2001 when the BRIC acronym first appeared. The BRICS now accounts for a fifth of global goods' trade and foreign direct investment. The five countries have maintained close cooperation, even during the pandemic.

In terms of investment, the New Development Bank was founded mainly for infrastructure projects in the BRICS countries in 2014. So far, the New Development Bank has allocated around 30 billion dollars to over eighty projects. The macroeconomic stability of BRICS countries fostered global recovery and remained a major growth driver for the global economy.

We look back on how China cooperated with the BRICS over the last five years. At the 9th BRICS Summit, which China hosted in Shanghai in 2017, President Xi Jinping pointed out that economic cooperation was the foundation of the BRICS mechanism. With this focus in mind, we should implement the strategy for BRICS economic partnership, institutionalise and substantiate cooperation in various sectors and continue to enhance this. That year China also pledged more than 76 million US dollars for a BRICS economic and technology cooperation agenda.

In November 2020, in the midst of battling the coronavirus pandemic, the five nations reiterated their resolve to jointly address macroeconomic shocks by adopting the BRICS strategy 2025. The strategy defined guidelines and priorities of cooperation in trade and investment and embraced digital transformation to raise economic competitiveness.

The role of the BRICS New Development Bank gained prominence. The projects cover sectors ranging from transport to clean energy, such as Putting Ping Hai Bay, an offshore wind power project in China; renewable energy projects in Brazil and metro railways projects.

In 2021, the BRICS New Development Bank expanded its membership to include the United Arab Emirates, Uruguay and Bangladesh. In May 2022, BRICS foreign ministers invited their counterparts from other emerging market nations, including Argentina, Saudi Arabia and Indonesia. As the coronavirus raged due to new variants, China pushed for long-term research and development in combatting covid-19. In 2021, Chinese biopharmaceutical company Sinovac established a national centre as part of the BRICS vaccine research and development centre in an effort to narrow the vaccination gap.

In the field of security in 2021, the group finalized a counter-terrorism plan which designated high representatives from each member nation to review the implementation of BRICS efforts to combat terrorism. Cooperation in the BRICS also extends to people in cultural exchanges. Xi Jinping proposed Global Development Initiative (GDI) in 2021 at the UN Assembly. This initiative may help the mechanism of the BRICS countries. This is a very important moment and a very important initiative. It is about unilateralism. The development-oriented initiative should be the priority. The development must be people-oriented and inclusive.

To further strengthen the positions of the currencies of the BRICS countries and the corresponding new currency centers of the world monetary and financial system, it is recommended:

1) to organize direct trade in national currencies with the countries of the Eurasian Economic Union, Shanghai Cooperation Organization and others, primarily with those whose imports are dominated by the products of the BRICS countries;

2) when creating regional exchanges for trading the national currencies of the BRICS countries, the currency regulatory authorities need to take into account the experience of Russia and China, which have already started trading in the yuan and ruble in 2011;

3) for direct trade turnover between the BRICS countries, the potential value of cross-border trade in goods should be taken into account, which can serve as a guideline when forming a plan for their wider use in foreign economic transactions. This value allows us to estimate the limit above which, under the current currency restrictions, the government cannot enter into foreign economic transactions with the currencies of the BRICS countries due to national security issues and monetary policy independence.

Taking into account the successful experience of the central bank of Brazil and India, the Central Bank of Russia could, during the period of adaptation to the consequences of the 2020 corona-crisis and the new wave of Western sanctions, use currency risk hedging tools, i.e., national non-deliverable currency forwards, which would minimize capital outflow during financial shocks, as well as pressure on the exchange rate on the national currency market.

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ИНФОРМАЦИЯ ОБ АВТОРЕ

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The Planning System: Market and Centralization

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ABSTRACT

The article **aims** to outline approaches to the study of a harmonized model of forecasting, strategic planning and expectations of business communities. In the **Introduction**, the idea of transformation of planning to the dominance of the network approach instead of the dominance of centralization is substantiated. **Materials and methods.** The key aspects of the expediency of applying the experience of centralized planning under state ownership, providing information resources and applying modern high-tech methods for collecting, processing and analytically presenting materials to improve the effectiveness of preventive decisions, introducing a backbone component of leading indicators into network planning are considered. **Results and discussion.** The article includes innovative proposals for using the technology of leading indicators and increasing the role of horizontal links in planning with their help. **It is concluded** that it is necessary to shift the semantic emphasis in discussions on the development of planning to the harmonization of planning, forecasting and development parameters expected by business communities.

Keywords: economics; planning; network approach; leading indicators

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ОРИГИНАЛЬНАЯ СТАТЬЯ

Система планирования: рынок и централизация

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АННОТАЦИЯ

В статье излагаются концептуальные подходы к исследованию современной модели планирования, предложения по повышению роли планирования мезоуровня. Рассматриваются ключевые аспекты применения в современной России опыта централизованного планирования в условиях преобладания государственной собственности, обеспечения информационных ресурсов и применения современных высокотехнологических методов сбора, обработки и аналитического представления превентивных решений, введения в сетевое планирование системообразующего компонента опережающих индикаторов (MEI). Обосновывается перенос смыслового акцента в дискуссиях о развитии планирования на тематику гармонизации планирования и прогнозирования с учетом ожидаемых деловыми сообществами мезоуровня параметров экономического развития.

Ключевые слова: экономика; планирование; сетевой подход; опережающие индикаторы

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Introduction: Back to the future meanings or forward to the past?

It is not the first time that the world is facing the problem of production disparity with rapidly growing needs, but it is the first time that particular groups of goods are in shortage. Today's economic crisis is one of scarcity, starting with energy and food and ending with investment. Behavioral economics does not solve this cognitive dissonance. It attempts to bypass this problem by digitalizing management are also failing, aiming to achieve unachievable — managing people using only technical means. From this point of view, the fragmented nature of economic and social processes is becoming more obvious. Joint (collective) development planning overcomes the limitations of the technical dimension of the economy in relation to the social dimension [1–3].

Digitalization of space, if possible, is only viable within the boundaries of its own digital space, since it is the simplest form of development. The mechanistic understanding of social space leads to its reduction to a simple analogue (model). However, there is not and cannot be a digital analogue of the world because the simple is not identical to the complex, as the simple is finite, and the complex is infinite. There is another problem here: the complex cannot be controlled by the simple; on the contrary, the simple is controlled by the complex. Digitalization should be socially reversible, that is, to turn back into the social system. Such is the economy. In modern social science, the understanding of economic behavior as a personal space of the economy is fully justified. Now it is up to socio-economics to deploy the social space of the economy.

Planning together at the meso-level overcomes the limitations of the economic dimension in relation to the social dimension, which harmonizes development. Collective planning differs from centralized planning in that there is no limit to the set of expectations. A broad perspective opens up for the sociological analysis of the interconnectedness of expected semantic systems. Today, this aspect is not considered at all, being obscured by the clearly expressed predictive property of expectations. However, it is very important for the economy, as it makes it possible to assess the mobilization potential of production (labor, capital and technology) to adapt to changes in financial and economic factors and socio-economic processes.

Until the turn of the 1990s, planning in the Union of the Soviet Socialist Republics (USSR) was carried out in accordance with the Program of the Communist Party of the Soviet Union (CPSU), the directives of the CPSU Central Committee and the decisions of the Council of Ministers of the USSR in order to build communism and for this to improve living standards and strengthen defense capability. Today, it is ignored that centralized planning was supplemented by "socialist competition" at enterprises and the constant adjustment of individual plans that support the conceived balance on the scale of the country, its territories and industries, but also due to objective changes in the conditions of economic activity. The rigidly planned conjugation of production in the national economy as a "single factory" turned out to be a false goal.

Once again, it is proved by the destruction of world economic connections due to the globalized sanctions wars. Estimates of the depth of integration of the Russian economy into the global market economy differ. The scale of this integration unexpectedly became clear to many, even experts in Russia and abroad, as a result of the destructive impact of anti-Russian sanctions on the global economic system.

However, the expectation of the "invisible hand of the market" effect turned out to be clearly exaggerated, as evidenced by the increasingly threatening market price shocks that are destroying the world economy not only for objective reasons but no less because of the unfair competition of institutional investors.

As it was before, now there is an increasingly obvious lack of horizontal planning links between business entities at all levels of the economy and management. Economic contracts cannot replace them, which has clearly manifested itself in the conditions of the current destruction of national and international systems of contract law. It is easiest to attribute this to unfair competition, the desire for monopolism at any cost and hybrid wars, but they did not come from nowhere at all. They were generated by the world order globalization crisis.

It is no coincidence that in its conclusion on the project of planning centralization, the Ministry of Economic Development pointed out, first of all, that the Intersectoral balance model did not allow for the development of the initiative of economic entities and is not applicable to the modern market economy [4]. To overcome the imperfection of centralized planning technology, it is necessary to introduce a social component to it.

For the first time, the addition of a social component to planning was carried out back in the 50s of the XX century, and today no significant project can do without it, and this component is a network approach. Along with it, the network approach began to develop in the retail organization, where it allowed forming estimates based on a customer database, which indicates the presence of a certain social resource of entrepreneurship [5]. However, the use of the network approach invariably encounters a significant limitation of commercial confidentiality, which does not allow it to become a social resource for all participants equally.

An important channel of information interaction are the flows of public opinion monitoring economic issues that are in the focus of attention of the socio-political and business communities and regulators[1] [6]. It is necessary to note the widespread practice of creating business ecosystems that structure the underwriting of production, logistics and finances of enterprises [7, 8]. In recent years, information systems for analysis and forecasting of exchange trading participants have become widespread, but with limited access to the personal data of traders.[2] Another similar structure is private social networks, participants of which have access to their main characteristics with the consent of the other participants, up to the disclosure of the circle of communication and even personal data. Finally, a new network information structure is the participation of organizations in monitoring leading indicators, where information about participants is closed to other participants and third parties.[3]

The Government of the Russian Federation has approved an action plan for the digital transformation of public administration.[4] One of the key aspects for the future, mentioned in the plan, is the achievement of continuous processing of economic data online using blockchain technology and further training of the system (artificial intelligence) based on a dynamic optimization model (efficiency) of the intersectoral balance. The Communist Party of the Russian Federation suggested using the experience of Soviet centralized planning to automate the economic management system based on artificial intelligence. In particular, it is proposed to automate the gathering and processing of primary data of the Federal Tax Service, the Federal Service for State Statistics (Rosstat), the Federal Customs Service and other regulators. It is claimed that the authorities of Uzbekistan, Belarus, and Kazakhstan are interested in the proposed approach.

In Russia, the economic unit of the Government has worked on the centralization of planning. A significant part of the proposed functionality is implemented within the framework of existing information systems. State Automated Information System "Upravlenie", supervised by the Ministry of Economic Development, contains a federal information system for strategic planning and a system for monitoring national development goals. The "Electronic Budget" platform, supervised by the Ministry of Finance, aggregates information about government programs and their structural elements. A number of the proposed functions are executed by the State Information System of Industry, supervised by the Ministry of Industry and Trade. A large volume of tax data is publicly available. By order of the Ministry of Economic Development, a unified digital platform "Economy" is being created for monitoring, modeling and forecasting socio-economic development, as well as tracking the effectiveness of budget subsidies and financial support for enterprises and the population.

In the discussion of proposals for the centralization of planning, first of all, a lack of information support is noted, which seems fair. But, in fact, planning, including monitoring, modeling and forecasting, is only being designed. Actually, planning consists not only and not so much of statistical work but of the use of its results. And it is necessary to solve the fundamental issue

[1] RCSPO. URL: https://wciom.ru/tematicheskii-katalog/economy

[2] "Forum" page at Investing.com. URL: https://ru.investing.com/currencies/ usd-rub-scoreboard

[3] Rosstat data. URL: https://rosstat.gov.ru/leading_indicators

[4] Strategic direction in the field of digital transformation of public administration. Approved by the Decree of the Government of the Russian Federation dated October 22, 2021 No. 2998-R. URL: http://static.government.ru/media/files/d3uclO4ZFGNKmx CPBXbL4OaMPALluGdQ.pdf

of combining state centralization of planning and the market. The government and economic departments consider it necessary, and scientific and political circles also consider it important. What is the difference of views?

The difference is in the formation of a very significant potential in the use of economic expectations, displacing the previous methods of planning based primarily on political attitudes and macroeconomic forecasts. However, so far, economic, financial and stock market expectations are mainly used to solve current microeconomic problems, which are due to the uncertainty of opinions in business communities (including households), as well as the underdevelopment of the methodology and technology of their analysis in terms of revealing predictive potential and bringing the sociological dimension of indicators in line with the statistical dimension of economic indicators.

Archival data, given out by default as actual, reverses the public consciousness into the past instead of awakening the thought about the future. Unfortunately, archival data is also used for macro forecasting. It turns out to be a navigation of the past and not of the future at all. Efforts to adjust individual independent variables (factors) in macro-forecast models do not help the case but, on the contrary, confuse it even more since each participant adjusts his indicator in his own way. This is reflected in the differences in macroeconomic forecasts of national economic and monetary authorities, international economic organizations and private research groups. The aggregation of forecasts turns out to be subjective and vulnerable due to political populism.

Macro–forecasts tend to become smaller, dramatically reducing the dimension of their object, and lose what macro-forecast models are built for — the depth of perspective. Breakthroughs into the future do not have a meaningful probabilistic assessment either by events or by timing and therefore are not perceived by the public consciousness as a guide to action. It is only many years later, that some of them are remembered as "prophecies", which allows a wide variety of interpretations.

In contrast to the classical econometric approach based on monetarist theory, general economic expectations change the architecture of the management of the economic complex. Because of these expectations, indicators compiled from the expected investments of own funds of organizations and made by the public, the expected execution of budgets of the budgetary system, expected lending, expected portfolio investments and expected foreign investments, can be at the forefront of current planning and control [9].

Materials and methods: a new composition of the planning

The replacement of planning with macro forecasting has not changed the essence of the centralized control, which has gradually been displaced by American globalization, carrying out of which is now recognized in Russia both politically and economically inexpedient. However, until recently, no reasonable alternative concept has been developed. Judging by the estimates of the ministries (except the financial bloc), they have already divided the centralization of planning by their areas of responsibility. But that is precisely why the Government has only to select the main entity responsible for the centralization of state planning, namely the Ministry of Economic Development of the Russian Federation and Rosstat.

Let's leave aside the difficulties of introducing the technology of predictive analysis of economic expectations into state regulation and professionally oriented media, which often respond only to changes in the economic policy of the authorities, and a lack of demand for predictive analysis of expectations in production due to not being embedded in business processes, not to mention the backwardness of organizational and technical bases. Let us focus on the fundamental approaches based on the recognition of the priority of the real sector over the service sector.

From this point of view, the advantage is the use of the State Commission for Electrification of Russia (GOERLO) principle — that is, the implementation of a strategically important state program that is scientifically based. Only now, there is not just one of them in Russia, but a certain set, among which there are four key ones for the transition to a new technological and economic way of life: energy, food, infrastructure and the market.

Their harmonization is not possible by drawing up a balance between the output in the enterprise groups of means of production ("A") and consumption ("B"). A new group has emerged — small enterprises, individual entrepreneurs, entrepreneurs without a legal entity, creative interest groups — related not only to final consumption but also to the actual creation of a significant part of intangible assets that are not accounted for in the total national product.

Centralization of planning in the business ecosystem is possible since each enterprise coordinates its plans with contractors. Regular preventive monitoring of the planned ecosystem is highly desirable in order to automate, if possible, the MEI correction of centralized planning (the abbreviation MEI is used to denote leading indicators — indicators of market expectations according to the methodology of the Organisation for Economic Co-operation and Development).

The ideology and technology of turning semantic leading indicators into digital economic indicators remain unclaimed. This topic is extremely important for economic planning in all its aspects and at all levels, and most importantly — for the formation of a digital image of the future for which planning is being implemented. It is still believed that the targets of the plans are determined using macro forecasting, which is based on dynamic econometric models operating with archival data. In fact, all these models are inertial, and all the difference between them lies in the different rates of attenuation of certain economic processes reflected by independent variables. There are only two signals from the future: actuarial calculations, which have a certain probability, and plans for technical re-equipment of production based on scientific discoveries and inventions made, too often without a certain probability of entering commercial operation, and for the most part having the fate of closed technologies.

The task is to harmonize the expectations of business communities, which is a component of the planning system based on forecasts. But the composition of planning changes when using the expectations component of business communities — the latter becomes the first. Namely, planning begins with the aggregation of expectations of economic entities (which, in fact, was actually done in the planned economy), and forecasting is adjusted by them to achieve the level of relevance and the greatest probability of economic assessments of development.

The adaptability of the model is achieved by using leading indicators in real-time. In the former planned economy, social competition and correction of plans were used for this at the request of local authorities, ministries and large enterprises. The natural disadvantages of such a system were formal attachment to the annual cycle and excessive politicization. Monitoring of leading indicators makes it possible to avoid both, adjusting economic forecasts not only, and not so much, in connection with changes in the political situation but in accordance with signals about the development of production, which play the role of predictive controlling of economic systems.

Even in a market economy, the politicization of economic decisions, as the practice of recent decades has shown, plays a destructive role since politics is a continuation of the economy by other means, and not vice versa. For example, The United States, which until now had the most powerful resources to obtain profits from, as they believed, the chaos, they controlled in the world economy, is now experiencing a shortage of the most fundamental resources — energy and food — not only for development but simply for maintaining the existence of a half-a-billion American population.

Results and discussion: renovation of the strategic planning core

The core of modern economic planning can be the parameters of socially useful labor expected by society, in contrast to the monetarist approach, which focuses on cost indicators of growth. "Trust" is a social resource reflected in the category of business reputation (goodwill). The valuation of this resource includes, as a basic component, an assessment by the market of an organization's demand for the use of monetary resources. The quotation of an organization's securities answers three questions: does it have a social resource, how big it is and how it changes?

Expected investments, including intra-cluster lending and direct investment, bank lending, budget expenditures, portfolio investments, and exchange rate policy of regulators are leading indicators for the expected economy, and the parameters of which should be considered when developing strategic planning. MEI-navigation of investments is a system-forming component of the implementation of strategic planning.

Changes in the technological structure of production, output, production prices and employment have their own cyclical nature and should be combined into dynamic systems. Economic crises, apparently, are nothing more than a resonance effect when these processes pass through their minimals. The frequency of economic crises points out the actuality of this assumption. Economic, fiscal and monetary policies have to be guided by state projects and purposefully developed solutions.

The timeliness and rhythmicity of budget funds entering the economy ensure their cyclical nature, which is required to maintain the rhythm of production and eliminates the need for spending money on unnecessary inventory logistics. In a relatively small economic system, this is possible with the help of manual operation, but in a globalizing economy, this is no longer possible. This is evidenced by the current economic downturn caused by a severe violation of the system of logistics relationships in the world economy.

Planning in the new economy uses the effect of "cycle multiplication" when a larger cycle includes several smaller ones. Overproduction crises do not always correspond to this periodicity, occurring once every 10–11 years. Changes in technological order do not correspond to them either, occurring more often than once every three hundred years. It turns out that they have a more complex cyclicity, a multiple of a different dimension. It's all about the original unit of measurement, which is different in each of the segments.

The modern economy is characterized by a multiplicity of seven, but there are only five working days in a week, not seven, as it was only two centuries ago when, according to religious dogmas, there were six working days in a seven-day week, and even less, taking into account non-working holidays. And all this was unevenly distributed relative to the tempered calendar scale, tied to the natural cycle of plant growth and reproduction of domestic animals, as well as the change of seasons.

Maybe the reduction in the weekly working period is perceived as an acceleration of socio-economic processes. In the transition to a new technological order with its expanding intellectual activity and robotization faster than before, we, on the contrary, return to natural cyclicity. But then it will take approximately the same 322 years that correspond to historical epochs.

Cycles of overproduction in the modern economy arise not only and not so much due to natural causes but as a result of the accumulation of negative results of actions that do not correspond to the changing conditions of production management. Attempts to regulate this process with the help of monetary policy were not successful, but it turned out to be more effective with the help of a planned economy. Nevertheless, it should be borne in mind that the existing planning failures were associated with a violation of natural cyclicity. So, instead of a seven-year cycle, they tried to implement five-year planning and all the time faced three or four-year periods of cyclical ups and downs, perceived as failures in planning policy. Planning, as a living system, has an annual and seven-year temperament, bringing it closer to the ancient cyclical nature of subsistence farming. But both in the past and now, these are interrelated periodicities representing the totality of the economic cycles of the living system of society.

To harmonize planning in market conditions, a breakthrough is needed in understanding the mechanism of turning leading indicators into the parameters of economic development expected by business communities of enterprises and households [10]. Today, up to 80 countries use reviews of leading indicators, including bank lending conditions.[5] For the first time, it was possible to come close to solving the problem of turning the leading indicators into the expected parameters of economic development. However, along with the clear progress towards the coverage of the leading indicators of the national economy, significant gaps were found not only in the real sector but also in the service sector. So, if in the energy sector MEI monitoring covers the extraction of energy raw materials, production and distribution of electricity, then in the agro-industrial complex, despite the continuous cycle prevailing in it today, leading indicators are observed only in the food industry, but not in agricultural production. The observation of leading indicators of infrastructure does not cover the fields of computer science and transport.

[5] Bank Lending Conditions. URL: https://www.cbr.ru/statistics/dkp/bank_lending_terms/#highlight=%7Cусловий

Nevertheless, a new segment of observations has appeared — exchange MEI monitoring has been organized [10, 11]. In addition, the technology of leading indicators is beginning to make its way to the stock market, as evidenced, in particular, by an interview with Solovyov V.I. about the system for recognizing the state of financial markets, developed together with the Alfa-Capital Management Company to predict the moments of reversal of market trends[6].

Conclusions

Based on the above, it can be concluded that it is necessary to shift the semantic emphasis in discussions about the development of planning to the harmonization of planning, forecasting and expected business community parameters of development, along with issues of organizational and informational support. Future planning is based on a combination of forecasting and reversal of expectations, which reflect real processes in the economy and management, and not only their econometric modeling.

This conclusion is based on the need to take into account the acceleration of socio-economic processes, the destruction of the former economic world order, increasing the relevance of increasing flexibility in the development of inter-economic relations and the network exchange of production plans. The opinion of the economic bloc of the Government of the Russian Federation, the scientific community and political circles is supported regarding the need to complement the new planning with a high-tech platform for collecting scientifically based strategic decisions.

Being social in its composition, information about leading indicators combines in sociological aggregates the opinions and assessments of structurally forming economic entities, equally relevant for themselves, regulatory authorities, and foreign economic activity. In MEI databases, leading indicators are flexibly aggregated into indicators for territories, areas of economic activity, certain aspects of financial and economic activity, and groups of goods. The expected economic parameters calculated using MEI technology, as well as statistical indicators, are end-to-end for various planning horizons. Their aggregates do not belong to a trade secret, and their distribution among participants of economic activity is not limited. The MEI technology of leading indicators compensates to a certain extent for the absence of a "counter-planning" component in modern planning, steadily and up-to-date supporting information about real changes in production and management.

The most important property of MEI technology is the fundamental possibility of building an arbitrarily large number of independent monitoring systems in business ecosystems, which allows each organizer to receive full information without violating the trade secrets of participants, insofar as each organizer can create his own MEI ecosystem.

In the modern planning process, investments that have a predictive property along with energy consumption, transportation volumes, communications and exchange trading come to the front. In planning, this is reflected in the assignment of limits of consumption in production depending on the use, in addition to its own attracted funds, primarily funds from the budgets of the budgetary system, bank loans and collective investment funds, which are methodologically and technologically developed in the system of national accounting.

[6] URL: http://www.fa.ru/org/dep/findata/Documents/News/2018/09/Soloviev-ML-2018.pdf

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Trends and Perspectives of the Implementation of the ESG Principles in the Russian Economy

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ABSTRACT

One of the most important trends in the development of the world economy is the implementation of ESG principles into the activities of its subjects. The article indicates that in modern conditions consideration of ESG principles in the activities of companies and banks is necessary for the sustainable long-term growth of their value, reduction of economic, environmental and other risks of their activities, promoting the sustainable development of national economies and the world economy as a whole. The article **aims** to investigate the trends and perspectives of the implementation of ESG principles in the Russian economy. The research **methodology** includes structuring, comparison, generalization, systemic, economic, institutional and logical analysis, SWOT analysis, induction, deduction and synthesis. Based on the research, the author **concludes** that the necessary conditions for the successful implementation of ESG principles in the Russian economy are the analysis, assessment and consideration of trends, features and perspectives of the development of the Russian and world economy, legal regulation of the implementation of ESG principles in Russia and abroad, consideration of national interests and features of Russia, clarification, correct application of the conceptual and methodological apparatus, analysis of strengths, weaknesses, opportunities and threats associated with the implementation of these principles (SWOT analysis), and the use of accumulated world experience.

Keywords: sustainable development; ESG principles; ESG factors; ESG concept; Principles for responsible investment; SWOT analysis

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ОРИГИНАЛЬНАЯ СТАТЬЯ

Тенденции и перспективы внедрения ESG-принципов в российской экономике

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АННОТАЦИЯ

Одной из важнейших тенденций развития мировой экономики является внедрение ESG-принципов в деятельность ее субъектов. В статье показано, что в современных условиях учет ESG-принципов в деятельности компаний и банков необходим для устойчивого долгосрочного роста их стоимости, снижения экономических, экологических и прочих рисков их деятельности, обеспечения устойчивого развития национальных экономик и мировой экономики в целом. В статье **анализируются** тенденции и перспективы внедрения ESG-принципов в российской экономике. **Методология** исследования включает структурирование, сравнение, обобщение, системный, экономический, институциональный и логический анализы, SWOT-анализ, индукцию, дедукцию, синтез. На основе проведенного исследования сделан **вывод**, что необходимыми условиями успешного внедрения ESG-принципов в российской экономике являются анализ, оценка и учет тенденций, особенностей и перспектив развития российской и мировой экономики, правового регулирования внедрения ESG-принципов в России и за рубежом, учет национальных интересов и особенностей России, уточнение, правильное применение понятийного и методологического аппарата, анализ сильных и слабых сторон, возможностей и угроз, связанных с внедрением данных принципов (SWOT-анализ), использование накопленного мирового опыта.

Ключевые слова: устойчивое развитие; ESG-принципы; ESG-факторы; ESG-концепция; Принципы ответственного инвестирования; SWOT-анализ

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Introduction

Environmental, social and corporate governance (ESG) principles are the requirements for companies making investments and companies receiving investments in order to ensure sustainable long-term growth of their value and reduce economic, environmental and other risks of their activities.

In modern conditions, implementing ESG principles is one of the prerequisites of promoting sustainable development of national economies and the world economy as a whole. Issues of the implementation of ESG principles, as well as the impact of organizations on the environment, social sphere and economy, are becoming an integral part of government policies, business standards, investment strategies and consumer demand trends in the modern world. Changes in legal regulation, the behavior of investors, customers, counterparties and consumers of products and services of organizations taking place around the world, related to the consideration of ESG principles and sustainable development issues, are of fundamental importance and deserve the proper attention of organizations and their management bodies.[1] This determines the significant relevance of the problem of implementing ESG principles in the Russian economy.

For the first time, the abbreviation ESG was used in the appeal of the UN Secretary-General K. Annan "Who Cares Wins" to the leaders of the 50 largest financial institutions in the world, published in 2004.[2] The appeal contains a call to include the principles of environmental friendliness, social orientation and corporate governance quality in business development strategies.

The ESG concept was put forward during the discussion about the prospects for sustainable development of the world community and environmental protection, which began in the 1970s. Most experts now agree that sustainable development is a development that meets the needs of the present without compromising the ability of future generations to meet their own needs. The report "The Limits to Growth" of the Club of Rome in 1972 became the starting point for a discussion about the five main factors that weaken the sustainability of the development of the world community (population increase, food production, depletion of non-renewable resources, industrial production and environmental pollution). The report noted that humanity would be able to organize a society in where it can live indefinitely on Earth. The prerequisite for this is the introduction of restrictions on the production of material goods to achieve a state of global balance of nature with population and production [1].

In 2000, the UN General Assembly adopted the Millennium Declaration, which stated: "The protection and rational use of all living organisms and natural resources must be based on prudence in accordance with the postulates of sustainable development… The current unsustainable patterns of production and consumption must be changed in the interests of our future well-being and the well-being of our descendants… We must spare no effort in delivering all of humanity, and above all our children and grandchildren, from the threat of living on a planet that will be hopelessly spoiled by human activities and whose resources will no longer be enough to meet their needs".[3]

1. Overview of the Principles for Responsible Investment

In 2006, the UN, taking into account the provisions of the Millennium Declaration, adopted the Prin-

[1] Information Letter of the Central Bank of the Russian Federation of 16 December 2021. No. IN-06–28/96 "On recommendations for the consideration by the Board of Directors of a public joint stock company of ESG factors and issues of sustainable development". URL: https://www.garant.ru/products/ipo/prime/doc/403175149 (accessed on 23.11.2022).

[2] Who Cares Wins. Connecting Financial Markets to a Changing World. United Nations, 2004. URL: https://www.ifc.org/wps/wcm/connect/de954acc-504f-4140–91dc-d46cf063b1ec/WhoCaresWins_2004.pdf (accessed on 23.11.2022).

[3] United Nations Millenium Declaration (adopted by the Resolution of the UN GA of 08 September 2000 RES/55/2). URL: https://docs.cntd.ru/document/901784387 (accessed on 21.11.2022).

ciples for Responsible Investment (PRI),[4] which fully coincide with the ESG principles. According to the document, in order to protect and increase the long-term profitability of investments, investors are recommended to adhere to the following Principles when making investments:

1) include ESG factors in the processes of investment analysis and decision-making;

2) include ESG factors in policy and practice;

3) require investment recipients to properly disclose information about ESG factors;

4) promote the adoption and implementation of the Principles within the investment sector;

5) improve the effectiveness of the implementation of the Principles;

6) report on activities and progress made in the implementation of the Principles.[5]

The Association for the Promotion of the Principles of Responsible Investment (PRI Association) has published a list of possible actions to implement each of these principles.

Principle 1. Include ESG factors in the processes of investment analysis and decision-making:

• inclusion of ESG issues in investment policy statements;

• support for the development of ESG tools, metrics and analysis;

• assessment of management's ability to take into account ESG factors;

• appeal to investment service providers about integrating ESG factors into analytical reports and studies;

• encouragement of academic and other research on the topic.

Principle 2: Include ESG factors in policy and practice:

• development of an active ownership policy in accordance with the PRI;

• exercising the right to vote or monitoring compliance with voting policies;

• development of opportunities for interaction and implementation of joint initiatives;

• participation in the development of policies, regulations and performance standards.

Principle 3: Require investment recipients to properly disclose information about ESG factors:

• request for standard reporting on ESG issues;

• request to include ESG issues in the annual financial statements;

• requesting information from companies on the adoption/compliance with relevant norms, standards, codes of conduct or international initiatives;

• support for initiatives and decisions of shareholders that contribute to the disclosure of information on ESG issues.

Principle 4: Promote the adoption and implementation of the Principles within the investment sector:

• inclusion of PRI-related requirements in requests for proposals;

• revision of the relationship with service providers that do not meet ESG expectations;

• support for the development of tools for benchmarking the integration of ESG issues;

• support for regulatory or policy changes that facilitate the implementation of PRI.

Principle 5: Improve the effectiveness of the implementation of the Principles:

• participating in networks and information platforms to share tools and pool resources to use investor reports as a source of learning;

• collective solution of emerging problems;

• development of appropriate joint initiatives.

Principle 6: Report on activities and progress made in the implementation of the Principles:

• disclosure of information on the integration of ESG factors into investment practice;

• disclosure of information on the implementation of the active ownership policy;

• disclosure of requirements for service providers regarding PRI;

• interaction with beneficiaries on ESG and PRI issues;

• use of reporting to raise awareness among a wider group of stakeholders.[6]

2. Topical issues of the implementation of ESG principles in the Russian economy

With the adoption of the ESG principles, their expansion into the activities of the subjects of the global economy began. At the end of the third quarter of 2021, the amount of funds under management of organizations that have joined the PRI exceeded 121 trillion US dollars.[7]

[4] Principles for Responsible Investment. URL: https://www.unpri.org/about-us/what-are-the-principles-for-responsible-investment (accessed on 23.11.2022).

[5] Ibid.

[6] Principles for Responsible Investment. URL: https://www.unpri.org/about-us/what-are-the-principles-for-responsible-investment (accessed on 23.11.2022).

[7] Ibid.

As of 1 November 2022, the ESG principles are implemented in the activity of more than 100 Russian companies (Gazprom, Rosatom, Severstal, Polimetall, KamAZ, etc.) and banks (Sberbank, Rosselkhozbank, Gazprombank, Rosbank, Alfa-Bank, etc.).[8]

In modern conditions, consideration of ESG principles in the activities of companies and banks is necessary for the sustainable long-term growth of their value, reduction of economic, environmental and other risks of their activities, promotion of the sustainable development of national economies and the world economy as a whole[9] [2–10]. Violation of these principles can cause not only threats to the sustainable development of states and the world economy but also material and reputational damage to violating companies and persons associated with them. For example, the oil spill committed by BP in 2010 and the underestimation of exhaust gas emissions by Volkswagen in car sales in the US and Europe led to a drop in market quotations of shares of these companies and huge losses for portfolio investors [9].

In 2015, the UN General Assembly approved 17 sustainable development goals (SDGs) of the world community for the period until 2030, which are a comprehensive program of action for the world community to transform the world in the interests of people and the planet.[10] As noted on the official portal of the Division for Sustainable Development of the United Nations Department of Economic and Social Affairs, "these goals demonstrate the recognition that measures to combat poverty and other deprivation must be closely linked to strategies aimed at improving health and education, reducing inequality and stimulating economic growth, addressing climate change and working to conserve oceans and forests".[11]

Presently, there is a process of global redistribution of capital flows in favor of markets that ensure the promotion of sustainable development goals. One of the reasons for this redistribution of capital is the spread of responsible investment. Consideration by organizations of ESG factors and issues related to their impact on the environment, social sphere and economy, is analyzed by investors who adhere to the PRI. Based on this analysis, the ability of organizations to increase their capitalization is assessed. This ability, in turn, affects the investment attractiveness of the securities of these organizations.[12]

Important tools for introducing ESG principles into the Russian economy are the development and improvement of relevant regulatory legal documents (more details are provided in [8]). The prerequisites for the development and improvement of these documents are analysis, assessment and consideration of trends, features and perspectives of the development of the Russian and world economy, legal regulation of the implementation of ESG principles in Russia and abroad, and consideration of national interests and features of Russia. Currently, the following four types of regulatory legal documents and initiatives in the field of implementing ESG principles in the global economy can be distinguished:

1) supranational regulation of political/economic associations of states (for example, the UN sustainable development goals for the period until 2030; G20 / OECD Corporate Governance Principles; OECD Guidelines for Multinational Enterprises; UN Principles for Responsible Investment, etc.), as well as EU regulatory legal documents (e.g., European Union sustainable growth financing action plan,[13] Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088,[14]

[8] ESG-ratings of Russian companies and banks. 1 November 2022. URL: https://raex-rr.com/esg/ESG_rating (accessed on 23.11.2022).

[9] Information Letter of the Central Bank of the Russian Federation of 16 December 2021. No. IN-06–28/96 "On recommendations for the consideration by the Board of Directors of a public joint stock company of ESG factors and issues of sustainable development". URL: https://www.garant.ru/products/ipo/prime/doc/403175149 (accessed on 23.11.2022).

[10] Declaration of the UN GA of 25 September 2015 "Transforming our world: the 2030 agenda for sustainable development" A/RES/70/1. URL: https://sdgs.un.org/2030agenda (accessed on 23.11.2022).

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[12] Information Letter of the Central Bank of the Russian Federation of 16 December 2021. No. IN-06–28/96 "On recommendations for the consideration by the Board of Directors of a public joint stock company of ESG factors and issues of sustainable development". URL: https://www.garant.ru/products/ipo/prime/doc/403175149 (accessed on 23.11.2022).

[13] Communication from the Commission to the European parliament, the European council, the Council, the European central bank, the European economic and social committee and the Committee of the regions of 8 March 2018 COM (2018) 97 final. Action plan: financing sustainable growth. URL: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52018DC 0097 (accessed on 23.11.2022).

[14] Regulation (EU) 2020/852 of the European parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088. URL: https://eur-lex.europa.eu/legal-content/

Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector[15]);

2) national codes of good governance (Stewardship Codes) and codes of corporate governance (Corporate Governance Codes) (for example, the UK Financial Reporting Council released a new Code of Good Governance (UK Stewardship Code) with a focus on ESG indicators, which came into force on 1 January 2020);

3) national regulation in issues of corporate law, the environment and social issues. The Government of the Russian Federation adopted a Decree of 14 July 2021 No. 1912-r, which approved the goals and main directions of sustainable (including green) development of the Russian Federation. An important document is also the Decree of the Government of the Russian Federation of 21 September 2021 No. 1587 "On Approval of Criteria for Sustainable (including Green) Development Projects in the Russian Federation and Requirements for the System for Verification of Sustainable (including Green) Development Projects in the Russian Federation". The Information Letter of the Central Bank of the Russian Federation of 16 December 2021 No. IN-06–28/96 "On recommendations for the consideration by the Board of Directors of a public joint-stock company of ESG factors and sustainable development issues" is also important;

4) voluntary ESG disclosure initiatives from market participants (e.g., Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), Task Force on Climate-related Financial Disclosures (TCFD), international exchanges, associations of banks (for example, the Equator Principles), investment companies, professional business associations, world index, rating agencies and consulting companies) [5].

One of the most important tools for introducing the ESG concept into the economy is the establishment of requirements for the procedure for the formation and presentation of non-financial information or non-financial reports by organizations.[16] In accordance with the Information Letter of the Central Bank of the Russian Federation of 16 December 2021 No. IN-06–28/96 "On recommendations for the consideration by the Board of Directors of a public joint stock company of ESG factors and sustainable development issues", "an organization's non-financial information can be defined as a set of information and indicators that reflect its goals, strategy, management approaches, risk management system, interaction with stakeholders, in conjunction with the planned contribution of the organization's activities to the achievement of the SDGs, the goals of the Paris Climate Agreement, national strategic goals on environmental, social and economic issues, the results of its activities in terms of the impact of the organization on the environment (ecology), social sphere and economy, as well as factors in its activities related to the environment (including environmental factors and factors, related to climate change), society (social factors) and corporate governance, risks and opportunities associated with these factors. Recently, instead of the terms "non-financial information" and "non-financial report", the terms "information in the field of sustainable development" and "reporting in the field of sustainable development" are increasingly used".[17]

As noted in the Information Letter of the Central Bank of the Russian Federation of 16 December 2021 No. IN-06–28/96 "On recommendations for the consideration by the Board of Directors of a public joint stock company of ESG factors and sustainable development issues", "taking into account the spread of accounting practice by investors of ESG factors in investment activities, the growth of information requests from investors and other stakeholders in the field of sustainable development, ensuring proper disclosure of non-financial information by public joint-stock companies is becoming critical. Neglect of information disclosure issues in this area may adversely affect the perception of public joint-stock

EN/TXT/PDF/?uri=CELEX:32020R 0852&from= EN (accessed on 23.11.2022).

[15] Regulation (EU) 2019/2088 of the European parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector. URL: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R 2088&from=EN (accessed on 23.11.2022).

[16] Communication from the Commission to the European parliament, the European council, the Council, the European central bank, the European economic and social committee and the Committee of the regions of 8 March 2018 COM (2018) 97 final. Action plan: financing sustainable growth. URL: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52018DC 0097 (accessed on 23.11.2022).

[17] Information Letter of the Central Bank of the Russian Federation of 16 December 2021. No. IN-06–28/96 "On recommendations for the consideration by the Board of Directors of a public joint stock company of ESG factors and issues of sustainable development". URL: https://www.garant.ru/products/ipo/prime/doc/403175149 (accessed on 23.11.2022).

Table 1
SWOT-analysis of the implementation of ESG-principles in the Russian economy

Strengths	**Weaknesses**
Reduction of economic, environmental and other risks of activities of companies and banks. Promotion of sustainable long-term growth of value of companies and banks. Promotion of improvement of the external ratings and reputation of companies and banks	Lack of systemic legal regulation of the implementation of ESG principles in the Russian economy. Lack of qualified personnel. Financial costs for the implementation of ESG principles. Difficulties with resource allocation
Opportunities	**Threats**
Promotion of sustainable socio-economic development of Russia. Improvement of the environment. Improvement of labor resources. Possibility of entering the international markets	Differences between Russian legislation and international standards. Insufficient information support of the importance of implementing the concept. A small number of standardizing and certifying organizations

Source: compiled by the author.

companies by stakeholders, damage their business reputation, and negatively affect their investment attractiveness and competitiveness”.[18] Russian legislation does not yet oblige such reporting, but more and more companies publish it [3]. There is no single standard for non-financial reporting yet; in practice, the standards developed by the following organizations are most often used:

- Global Reporting Initiative — GRI;
- International Integrated Reporting Council — IIRC;
- Sustainability Accounting Standards Board — SASB;
- Carbon Disclosure Project — CDP;
- Task Force on Climate-related Financial Disclosures — TCFD;
- Climate Disclosure Standards Board — CDSB [8].

As announced at the 26th UN Climate Change Conference in Glasgow in 2021, the International Accounting Standards Foundation (IFRS) has formed the International Sustainability Standards Board (ISSB) to develop a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors’ information needs. The Board intends to work closely with other widespread reporting systems, including the Global Reporting Initiative [3].

An important tool for implementing the ESG concept is the legal regulation of the formation and publication of ESG ratings — indicators of a company’s exposure to environmental, social and corporate governance risks, calculated based on assessing the quality of compliance with relevant international and Russian standards in sustainable development. Currently, there are more than 400 different indices in the world that characterize ESG factors. The largest providers of such ratings and indices are S&P, FTSE Russell, MSCI, Sustainalytics, CDP, Bloomberg, JUST Capital, Refinitiv, RAEX-Europe and others. Different agencies may give companies different ratings. This causes insufficient reliability and adequacy of ESG ratings. In this regard, it seems advisable to develop legal regulation of the formation and publication of ESG ratings in Russia.

To assess and predict the effectiveness of the implementation of ESG principles both at the level of the Russian economy and its individual industries and enterprises, a SWOT analysis can be used. An example of such an analysis of the Russian economy is shown in *Table 1*.

Conclusion

The results of the study show that the problem of implementing ESG principles in the Russian economy requires a systematic, thoughtful and balanced solution, which implies a thorough study of all the necessary aspects of the problem. The necessary conditions for the successful implementation of ESG principles in Russia are the analysis, assessment and consideration of trends, features and perspectives of the development of the Russian and world economy, legal regulation of the implementation of ESG principles in Russia and

[18] Ibid.

abroad, consideration of national interests and features of Russia, clarification, correct application of the conceptual and methodological apparatus, analysis of strengths, weaknesses, opportunities and threats associated with the implementation of these principles (SWOT analysis), the use of accumulated world experience. The problem of implementing ESG principles in the Russian economy is complex, multifaceted and should be the subject of further scientific research.

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The Investment Analysis of IT Companies: A Case Study of Yandex

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ABSTRACT

This research **aims** to find out the peculiarities of information technology (IT) companies as an object of investment attractiveness assessment, to present and apply alternative approaches to the evaluation of the investment attractiveness of these companies based on internal and external factors. We have employed **the methods** of statistical and comparative analysis, deductive analysis, as well as the analysis of historical data and the current state of the problem. The paper examines the peculiarities of IT companies, their activities' results, and existing methods for evaluating investment attractiveness. As a **result** of the study, data were obtained from the analysis of external and internal factors of the investment attractiveness of Yandex for the period from 2019 to 2022. **The key conclusion** is that to make investment decisions, a comprehensive assessment is required, including considering external and internal factors.

Keywords: investment analysis; IT companies; assessment factors; investment attractiveness

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ОРИГИНАЛЬНАЯ СТАТЬЯ

Инвестиционный анализ IT-компаний: исследование на примере Яндекса

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АННОТАЦИЯ

Целью данного исследования является изучение особенностей IT-компаний как объекта оценки инвестиционной привлекательности, разработка и представление альтернативных подходов по оценке инвестиционной привлекательности компаний на основе внутренних и внешних факторов. В статье использованы **методы** статистического и сравнительного анализа, дедуктивного анализа, а также анализ исторических данных и современного состояния проблемы. В исследовании представлены основные характеристики IT-компаний, результаты их деятельности, а также проанализированы существующие методы оценки инвестиционной привлекательности. В результате исследования получены данные анализа внешних и внутренних факторов инвестиционной привлекательности компании Яндекс за период с 2019 по 2022 г. **Ключевым выводом** является необходимость комплексной оценки при принятии инвестиционных решений, учет внешних и внутренних факторов.

Ключевые слова: инвестиционный анализ; IT-компании; факторы оценки; инвестиционная привлекательность

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Introduction

Investments enable various organizations to carry out their activities and develop. At the same time, investing funds can bring, investors a certain effect, both monetary and socially significant, in the future. Investors try to reduce risks to an acceptable level as well as extract the maximum possible benefit from the investment process. Nowadays, investors assess whether the effect they will receive from the investments will be able to sufficiently compensate for the refusal to use the funds now in uncertainties. They must do more to respond appropriately to risks at a time when available information has never been more abundant, more complex, or more difficult to interpret. There are many approaches to evaluating the effectiveness of investments. Several studies emphasized the importance of the investment attractiveness of enterprises. At the same time, among the approaches to assessing the investment attractiveness of enterprises in general and the companies belonging to the information technology industry in particular, there is no single solution on whether to consider only the financial component of the company's activities or to take into account various factors of its internal environment, or the combination of factors comprising the internal and external environment. This paper aims to present and apply a new approach to the assessment of investment attractiveness and apply it to one of the IT companies -Yandex.

The concepts of investment attractiveness

Driven by business development goals, management in many companies attract external investments. To ensure economic growth, improve products and processes and maintain their competitive advantages, companies can raise funds using credit products issued by a bank, receiving government support and attracting funds from investors.

On the one hand, the company cannot refuse external investments as it could make its bankruptcy possible [1]. On the other hand, investors must know the investment decision-making process and related risks. Many scholars have been engaged in the study of capital raising and problems related to investment attraction [1–7]. Some scholars claim that investment attractiveness is the financial stability of the enterprise and the benefit of its activity [8, 9]. Other scientists consider it important to add a risk adjustment to this concept. The lowest possible level of risk should be determined based on an enterprise's financial and economic characteristics, indicators of the company's market activity [10]. Referring to the previously mentioned definitions, we can offer the following characteristic of this concept: Investment attractiveness is the combination of quantitative and qualitative assessments of the organization's activity based on internal and external factors and guaranteeing stability, solvency, as well as further growth of the company and enabling the company to provide its investors the desired income or other benefits thereby making this investment effective, ensuring an acceptable risk level.

Factors determining the assessment of investment attractiveness

The investment attractiveness assessment is based on a number of factors: external and internal [11].

External factors determine the organization's activity, strategic decision-making, and development potential, but the organization has no direct control over these factors. External factors can be considered in the context of different levels: a macro-level (region, country) and an industry-level (enterprise) [12].

The most significant macro-level factors are the country's governance system, the economic situation in the country, the legal regulation, tax policy, the level of economic development, the degree of dependence of the country's economy on the resources produced, the development of the financial system and financial institutions, the availability of the stock market, business culture as a whole, etc. International agencies consider the following factors during the assessment of sovereign credit ratings: nominal GDP, GDP per capita, GDP growth, investment growth, Investment/GDP, Savings/GDP, Exports/GDP, inflation and unemployment rates.[1]

The most significant industry (enterprise) level factor of investment attractiveness is the role of

[1] Sovereign Risk Indicators. S&P Global Ratings. URL: https://www.spglobal.com/ratings/en/research/articles/201214-sovereign-risk-indicators-11774352 (accessed on 25.11.2021).

this particular industry in the country's economy. It is important to consider the prospects for the development of this industry; the competition in the industry; the stability of enterprises in this industry, their exposure to risks, and the return on investment in the enterprises of this industry. Researchers also take into account the factors such as: market size; the resilience of companies in the industry (the ratio of the dynamics of the volume of sales to the dynamics of the country's GDP); effectiveness of supply chain management and resource availability; environmental impact, production profitability, etc.

The following internal factors (factors that are formed as a result of the actions of the organization) can be considered when assessing investment attractiveness: financial state, a ratio of fixed and variable costs for each type of product, the efficiency of the management system, investment activity, innovation, marketing strategy effectiveness, risk management, corporate social responsibility.

The financial state is a key aspect in assessing investment attractiveness which reflects the availability of financial resources and the effectiveness of their use [13–15]. The main indicators of financial stability are profitability; financial solvency; liquidity; turnover or business activity; capital structure; cash flows.

The production aspect includes assessing resources that ensure the effectiveness of the processes of creating quality goods or services.

The effectiveness of the management system reflects the ability of managers to timely adapt to changes in the market (how long and how effectively the company will be able to operate in the market) and to identify the existing needs of potential consumers, as well as to create new needs themselves. At the same time, the factor of the reputation of individual top managers can greatly impact the investment attractiveness of the company as a whole.

Company's investment activity of the company is expressed in the availability of investment projects, investment policy and the quality of their implementation (the riskiness, the volume of investment) [16–18].

The introduction of innovations is one of the important aspects of the company's rapid development and the improvement of its performance. It is a fundamental element of the company's strategic management [19, 20].

Marketing strategy effectiveness specifies activities (creation, communication, etc.) aimed at enhancing value for customers, clients or even society.[2] Among the factors which can significantly affect the company's performance are brand awareness; the speed of entry into new markets; effectiveness of marketing communications (interaction in social networks, the ratio of real and potential buyers, the cost of attracting new customers, customer loyalty).

Risk management is a "protection" from emerging risks as well as a guarantee of receiving a return on the invested funds of investors. The risk management system can also be identified as a separate factor of the company's activity, which should be considered in the mechanisms of investment attractiveness assessment. A company's "protection" from emerging risks can serve as a guarantee of receiving a return on the invested funds of investors, as well as minimizing the risk of their losses. The main types of risk management may include termination of risk-related activities (avoidance); use of various measures and tools to minimize risk (reduction); assumption of increased risk to increase productivity.[3] Factors that a potential investor pays attention are: the level and type of risk a firm is able and willing to assume in its exposure and business activities (risk "appetite"), availability and effectiveness of risk management tools.

Corporate social responsibility (CSR) is the solution to environmental and social issues within the framework of the company's activities. The United Nations Industrial Development Organization (UNIDO) helps companies around the world to become more socially responsible by taking into account stakeholder expectations.[4] The following CSR factors can be considered when assessing the company's activities: the

[2] AMA's Definition of Marketing. The Marketing Study Guide. URL: www.ama.org/the-definition-of-marketing-what-is-marketing. (accessed on 03.01.2022).

[3] Enterprise Risk Management. Integrating with Strategy and Performance. Committee of Sponsoring Organizations of the Treadway Commission. 2017.

[4] Competitive trade capacities and corporate responsibility. United Nations Industrial Development Organization. URL: www.unido.org/our-focus/advancing-economic-competitiveness/competitive-trade-capacities-and-corporate-responsibility/corporate-social-responsibility-market-integration/what-csr (accessed on 26.12.2021).

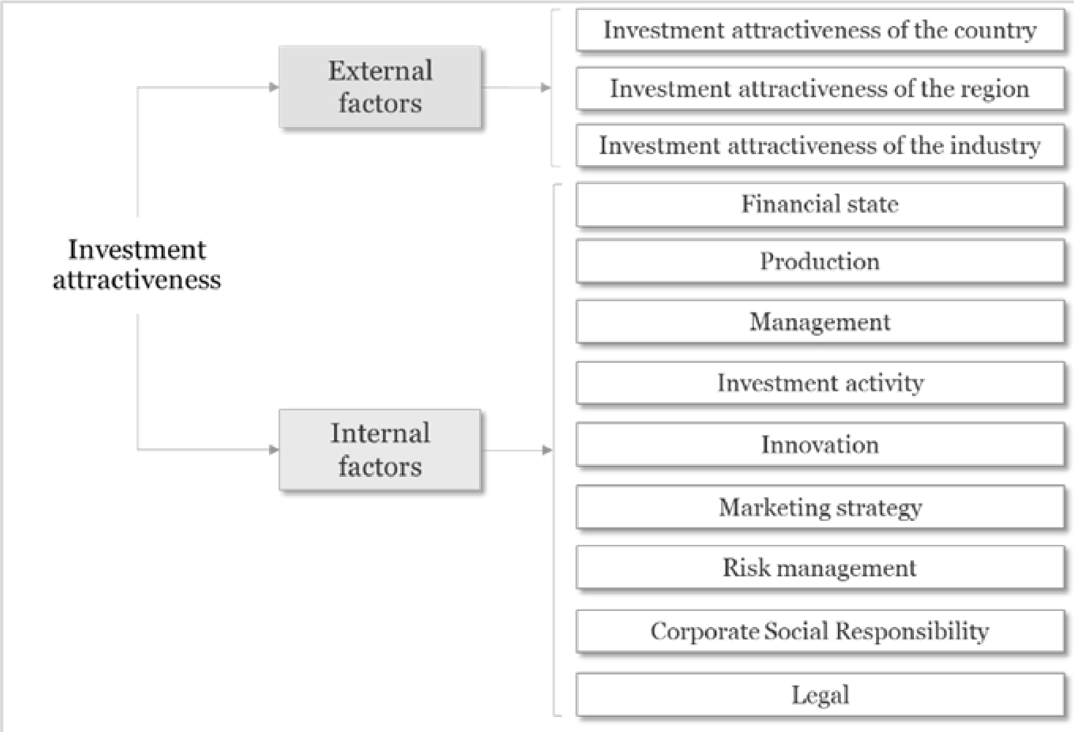

Fig. 1. **Factors of investment attractiveness of an enterprise**

Source: compiled by the authors.

reduction of non-ecological production, responsible use of resources, improvement of working conditions and employee relations, respect for human rights, the effectiveness of anti-corruption measures, etc.

Factors to be taken into account in assessing investment attractiveness may differ depending on the type of potential investors (government, credit organizations, investment funds / individual investors. If the investment goal is to contribute to the development of society, then the main factor will be the level of corporate social responsibility. Investors whose main goal is to get a stable income from the potential investment will consider the dynamics of performance indicators, the company's ability to develop, and the factors which influence the company's market stability and level of risk.

The general overview of the factors affecting the investment attractiveness of the company are shown in *Fig. 1*.

Peculiarities of IT companies as an object of investment attractiveness assessment

In this article, we focused on the factors of investment attractiveness assessment of IT companies, in particularly Yandex, as an object of complex assessment. IT company oversees the use of devices storing, retrieving, and sending information, engaged in research and development of technological products.

Among the biggest IT global market companies are Apple, Microsoft, Alphabet, Visa, Taiwan Semiconductor, Samsung Electronics (*Fig. 2*).

Despite the rapid development of the IT market, there are a number of distinctive industries barriers, among which: high turnover of qualified specialists, an increased competition which contributes to a need for constant innovation, the enhanced control imposed by regulatory bodies, difficulties in purchasing or manufacturing parts of equipment abroad during periods of instability.

When analyzing the investment attractiveness of IT companies, the same principles and indicators that are used for other industries should be taken into account. In addition, some investors consider such factors as gross profit margin, revenue growth, as well as operating leverage (how sensitive the operating profit is to changes in sales).

The gross profit margin determines how profitable and efficient the company's business model is. The higher this indicator is — the more effective the company's management. If this indicator fluctuates significantly over time, it may be evidence of company "unhealthy" (problems with products or services provided). Gross profit

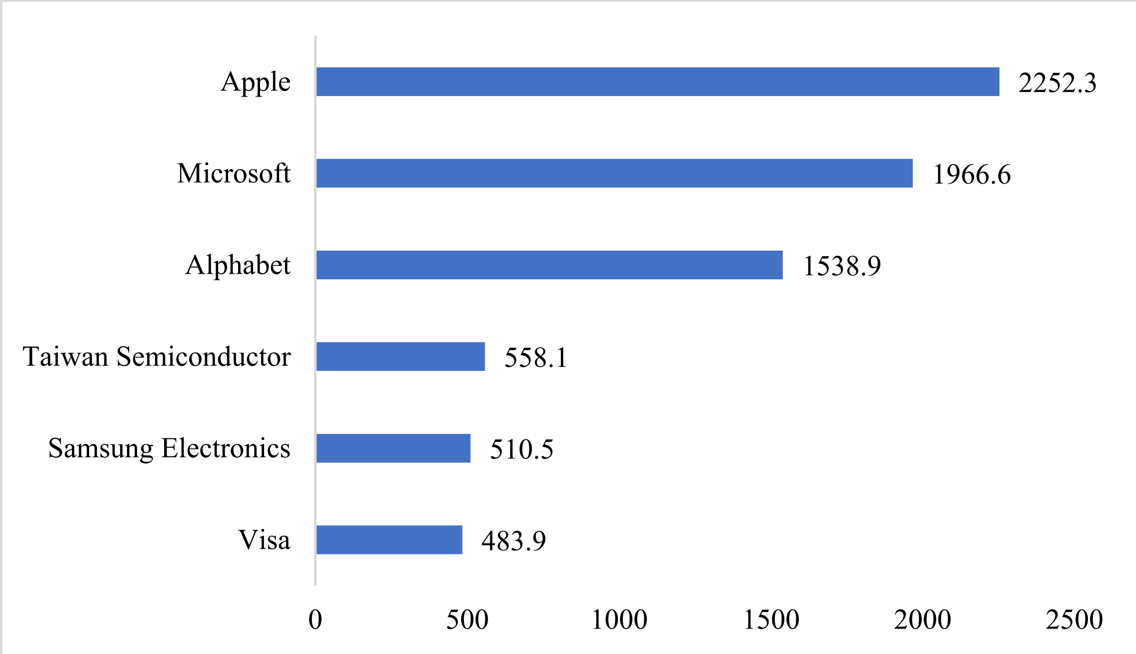

Fig. 2. **Largest global IT companies by market capitalization, in billion U.S. dollars**

Source: compiled by the authors based on the project Statista. URL: https://www.statista.com/statistics/263264/top-companies-in-the-world-by-market-capitalization/ (accessed on 16.04.2022).

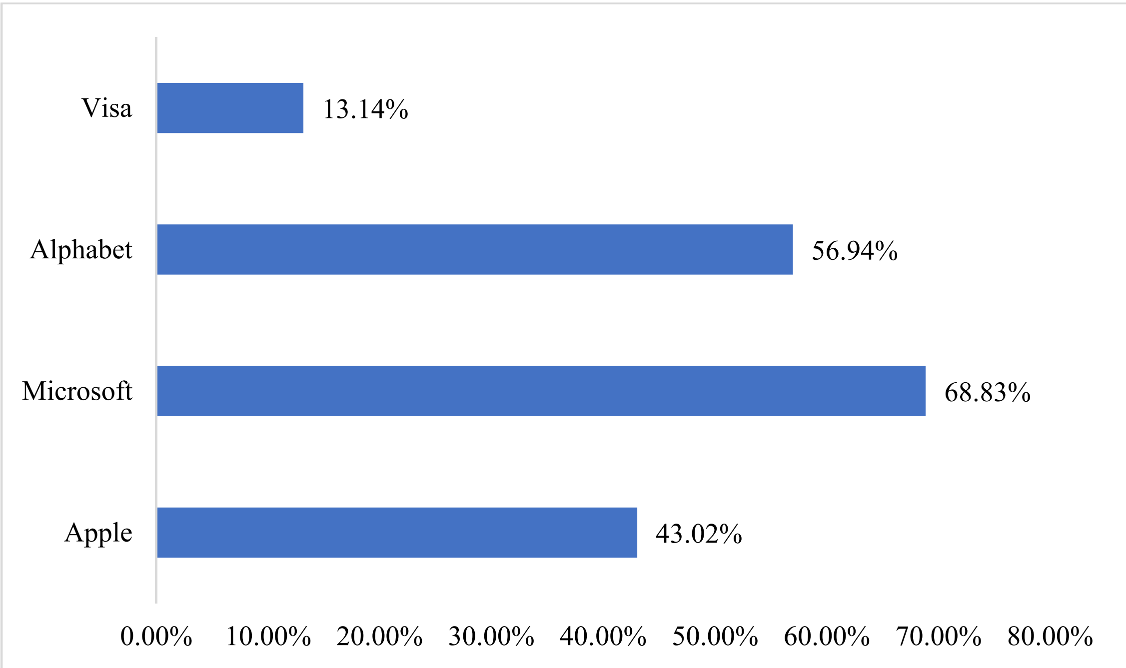

Fig. 3. **Gross profit margin in the largest global IT companies**

Source: compiled by the authors.

margin for the biggest IT companies is more than 40% (*Fig. 3*).

Use of revenue growth to assess the stages of growth. The largest IT companies, such as Apple, Microsoft and Google (Alphabet) have considerable positive revenue growth in 2020/2019 and 2021/2020 (Visa in 2021/2020) (*Fig. 4*). It can be concluded that the companies have some factors contributing to their development and competitive advantages.

Some international investment banks offer the "Rule of 40" method for evaluating software companies (*Fig. 5*). The "Rule of 40" is usually calculated by adding a growth indicator (revenue growth, Annual Recurring Revenue, or Annual Contract Value) to a profitability indicator (EBIT-

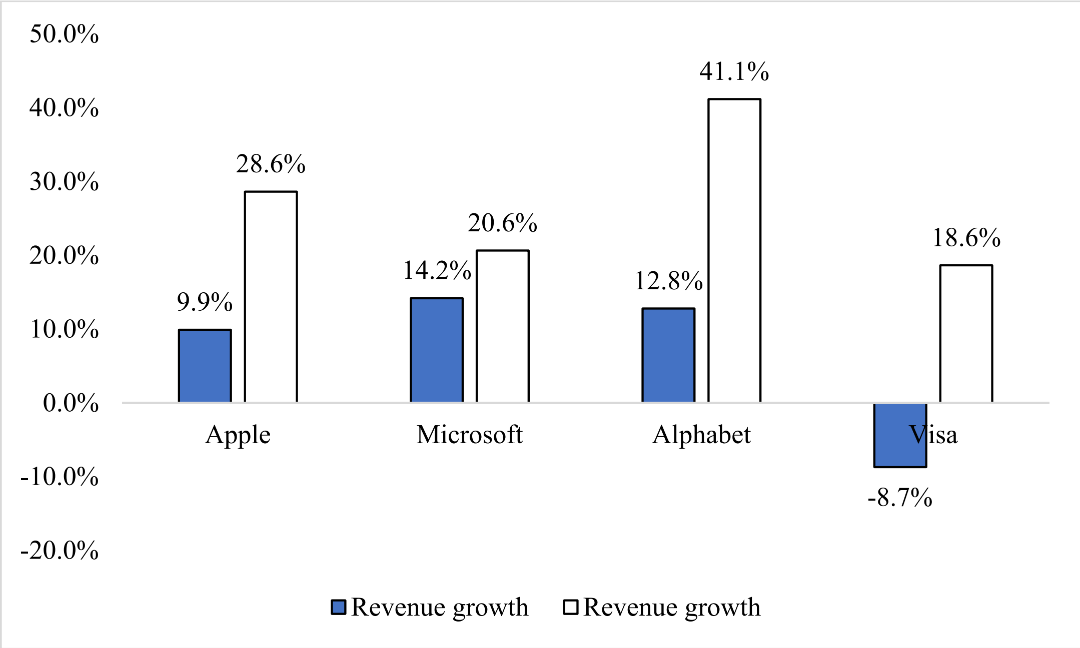

Fig. 4. **Revenue growth in the largest global IT companies**

Source: compiled by the authors.

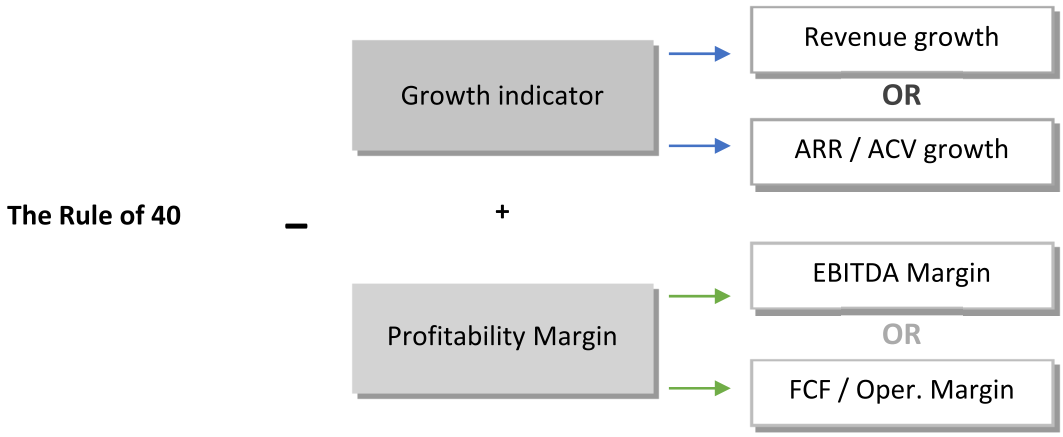

Fig. 5. **The Rule of 40**

Source: compiled by the author using: Hacking Software's Rule of 40. Bain. URL: https://www.bain.com/insights/hacking-softwares-rule-of-40/ (accessed on 25.01.2022).

DA, operating margin, or FCF profitability). The rule does not have a strict formula. It is flexible in terms of the choice of metrics. This method served as an indicator used by a "healthy" software company and makes it possible to compare companies whose stages of growth differ.[5]

Experts consider that the sum of the two most important characteristics of software companies (i.e., growth and profitability) allows for comparing companies at different life cycle stages. For example, a startup with 60% growth and a 20% cash loss can be compared with a mature company with 20% growth and 20% FCF margin.

Evaluation of investment attractiveness of Yandex

IT company Yandex N.V. was founded in 2000 by Russian entrepreneurs and scientists in of information technology Arkady Volozh and Ilya Segalovich. The company is registered in the Netherlands. It is a multinational corporation. *Fig. 6* shows the structure by shareholder. In terms of economic ownership, the most significant part

[5] SaaS and the Rule of 40: Keys to the critical value creation metric. McKinsey. 2021. URL: https://www.mckinsey.com/industries/technology-media-and-telecommunications/our-insights/saas-and-the-rule-of-40-keys-to-the-critical-value-creation-metric (accessed on 25.01.2022).

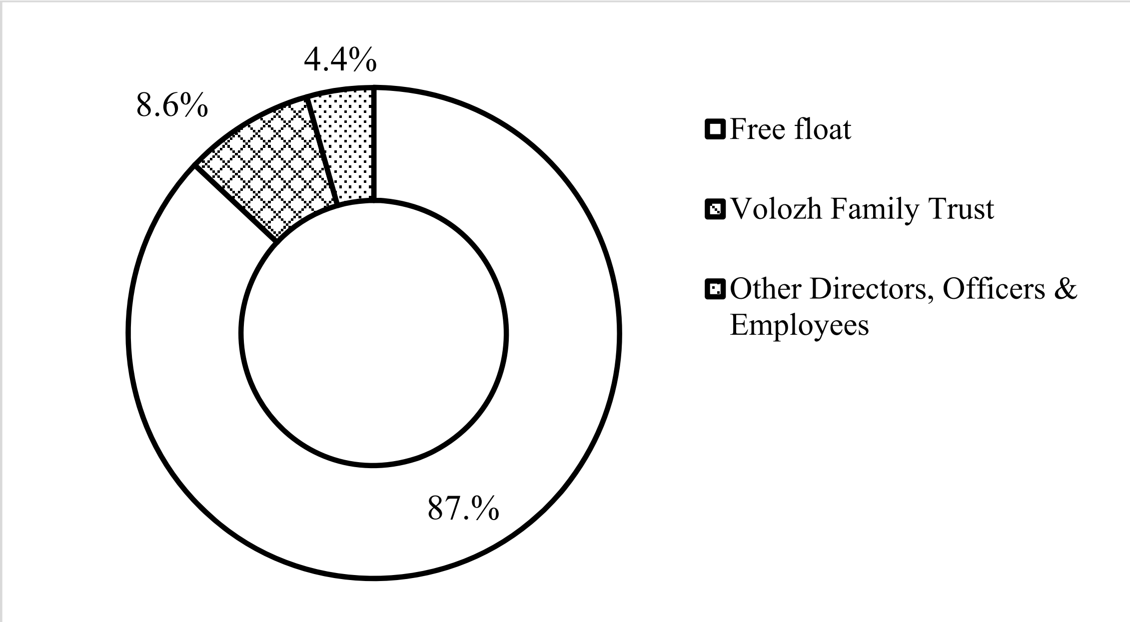

Fig. 6. **Yandex management structure (economic ownership)**

Source: compiled by the author using: Search engines in Russia. Yandex.Metrica. URL: https://radar.yandex.ru/search?group=day (accessed on 15.03.2022).

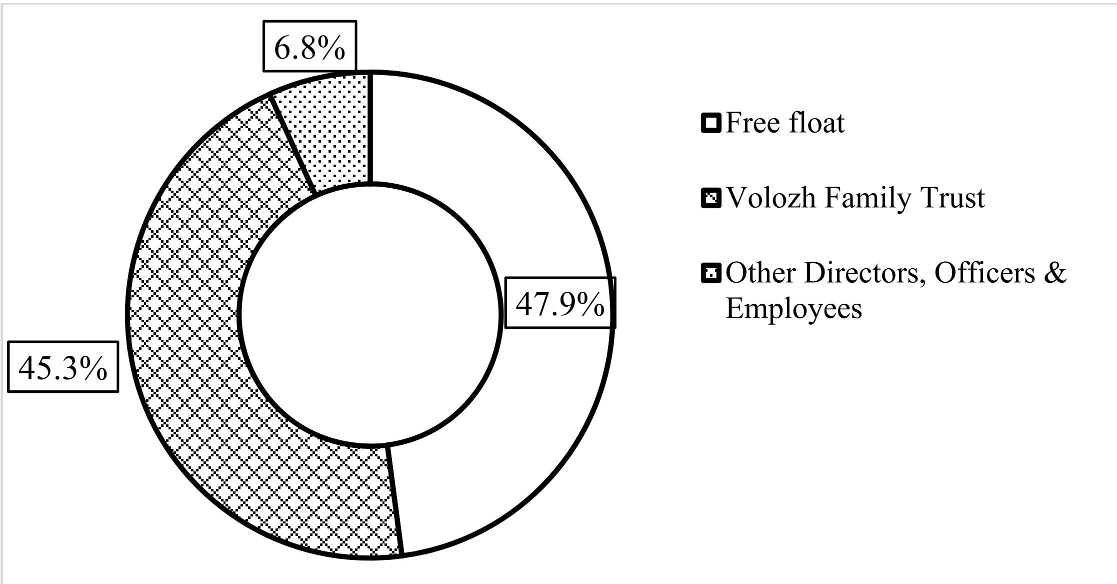

Fig. 7. **Yandex management structure (voting power)**

Source: compiled by the author using: Search engines in Russia. Yandex.Metrica. URL: https://radar.yandex.ru/search?group=day (accessed on 15.03.2022).

of the shares is in free float (87%) and 8.6% of the shares belong to the Volozhsky family trust.

Fig. 7 shows the company's management structure, where the circle reflects voting power. In term of voting power, 45.3% of the stake belong to Volozh Family Trust, which makes it the most influencing stakeholder.

Yandex N.V. has offices in 10 countries worldwide, and various services have been launched in 28 countries. There are some significant markets for Yandex N.V. besides Russia. For example, Belarus, Uzbekistan and Kazakhstan.

Yandex's activities include segments related to information technologies. It oversees the use of devices storing, retrieving, and sending information. The Yandex segment structure includes: The Search and Portal segment, E-commerce, Taxi segment, which includes the Ride-hailing business and FoodTech business, Classifieds segment, which includes Auto.ru, Yandex.Realty

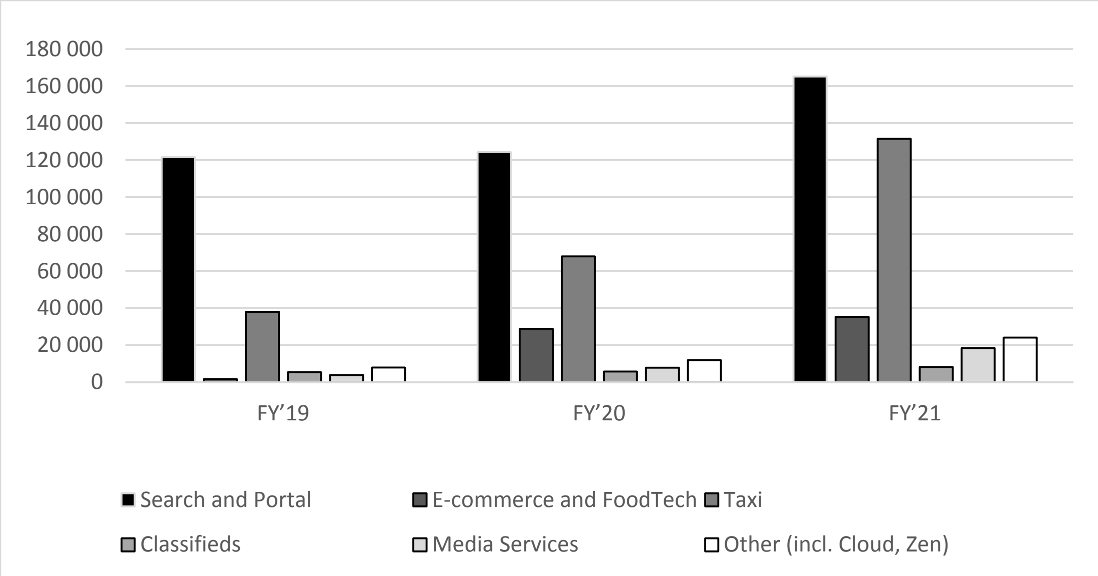

Fig. 8. **Revenue by segment, 2019–2021, RUB mln**

Source: compiled by the author using: Investor Presentation. Yandex. URL: https://ir.yandex/ (accessed on 15.03.2022).

and Yandex.Jobs, Media Services segment, which includes KinoPoisk, Yandex.Music, Yandex.Afisha, Yandex.TV program ets., other Bets and Experiments category, which includes Zen, Yandex. Cloud, Yandex.Drive.[6] IT company's investment attractiveness is evaluated as of the end of 2021 in our research. The dynamics of revenue by the company's segments are shown in *Fig. 8*.

In according to the data, one can observe revenue growth in all segments of the company. Moreover, the trend towards increasing market share in the segment search and advertising continues.

Revenues in Search and Portal segment increased by 32% year-on-year in Q4 2021. The increase was primarily driven by product development, improved search share, and increased investments in further enhancements of advertising products, instruments and technologies.

According to a study by Yandex.Metrica,[7] the share of user visits in the Yandex search engine in Russia was ~60.3% on the 1st of November, 2021, compared to ~38.23% share of the Google search engine. The share of user visits as of March 2022 is about ~61.79% in Yandex and ~37.03% share of the Google search engine, respectively.

As for total E-Commerce (Yandex Market marketplace, e-grocery business and grocery-originated), it increased by 192% year-on-year in Q4 2021. Considering E-commerce and FoodTech, these segments experienced a 2-fold increase in buyers in 2021.

In 2021, the Taxi segment included mobility businesses, which consist of the Ride-hailing business, Yandex Drive (car-sharing business), Yandex Delivery (Logistics), Taxi Services. A key operational trend is that the number of rides in the Ride-hailing service increased by 48% compared with Q4 2020. The number of Yandex Go Monthly active users is 35.3 million, and the share of the Russian economically active population who uses Yandex Taxi at least once per month is 36%.

The Classifieds revenues increased by 27% in Q4 2021 compared with Q4 2020 and were driven mainly by the increase in revenues from auto dealers' listings. The company increases investments in the development and marketing of new products and services in order to expand end-to-end value proposition for both customers and consumers, as well as overall enhancement of the Classifieds segment's offering.

The Media Services segment (Yandex Plus, KinoPoisk, Yandex Afisha, etc.) revenues increased by 117% in Q4 2021 compared with Q4 2020. The Key trend is that the number of Yandex Plus subscribers reached 12 million as of the end of Q4 2021, up 79% from the end of Q4 2020.

We combined several methods and approaches for assessing investment attractiveness that we considered the most appropriate for the analysis

[6] URL: https://ir.yandex

[7] Search engines in Russia. Yandex.Metrica. URL: https://radar.yandex.ru/search?group=day (accessed on 15.03.2022).

Table 1
Factors used within the industry analysis

	Factor	Indicators	Grading system
1	Current development	Ratio of number of users to total number of citizens	Depending on the values of the indicators, each indicator is assigned a score from 1 to 5. The weight of each parameter from the "Current development" section is 0.05, and for the other parameters — 0.1, since the potential for growth is more important when considering investments. The overall indicator is calculated as a weighted average
		Connection speed	
		Market volume growth	
		Number of people employed, its share in the total number of employees in the country	
		Resource availability	
		Trust in internet privacy	
2	Importance of industry for the country's economy	Gross value added	
		Industry spending	
3	Resistance to negative changes in the economy	The ratio of the dynamics of the sales of goods and services in the industry to the dynamics of the country's GDP	
4	Industry development prospects	Growth in demand for products/services produced in this industry, its variability	
		The volume of capital investments in this industry	
		Availability and volumes of government incentives (financial, tax, resource)	
5	Investment profitability	The average return on investment in the enterprises of this industry	

Source: compiled by the author.

of. We use both external and internal factors within the assessment.

For the analysis of external factors of the investment attractiveness of Yandex, we considered the dynamics of the IT industry in relation to Russia, where most of the activities are carried out.

As external factors, we considered the investment attractiveness of the IT industry based on related factors. We grouped external factors in *Table 1* below. The evaluation system was applied to all indicators of external factors based on the expert opinion. Indicators can be assigned a score from 1 to 5.

1. *Current development.* This indicator allows for evaluation of how broadly IT services are demanded in Russia compared to other countries. In 2020, the percentage of people using the Internet in Russia was 4.1% higher than the average in the world, and 2.4% higher than in 2019 (see *Table 2*).

However, this indicator is 11.2% lower than the average for the top-20 countries in 2020. Based on this data, the IT industry in Russia can be awarded 4 points out of 5 in our system.

Internet speed shows current development and the readiness of the systems for innovative products and prospects for the development of the industry. Using the data from Cable.co.uk, we calculated the highest Internet speed among all countries for each year in the period 2019–2021 (224 in 2021, 222 in 2020, 208 in 2019), the average value for the top 20 countries, the average value for all countries, as well as the percentile for Russia. The data in *Table 3* show that the Internet speed indicator for Russia is higher than the global average. However, this indicator is 89.2 Mbps lower than the average for the top-20 countries in 2021, and is 238.74 Mbps lower than the maximum speed among all countries observed in 2021 (*Table 3*).

At the same time, the percentile calculation helped to determine that the percentage of countries among, all the analyzed ones, exceeded the indicator of Russia by about 26–30 percent for

Table 2
Percentage of users in total number of citizens, %

	2014	2015	2016	2017	2018	2019	2020
Russia	70.5	70.1	73.1	76.0	80.9	82.6	85.0
World	38.1	40.5	43.3	45.8	49.4	54.0	59.9
Europe & Central Asia	69.0	70.0	72.4	74.5	78.9	81.8	83.9
OECD members	73.1	75.7	79.8	81.5	83.4	85.2	86.3
Country with the highest value	98.2	98.3	98.2	99.5	99.6	99.7	100.0
Average for top-20 countries	91.7	92.9	94.5	96.0	94.5	95.6	96.2
Average for bottom-20 countries	-	5.1	5.5	8.2	13.1	15.5	18.9

Source: compiled by the author using: Individuals using the Internet (% of population) — Russian Federation. The World Bank. URL: https://data.worldbank.org/indicator/IT.NET.USER.ZS?locations=RU (accessed on 17.03.2022).

Table 3
Average Internet speed among countries

	2019	2020	2021
Russia (Mbps)	14.89	24.26	35.73
Max speed among all countries observed (Mbps)	85.02	229.98	274.27
Average for all countries observed (Mbps)	11.33	25.74	29.92
Average for top-20 countries (Mbps)	43.54	115.46	124.93
Percentile	73.16	69.61	70.54

Source: compiled by the author using the data: the fastest and slowest countries in the world for broadband speed. Cable.co.uk. URL: https://www.cable.co.uk/broadband/speed/worldwide-speed-league/#speed (accessed on 24.03.2022).

each year. As a result of the analysis, this indicator accounts for 3 points out of 5.

Considering *market volume growth*, we can observe the growth of the IT market in Russia for the period 2017–2020 in both dollar and ruble terms. These dynamics are higher than in the whole world (*Table 4*). This indicator demonstrates that the industry is developing and can further develop to a good level. This indicator accounts for 5 out of 5.

People employed factor. Based on the data described by the HeadHunter career service, we calculated and analyzed the growth in demand for IT specialists in Russia (see *Table 5*). The growth was calculated as the ratio of the value for the quarter of one year to the value for the quarter of the previous year.

The demand for IT specialists is characterized by a growth in all the analyzed periods. However, the percentage of the growth decreases significantly in some periods, which is most often associated with general economic and political events.

HR specialists note that with such a demand, there is still a shortage of qualified specialists..[8] Also, the level of competition among IT specialists is two times lower than in the entire market: the ratio of active resumes to active vacancies in 2022 was 2 for IT specialists and 4 for the market as a whole.[9] Therefore, 3 out of 5 can be assigned to this item as part of the consideration of the current industry development level.

In the current conditions, it is important to pay attention to *resource availability* in relation to IT industry (software and technologies). After implementing the transition plan to Russian software, Rosreestr publishes the amount of Russian software companies can use. As of the beginning

[8] Rosstat: Rossii dopolnitel'no trebuetsja bol'she milliona IT-specialistov. Rossijskaja gazeta. URL: https://rg.ru/2022/04/27/rosstat-rossii-dopolnitelno-trebuetsia-bolshe-milliona-it-specialistov.html. (accessed on 30.04.2022).

[9] Sverhnovaja real'nost' rynka truda IT. HeadHunter. URL: https://habr.com/ru/company/hh/blog/656981/ (accessed on 27.03.2022).

Table 4
IT market volume and its dynamics in Russia and globally

	2017	2018	2019	2020
World (USD bln)	3,540	3,720	3,810	3,870
Russia (USD bln)	21,8	24,0	24,9	25,4
Russia (RUB bln)	1,3	1,5	1,6	1,8
World — dynamics (%)	-	5.1%	2.4%	1.6%
Russia (USD) — dynamics (%)	-	10.1%	3.7%	2.0%
Russia (RUB) — dynamics (%)	-	18.9%	6.6%	13.7%
Share of Russian IT market to Global market (%)	0.62%	0.65%	0.65%	0.66%

Source: compiled by the author using the data: IT-uslugi (rynok Rossii). TADVISER. URL: https://www.tadviser.ru/index.php/ (accessed on 25.03.2022).

Table 5
Growth in demand for IT specialists in Russia, %

	Q1 2018 — Q1 2017	Q1 2019 — Q1 2018	Q1 2020 — Q1 2019	Q1 2021 — Q1 2020
Growth (%)	37%	14%	7%	38%

Source: ccompiled by the author using: Obzor rynka truda в IT-sfere в nachale 2021 goda v Rossii i Sankt-Peterburge. HeadHunter. URL: https://hh.ru/article/28685 (accessed on 25.03.2022).

Table 6
Russian software companies' sales

	2015	2016	2017	2018	2019	2020
Total sales, bln RUB	630	802	834	997	1,174,5	1,368,3
Domestic sales, bln RUB	220	294	321	387	587	684
Domestic sales dynamics,%	−8.3%	33.6%	9.2%	20.6%	51.7%	16.5%

Source: compiled by the author using: Informacionnoe obshhestvo v Rossijskoj Federacii. 2019: statistics digest / M.A. Sabelnikova, G.I. Abdrahmanova, L.M. Gohberg, O.Ju. Dudorova et al.; Federal State Statistics Service; National research. un-t "Higher School of Economics". Moscow: NRI HSE; 2019.

of 2022, about 13.2 thousand programs were registered in the registry, compared with 5.8 thousand in 2019 (an increase of more than two times). At the same time, it can be seen from the data in *Table 6* that since 2016 there has been an increase in sales volume in terms of software of Russian companies in the home market. *Table 7* shows data on the availability of information technology products to companies (according to the Federal State Statistics Service and the Higher School of Economics). The availability of personal computers, Email and Global networks is quite high — more than 90%; however, there is a shortage of servers and local networks among companies.

The use of various software tools by a number of companies is demonstrated in *Fig. 9*. In 2019, the companies actively used specialized business programs: for example, for the companies using programs to solve organizational, managerial, and economic tasks, the indicator was more than 50%, and the use of CRM-, ERP-, SCM-systems was only at 20.5%.

Regarding Russian software, experts note that although state-owned companies were supposed to demonstrate 50–70% under the transition program, however, this indicator was equal to 30–35% at the end of 2021.[10]

[10] Importozameshhenie programm otstalo ot programmy. RBK. URL: https://www.rbc.ru/newspaper/2021/12/28/61c21e289a79479e8562641b (accessed on 25.03.2022).

Table 7
Coverage of companies with information technologies, % in total

	2016	2017	2018	2019
Personal computers	92.4%	92.1%	94.0%	93.5%
Servers	50.8%	50.6%	53.4%	53.8%
Local networks	62.3%	61.1%	63.9%	63.5%
Email	87.6%	88.3%	90.9%	91.1%
Global networks	89.6%	89.7%	92.0%	92.0%
Website	45.9%	47.4%	50.9%	51.9%

Source: compiled by the author using: Sabelnikova M.A., Abdrahmanova G.I., Gohberg L.M., Dudorova O. Ju. et al.; Federal State Statistics Service Informacionnoe obshhestvo v Rossijskoj Federacii. 2020: statistics digest; National research. un-t "Higher School of Economics". Moscow: NRI HSE; 2020.

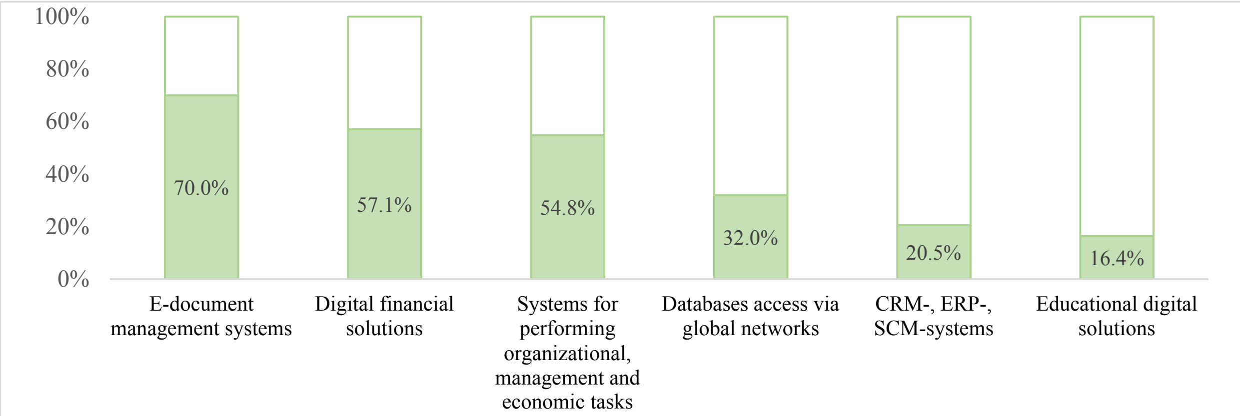

Fig. 9. **Coverage of companies by software tools in Russia in 2019, % of total**

Source: compiled by the author using: Sabelnikova M.A., Abdrahmanova G.I., Gohberg L.M., Dudorova O. Ju. et al.; Federal State Statistics Service Informacionnoe obshhestvo v Rossijskoj Federacii. 2020: statistics digest; National research. un-t "Higher School of Economics". Moscow: NRI HSE; 2020.

So, the software market in Russia is gradually developing, but does not meet all the needs of the companies, so this aspect accounts for 3 points out of 5.

Considering *Trust in online privacy*, with regard of the Inclusive Internet Index, which The Economist created to analyze internet inclusiveness in different countries, 'Trust in online privacy' indicator for Russia declined by 17% in 2020 compared to 2019, and by 10% in 2019 compared to 2018 (see *Table 8*). Russia came 117th out of 120 countries analyzed by this indicator.

Additionally, there is a lack of regulation for personal data security in Russia. These factors can, on the one hand, limit the use of some IT products and, on the other, give rise to new developments in the field of cybersecurity. However, as part of the assessment of the current IT industry development level, a low indicator of trust in online resources and products has a negative impact. This indicator accounts for 2 out of 5.

2. *Importance of industry for the economy of the country*. First of all, the gross value added attributable to this industry was analyzed, which shows its contribution to the country's GDP (see *Table 9*). Even though this indicator for the IT sector is only 1.3 percent of the total value added and takes the 19th position out of 61 industries, its growth is one of the largest in 2020 and 2019 (15.4% and 18.2%, respectively). This demonstrates that the industry is increasingly important for the country's economy. However, its share, compared to some other industries is relatively small. The indicator takes 4 out of 5.

In addition, we reviewed the volume of investments in information technology by industry

Table 8

Confidence in online privacy, % of total

	2017	2018	2019	2020
Share of respondents who are confident in online privacy	22%	40%	36%	30%
Dynamics of share	-	+82%	−10%	−17%

Source: compiled by the author based on: The Inclusive Internet Index. The Economist Intelligence Unit. URL: https://theinclusiveinternet.eiu.com/ (accessed on 10.04.2022).

Table 9

Gross value added by industry

Industry	2018	2019	2020	2019/2018	2020/2019
Manufacture of textiles, clothing, leather and leather products	0.2	0.2	0.3	0.0%	50.0%
Production of electrical equipment	0.3	0.2	0.3	−33.3%	50.0%
Production of medicines and materials used for medical purposes	0.3	0.3	0.4	0.0%	33.3%
Metallurgical products	2.4	2.5	3.0	4.2%	20.0%
Information technology	1.1	1.3	1.5	18.2%	15.4%

Source: compiled by the author based on: Struktura valovoj dobavlennoj stoimosti po otrasljam jekonomiki. Rosstat. URL: https://rosstat.gov.ru/storage/mediabank/tDfpHWR 9/str2.xls (accessed on 10.04.2022).

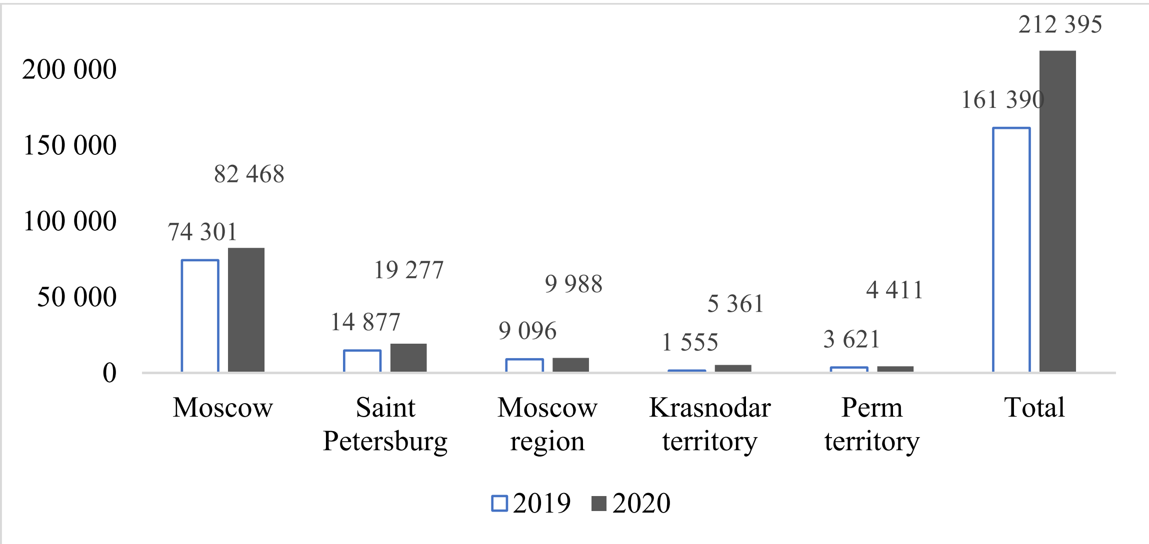

Fig. 10. **IT spendings by region**

Source: compiled by the author based on: CNews Analytics. URL: https://gov.cnews.ru/articles/2020–05–22_regiony_planirovali_uvelichit_itrashody (accessed on 16.04.2022).

in 2020 and their growth relative to 2019. As it can be seen in *Fig. 10*, IT industry spending in each of these regions (top 5 in IT spending) is growing, while total costs by region increased by 36%. This indicates that the need of the regions for IT products and services is growing, showing the importance of the sector for the economy.

The growth of digitalization of all public services and the introduction of new technologies in healthcare, transport, education, etc., are also worth noting. Thus, the importance indicator has 5 points out of 5.

3. *Resistance to negative changes in the economy*. Based on data from Rosstat and analytical agen-

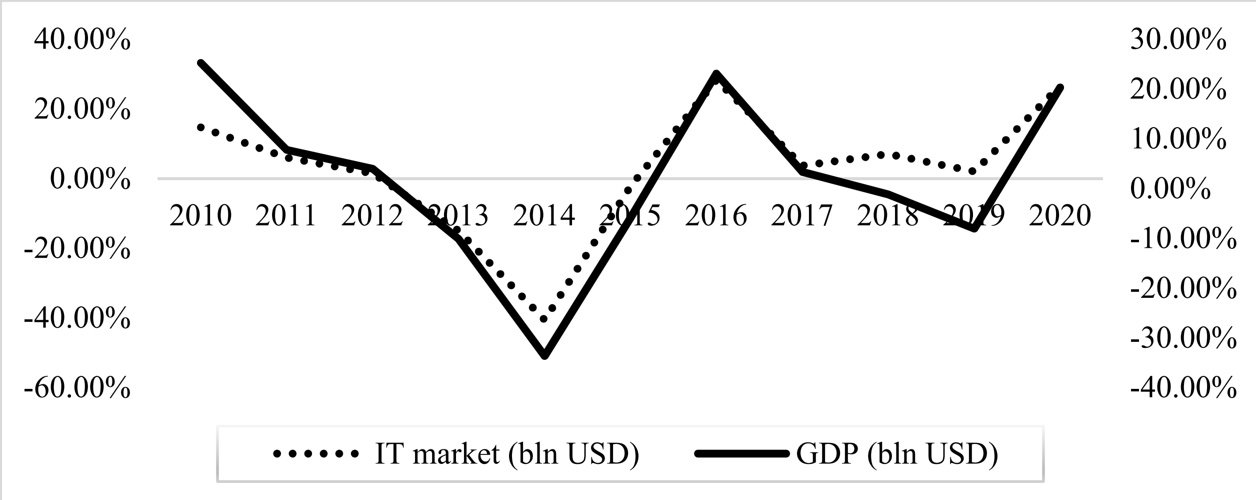

Fig. 11. **Dynamics of Russia's GDP and IT industry volumes changes**

Source: compiled by the author based on: GDP years (from 1995). Federal State Statistics Service. URL: https://rosstat.gov.ru/search?q=ввп (accessed on 16.04.2022).

cies, we developed a graph of the dynamics of changes in Russia's GDP and IT industry volumes (*Fig. 11*).

The industry has a weak Resistance to negative economic changes — with a considerable drop in the overall market, the IT market will also fall significantly. Despite this, the recovery is taking place almost together with the general market. This indicator accounts for 3 points out of 5.

4. *Industry development prospects.* Investments from the budgetary funds were constantly growing in the period 2018–2020 — the increase in 2019 was 49.8% and in 2020–57.5% compared to 14.3% and 23.7% for all the companies, respectively (*Table 10*). Also, there was a sharp increase in foreign investment in 2020, while this indicator is negative for all the companies in total. Overall capital investments experienced considerable growth during 2018–2020. This indicator accounts for 5 out of 5.

As for government incentives, the government is currently taking active measures to support the IT industry. Among such measures: allocation of grants for development; stimulation of the use of Russian developments for state needs; exemption from income tax; provision of loans for work and development at a rate under 3%; allocation of funds to improve the living conditions of employees; deferral from the army for employees under 27 years of age; popularization of the programmer profession, the launch of retraining programs.[11]

Also, one of the incentive measures is the decree on the transition of state-owned companies to domestic software, according to which companies must provide about 70% of Russian software. Thus, the state is taking significant measures for the development of the industry 5 points out of 5 on this aspect.

As for the demand for IT products and services, according to the survey[12] conducted by PwC in 2019, 72% of the respondents noted that in 2020–2023, data analysis technologies will be relevant for corporate treasuries, 64% noted the same about robotic solutions, 61% — about artificial intelligence solutions. Based on the survey, the indicator showing demand prospects for products/services produced in this industry accounts for 5 out of 5.

5. To assess *Investment profitability,* we use market prices of one Exchange Traded Fund (ETF) created from a combination of data from large US IT companies — FXIT (*Fig. 12*), and an index of Russian IT companies created by the Moscow Exchange — MOEXIT (*Fig. 13*).

American IT companies' share prices were growing in 2019–2022. The index of Russian

[11] Decree of the President of the Russian Federation No. 83 dated 02.03.2022 "On measures to ensure the accelerated development of the information technology industry in the Russian Federation". Official Internet portal of legal information.

[12] Digital Treasury: Interaction as the key to success. International comparative study of the Treasury Function for 2019. Pw C. 2019.

Table 10
Capital investments in Information and communication companies and in all companies in Russia, RUB

	2017	2018	2019	2020
Information and communication companies				
Owned capital	307,954,747	396,218,573	465,130,116	473,067,825
Borrowed funds	121,827,533	161,024,904	229,919,093	295,129,564
Budgetary funds	26,498,065	36,079,729	54,044,869	85,112,324
Dynamics		36.2%	49.8%	57.5%
Foreign investments	153,590	156,523	156,743	1,065,546
Dynamics		1.9%	0.1%	579.8%
Total	429,782,280	557,243,477	695,049,209	768,197,389
Dynamics		29.7%	24.7%	10.5%
All companies				
Owned capital	6,290,652,86	729,466,693	8,099,074,250	8,525,052,663
Borrowed funds	5,971,530,177	6,411,274,273	6,626,324,762	6,912,519,957
Budgetary funds	2,003,404,740	2,085,823,486	2,385,014,983	2,950,685,613
Dynamics		4.1%	14.3%	23.7%
Foreign investments	95,874,282	86,489,948	64,967,737	50,476,217
Dynamics		-9.8%	-24.9%	-22.3%
Total	12,262,182,563	13,640,740,966	14,725,399,012	15,437,572,620
Dynamics		11.24%	7.95%	4.84%

Source: compiled by the author based on: Investments in fixed assets by type of economic activity for the full range of economic entities. Unified Interdepartmental Information and Statistical System (EMISS). URL: https://www.fedstat.ru/indicator/59048 (accessed on 16.04.2022).

IT companies from its inception until the end of 2021 was approximately at the same level with a slight downward trend, however, due to changes in the market, it began a strong decline in 2022.

However, potential opportunity to receive income which is reflected in profitability ratios (Return on Assets, Return on Equity), is relatively high on average for the industry in 2021 (in 2021, ROA was 12.1 and ROE was 38.8). Based on this, this aspect accounts for 3 out of 5 points.

In order to calculate the total score for the attractiveness of the industry (external factors), we made a cumulative score table and derived the total score for the industry, which was 4.0 (*Table 11*).

As for the internal factors of the Yandex company, analysis is based on the traditional methodology and includes:

- profitability ratios (Return on Sales, Return on Assets, Return on Capital Employed, Return on Equity, Gross profit margin);
- solvency ratios (Debt ratio, Financial leverage, Interest coverage ratio);
- liquidity ratios (Current ratio, Quick ratio);
- activity ratios (Asset turnover, Inventory turnover, Receivables turnover).

In addition, some indicators proposed by specialists of NASDAQ exchange and investment banks which are suitable for IT companies, are applied; namely, multipliers based on company shares:

- Earnings per Share (EPS);
- Price to Earnings (P/E);
- Price to Sales (P/S);
- Enterprise value to EBITDA (EV/EBITDA).

The calculation of the aggregate indicator for internal factors is identical to the calculation for external factors. However, the weight of all

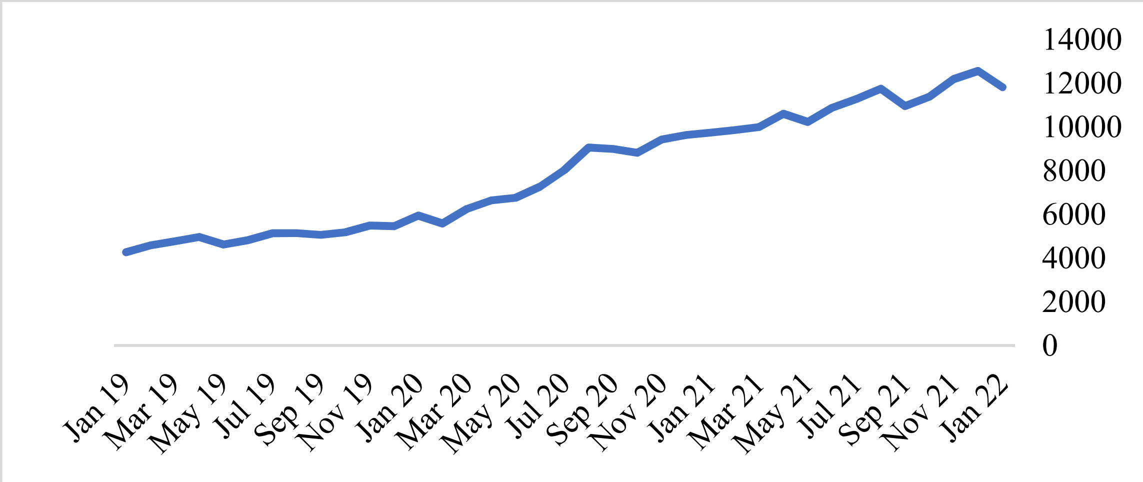

Fig. 12. **FXIT historical prices**

Source: compiled by the author based on: FinEx MSCI USA Information Technology UCITS ETF USD Share Class (FXIT). URL: https://ru.investing.com/etfs/finex-msci-usa-info-tech-ucits-usd (accessed on 16.03.2022).

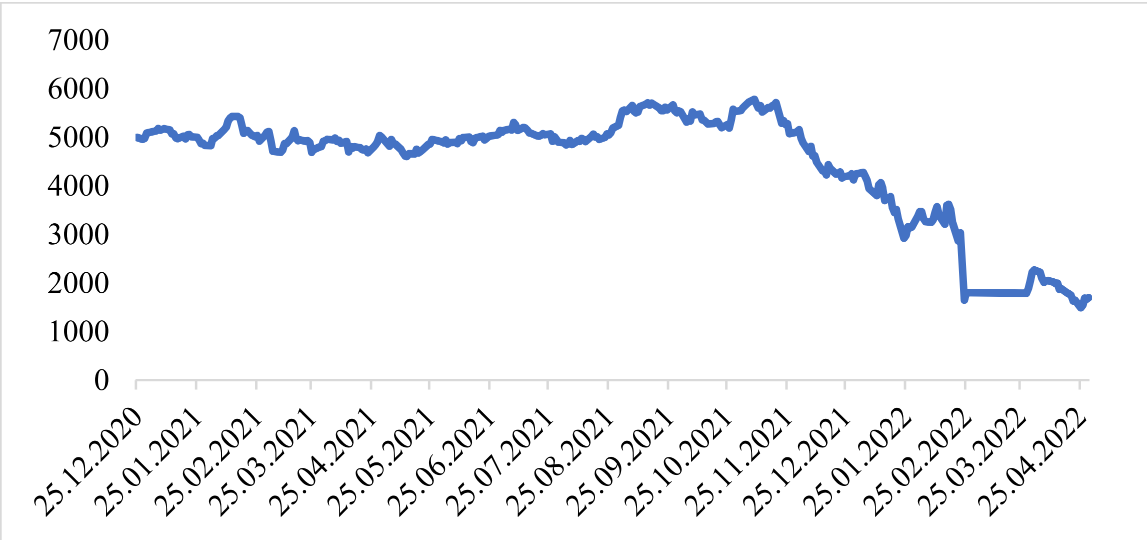

Fig. 13. **MOEXIT historical prices**

Source: compiled by the author based on: Industry indexes. MOEX. URL: https://www.moex.com/ru/index/MOEXIT/archive/?from=2018–01–01&till=2022–05–04&sort=TRADEDATE&order=desc (accessed on 27.03.2022).

indicators in this section is equal to 1 in our research. The overall investment attractiveness is calculated as a weighted average of external and internal factors with the weight equal to 1 for both of them (except factor "Competitive advantages — risks"), as we believe they are equally important.

To Assess Yandex's internal factors affecting investment attractiveness, we use the concept of competitive advantage (formed by M. Porter), which means that the company has unique characteristics in this regard. We conducted a VRIO (valuable (V), rare (R), inimitable and non-substitutable (I), organized to exploit (O) analysis), which helps to assess the company's resources and capabilities and understand which of them form temporary or sustainable competitive advantages. Each resource and capability is evaluated in terms of whether it is valuable (V), rare (R), inimitable and non-substitutable (I), organized to exploit (O). Identified resources and capabilities, and their assessment, are presented in *Table 12*.

According to the results of this analysis, Yandex can retain and strengthen its position in the market. The possible weak points for Yandex are the equipment supply chain, employee migration, strengthening competitors, data protection issues, the risk of low innovation, currency and commodity risks, reputation risk. Considering

Table 11
Industry attractiveness calculation

Factor	Indicators	Grade (max 5)	Weight
Current development	Users	4	0.05
	Average connection speed	3	0.05
	Market volume growth	5	0.05
	People employed	3	0.05
	Resource availability	3	0.05
	Trust in internet privacy	2	0.05
Importance of industry for the country's economy	Gross value added	4	0.1
	Industry spending	5	0.1
Resistance to negative changes in the economy	Industry volumes of sales dynamics in relation to country's GDP dynamics	3	0.1
Industry development prospects	Demand prospects for products/ services produced in this industry	5	0.1
	Volume of capital investments in this industry	5	0.1
	Availability and volumes of government incentives	5	0.1
Investment profitability	Average return on investment in the enterprises of this industry	3	0.1
Total grade (weighted average)		4.0	

Source: compiled by the author.

weak points, for these factors, the total score is 3.59. Further, as part of the analysis, we examined financial ratios, which are often used in the framework of financial analysis of companies. The results of the calculations are presented in *Table 13*.

As for profitability ratios, in 2021, there is a strong decline in all profitability indicators, which can take even negative values. This can be explained by the fact that the company's profit that year was negative due to a strong increase in operating costs. Overall, in terms of profitability ratios, it is necessary to look at further dynamics, but currently, these indicators receive 2 out of 5 points.

Considering Solvency ratios, financial leverage indicates that, compared to the average companies in the industry, the company is more dependent on borrowed capital, and this dependence is growing. Despite this, it is generally considered acceptable for this indicator to reach 1. Though debt, in general, grew significantly from 2019 to 2020, the debt ratio is quite low, indicating a relatively weak dependence on creditors. In 2021, the interest coverage ratio was negative due to negative profits. According to these indicators, the company receives 4 points out of 5.

Liquidity ratios reflect the ability to cover current liabilities, while this ratio considers only highly liquid assets. In 2020, this indicator increased significantly and was more than twice as high as the industry average, but in 2021 it decreased due to a general decline in performance this year. The indicator is 4 out of 5.

Considering Activity ratios, Turnover coefficients reflect the intensity of available resources utilization. The asset turnover ratio shows the period expected for the return of the funds invested in assets to conduct the economic activity — it is much higher than the industry average for Russia but lower than the figures calculated for the United States, where there are many IT companies. The same thing can be observed with inventory turnover. The turnover of accounts

Table 12
VRIO analysis for Yandex

	V	R	I	O	Competitive advantage
Wide diversification of business	+	+	+	+	Sustainable
Proprietary technologies built in-house	+	+	+	+	Sustainable
The scientific and educational laboratory of the Yandex company, created jointly with one of the leading universities of the country	+	+	-		Temporary
Sustainable business model	+	+	-		Temporary
Quality of products and services	+	-			Competitive parity
Brand	+	+	+	+	Sustainable
Both B 2B and B 2C services	+	-			Competitive parity
Innovation	+	+	+	-	Unused
Search engine adapted to a specific audience (Russian-speaking)	+	-			Competitive parity
Representation in different countries	+	+	+	+	Sustainable
Qualified specialists undergoing serious selection (18,000 employees, with 38% being IT-developers)	+	+	+	+	Sustainable
Strong employee motivation system	+	+	+	+	Sustainable
Employees training	+	-			Competitive parity
Partner network expansion	+	-			Competitive parity
Loyalty programs for some services	+	-			Competitive parity
Systemic company status	+	+	+	+	Sustainable

Source: compiled by the author.

receivable in days is very low, indicating a faster repayment of debts by buyers. The indicator based on these ratios is 2 out of 5.

The fulfillment of the conditions specified in *Table 14* helps to determine the liquidity of the company's balance sheet. Based on the calculations, both in 2020 and 2021, the company's balance sheet is liquid only according to one out of four indicators, which reflects the ability of the most urgent obligations to quickly cover, if necessary. A fairly high level of debt characterizes the company, so the remaining conditions are not met. Perhaps the specifics of IT companies' activities can justify this, but this indicator is higher for the company than the industry average. According to this criterion, the company receives 1 out of 5 points.

Since Yandex is listed on the stock exchange, as part of the analysis, market multipliers that will be useful for investing in the stock market can also be considered — they allow for assessing the profitability of shares and how much they are overvalued or undervalued. Among such multipliers are EPS, P/S, P/E, P/FCF, EV/EBITDA — results of their calculation for Yandex and for its global competitor Google (Alphabet) are presented in *Table 15*.

The P/S ratio is important as part of the assessment since IT companies often have negative profits when they invest in the development and implementation of innovations. Sales revenue can show a promising profit for the company, as well as the demand for the company's products in the market. In comparison to Google, which P/S multiplier has been steadily growing from year to year in the last few years, Yandex's multiplier is volatile: this indicator increased significantly in 2020 but fell in 2021. However, despite the fall, the indicator is higher than the indicator considered average for Russian IT companies

Table 13
Yandex financial ratios

	2019	2020	2021	2020	2021
		Yandex		Industry benchmark	
Profitability ratios					
Return on Sales	7.3	11.3	−4.1	8.7	9
Return on Assets	4.4	4.8	−2.8	10.8	12.1
Return on Capital Employed	9.9	8.1	−1.8	-	-
Return on Equity	6.0	7.2	−5.4	38.4	38.8
Gross profit margin	14.1	7.2	−3.7	-	-
Solvency ratios					
Debt ratio	0.2	0.3	0.5	<0.7	<0.7
Financial leverage	0.3	0.5	0.9	0.36	0.32
Interest coverage ratio	1.0	16.4	−0.9	6.01	7.94
Liquidity ratios					
Current ratio	2.6	4.6	1.8	2.1	2.3
Quick ratio	2.6	4.5	1.7	1.86	2.03
Activity ratios					
Asset turnover, days	605.9	861.9	528.3	160 (894)	157 (945)
Inventory turnover, days	2.0	8.7	7.1	0 (28)	0 (35)
Receivables turnover, days	0.0	0.0	0.0	65 (64)	62 (45)

Source: compiled by the author.

(which equals 2) and almost equal to Google's multiplier in 2020.

Regarding P/E, Yandex was in one of the leading positions in the Russian market. Yandex's multiplier was also almost 2.5 times higher than Google's. Many experts consider this indicator to indicate how much investors are willing to pay for the expected future profit. At the same time, the higher this multiplier is, the longer the payback period of these investments turns out. During the IT bubble period, many investors, in anticipation of the rapid growth of IT companies, did not consider this indicator, although at that time it could reach 800. For Yandex, this indicator was relatively high in both 2019 and 2020, and even though it reached a negative value in 2021, it means that the shares were overvalued, and it signaled that it was better to refrain from buying.

As for EV/EBITDA, Yandex shares are also overvalued: even Google, with its value of 20.9, overperforms its main market by 5 times, while the multiplier for Yandex is much higher than the one for Google. At the same time, Yandex's market capitalization demonstrated a growing trend in 2019–2020, which was most likely justified by the investors' high expectations. However, there was a slight decrease in 2021. In contrast, Google maintained steady growth in the corresponding period. In addition, EPS indicator was growing for Yandex in 2019–2020, and it was relatively high, taking into account the size of the company.

We believe that for such investments, although they may be profitable, the company's shares are highly overvalued, which may eventually lead to a big drop. The comparison with one of the global IT giants fortifies this finding. Currently, the company's shares are also subject to strong fluctuations due to the changes in the economy and politics, and they are not resistant to market changes. However, earnings per share have been following a growing trend which is important for investors. This aspect accounts for 2 out of 5.

Table 14

Yandex balance sheet liquidity indicators, mln RUB

	Type	Condition	2020		2021	
A1	Most liquid assets	A1>P1	238,185	Good	102,690	Good
P1	Most urgent liabilities		43,634		84,495	
A2	Quick- liquidating assets	A2>P2	25,440	Bad	43,568	Bad
P2	Short-term liabilities		62,852		111,106	
A3	Slow-liquidating assets	A3>P3	17,760	Bad	30,373	Bad
P3	Long-term liabilities		104,658		131,465	
A4	Hard-to-liquidate assets	A4<P4	225,211	Good	315,521	Bad
P4	Permanent liabilities		306,924		244,711	

Source: compiled by the author.

Table 15
Yandex and Google multipliers

	Yandex			Google	
	2019	**2020**	**2021**	**2020**	**2021**
Market capitalization	₽792 bln ($ 14.35 bln)	₽1 673 bln ($ 24.68 bln)	₽1 480 bln ($ 21.71 bln)	$ 1.19 trln	$ 1.92 trln
EPS	₽34.03 ($ 0.48)	₽68.5 ($ 0.98)	-	$ 49.16	$ 112.2
P/S	4.5	7.7	4.2	7.05	8.15
P/E	70.7	71.6	-	29.9	25.82
EV/EBITDA	15.7	34.1	45.7	22.1	20.9

Source: compiled by the author.

Table 16
Calculation of investment attractiveness of Yandex internal factors

	Weight	Total grade (max 5)
Competitive advantages — risks	15	3.59
Profitability ratios	1	2
Solvency ratios	1	4
Liquidity ratios	1	4
Liquidity ratios (additional)	1	1
Activity ratios	1	2
Multipliers	1	2
Investment attractiveness by internal factors	3.32	

Source: compiled by the author.

Table 17
Calculation of overall Yandex investment attractiveness

	Grade	Weight
Investment attractiveness by external factors	4	1
Investment attractiveness by internal factors	3.32	1
Overall grade	3.66	

Source: Compiled by the author

Thus, based on the results of the analysis, a cumulative assessment of the investment attractiveness of Yandex by internal factors has been made. The calculation results are presented in *Table 16*.

Table 17 shows the overall grade of investment attractiveness grouped by factors of the external and internal environment: overall grade = 3.66.

Conclusion

Economic development cannot be imagined without information technologies nowadays. They contribute to the growth and development of business and contribute to the development of countries. There are two factors influencing the upsurge in the popularity of IT companies and, accordingly, leading to improving their performance. The second reason is the introduction of e-commerce in many areas of activity. IT companies, serving as suppliers of these technologies, play an important role in providing comfortable living and working conditions. They provide a wide range of services and goods and are now in high demand affecting their performance indicators. The formation of the IT industry was largely due to venture capital investments. As IT companies are characterized by high growth rates and considerable potential for further development, they remain a popular investment object. The popularity of investing in IT industry is explained not only by the importance of this area as a whole, but also by the fact that a short development period, opportunities for relatively easy relocation of personnel, as well as the lack of physical assets in many IT companies, reduces the level of political and country risks. So, a large number of factors affect the investment attractiveness of an enterprise.

The assessment of investment attractiveness is a pivotal stage in the process of making investment decisions during which an investor should carefully analyze all factors that can influence the possibility of the investment object to bring such an effect that compensates for omitting these funds now, which means bringing positive financial or other effect.

We have proposed an approach to assessing the external factors: investment attractiveness of an enterprise based on the assessment of the industry in the country in which the most considered part of operations is carried out, as well as an assessment of the internal factors of the company itself. When evaluating the industry, we suggested using the following factors: Current development, Importance of industry for the country's economy, Resistance to negative changes in the economy, Industry development prospects, Possible investment profitability. When assessing the internal environment, we considered the company's competitive advantage, which will continue to hold its position in the market adjusted for potential weak points, financial factors (Profitability ratios, Solvency ratio, Liquidity ratios, Activity ratios), as well as market multipliers which are considered suitable for IT companies. The assessment of the above-mentioned parameters was carried out on the basis of available statistical and expert data, according to which we performed the analysis and gave an expert assessment. We applied this approach to the IT company Yandex, using the evaluation system, which implies assigning scores to each indicator based on the expert opinion formed after a thorough analysis. We found that the external factors, based on the assessment of the industry in the country, are characterized by a fairly high growth potential and above-average attractiveness for investors. At the same time, there are certain problems that the industry may face, especially being exposed to the risks associated with the country of operation. A cumulative assessment of the investment attractiveness of Yandex by internal factors shows the result 3.32 out of 5. Yandex has a number of advantages, such as its own technologies, business diversification, qualified employees, the status of a backbone enterprise, and others that can ensure its sustainable growth and development in the future. However, despite the fact that Yandex is one of the leaders in the Russian market, several points of concern affect investment attractiveness of Yandex negatively. One of which is that the company's shares on the stock exchange for 2021 were highly overvalued, which also indicates the possibility of a strong fall in case of instability in the market. We assessed the investment attractiveness of this company as average and found that it is better to consider its inclusion in the investment portfolio for diversification and stability rather than individual investment. Nevertheless, when considering investments, it is worth factoring in the investment goals and the horizon; because some factors may become less important when an investor has a high-risk appetite or wants to receive a profit in a short-term period.

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ORIGINAL PAPER

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Islamic finance: Meeting Global Aspirations and Growth Potential — UK Model

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ABSTRACT

This study's **objective** is to provide a description of the Islamic financial industry and its products, with an emphasis on the development of Islamic finance in the UK market. Islamic finance is a relatively popular issue in the world of economics due to its patterns of worldwide expansion. In the western world, the UK is at the forefront of Islamic finance. This research used a positivist outlook, and a **descriptive research** design. The optimum way will thus be to acquire secondary data. Both content analysis and descriptive analysis were used to examine the data that had been gathered. The **findings** showed that the UK's political environment and organizational structure support the expansion of Islamic banking there. The study also highlights the difficulties that UK-based Islamic financing faces. The **results** showed that financing real estate, as well as the provision of insurance services and the financing of transport firms without interest charges on loans, improve investment by Islamic banking and conventional banking institutions with an Islamic sector.

Keywords: Islamic Finance; Islamic Banking; profit and loss sharing; Sharia compliance; conventional banking

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Исламские финансы: соответствие глобальным устремлениям и потенциал роста — модель Великобритании

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Цель исследования — оценка исламской финансовой индустрии и ее продуктов, а также развития исламских финансов на рынке Великобритании. Исламские финансы относительно популярны в мире экономики из-за тенденции их всемирного распространения. В западном мире Великобритания находится на переднем крае исламских финансов. В данном исследовании использовался позитивистский подход. Для изучения собранных данных использовались как контент-анализ, так и описательный анализ. **Результаты исследования** показали, что политическая среда и организационная структура Великобритании поддерживают расширение исламского банкинга в этой стране. В исследовании отражены трудности, с которыми сталкивается исламское финансирование в Великобритании. В результате авторы приходят к выводу: финансирование недвижимости, а также предоставление страховых услуг и финансирование транспортных фирм без взимания процентов по кредитам улучшают инвестиции исламского банкинга и обычных банковских учреждений с исламским сектором.

Ключевые слова: исламские финансы; исламский банкинг; распределение прибылей и убытков; соблюдение шариата; традиционное банковское дело

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1. Introduction

The term "Islamic finance" appeared in the mid-1980s. The Islamic financial system is often described as prohibiting the charging of interest on financial services. However, the principles of Islamic finance are much broader than the rejection of interest, as it is based on Sharia — a set of rules and laws relating to the management of the economy and the social, political, and cultural aspects of Islamic society. The use of traditional financial instruments may be almost impossible in the Islamic world due to their non-compliance with Sharia laws in some Islamic countries.

In the past decade, the concept of the "Islamic bank" has become firmly rooted in the lexicon of financiers in many developed countries. This financial institution operating in Islamic and non-Islamic countries has gradually begun to flourish, and this institution has also played an increasingly important role in reducing dependence on the financial system. In countries such as the United Kingdom, the number of citizens practicing the Islamic financial system and refusing to use the services of conventional banks has increased, so Islamic institutions can no longer be ignored. Therefore, the study of Islamic financial institutions is a popular topic in the world of economic literature, especially if it deals with a European experience such as the United Kingdom because it attracts the practical interest of economic agents in most European and Asian countries [1, 2].

Research problem: The growth of Islamic finance in any country, whether Islamic or non-Islamic, needs support and stimulation, and the most important thing is government support that can introduce a set of rules, laws, and legislations conforming to Islamic law for this type of financing to succeed, and the supporting structures for Islamic financing. The research problem of this study: What are the most prominent motives that led the United Kingdom to resort to Islamic finance? And how can it reconcile the work between two different systems in principles and foundations? The research questions include:

- What are the basic principles of Islamic finance? And what are its characteristics?
- What are the main potentials that the UK can provide for the growth of Islamic finance?
- What are the main challenges it faces when applying it in a traditional economy and subjecting it to traditional financial laws and regulations?
- What are the prospects for the United Kingdom through this funding?

Research objectives: This research aims to describe the basic principles of the work of the Islamic financial system, as well as the challenges and consequences of the emergence of Islamic financial institutions in the traditional financial markets in the United Kingdom, concerning the reasons and factors that led to the growth of Islamic finance in the United Kingdom, as well as their view and guidance of the future of Islamic finance.

Research hypotheses: Islamic banks have a special feature represented in the application of Islamic Sharia principles. Also, the Islamic financing formulas are numerous and varied, and they can be applied at different times and terms, whether in the short, medium or long term according to Islamic Sharia. There are also many uses of financing in Islamic banks in the UK, such as the purchase of financial assets, the purchase of the real estate, as well as the purchase of fixed assets, working capital financing and other activities.

Research Methodology: To answer the research problem and achieve its objectives, we relied in this research paper on the descriptive-analytical approach, which helped us to accurately understand Islamic finance in general and Islamic finance in the United Kingdom in particular, and analyze most of its dimensions in a form of clarification and interpretation.

The rest of the paper is structured as follows. Section 2 discusses the theoretical framework of Islamic finance, Section 3 provides a comparison between conventional finance and Islamic finance, Section 4 addresses Islamic finance in international and Arab banks, Section 5 discusses a study of the UK's experience in Islamic finance. The final section presents conclusions.

2. The theoretical framework of Islamic finance

2.1. The concept of Islamic finance. Islamic finance refers to how companies and individuals raise capital by Sharia or Islamic law. It also indicates the types of investments allowed under this type of law. Islamic finance can be considered a unique form of socially responsible investment. The concept of risk-sharing is central to Islamic banking and finance, and it is necessary to understand the role of risk-sharing in increasing the capital. At the same time, Islamic finance requires the avoidance of usury and *gharar* (ambiguity or deception). There are many definitions of Islamic finance, but all of them share the same concept: "providing wealth, in-kind or cash, with the intent of profiting from its owner to another person who manages it and disposes of it in return for a return permitted by Shariah rulings” [3]. Al-Ahmad indicated that Islamic finance must have the characteristics derived from Islamic Sharia that can be summarized in the following points [4]:

Commitment to the provisions, controls, laws, and rules of Sharia in various investment activities.

Not dealing with interest or *gharar* (fraud, deception, and ambiguity).

The multiplicity and diversity of Islamic financing forms (*musharaka*, *murabaha*, sharecropping, etc.).

Directing financing towards real investment, meaning directing it to produce and distribute goods, services, and investment projects.

Taking into account the real needs of society and linking Islamic finance to them by the legitimate priorities, the necessities, then the needs, then the improvements.

The focus of Islamic finance is on directing the individual’s behavior towards virtuous morals, such as honesty, self-evaluation, sincerity, mastery of work, and others, which provide greater opportunities for the success of the institution.

Work to achieve justice between the two parties to the investment transaction (savers and investors).

The researchers believe that Islamic finance can be defined as the process of providing money from savers to investors in a manner consistent with Islamic Sharia regulations and Islamic formulas, to invest this money in a specific project in a manner that generates profits for the depositor and investor.

2.2. Objectives of Islamic finance. There are several objectives of Islamic finance that can be summarized in the following points [5]:

• Finding alternatives to traditional financing. This primary goal is to provide easy alternatives to society to dispense with traditional financing methods such as interest-bearing loans, whether at the level of individuals or institutions, to ensure the achievement of development for Islamic societies.

• Emphasizing that the profit value is not the basis of the financing process. In contrast to traditional financing, which is concerned with the value of the interest from the loan and the ability to repay as the most important conditions for financing, Islamic financing looks at the project itself, its economic and social feasibility, and its repercussions on society so that it does not carry waste funds, even if it proves its ability to pay and achieve profitability.

• Fighting unemployment and creating new job opportunities. Islamic finance aims to combat unemployment and create new job opportunities for individuals or providing small capital for individuals to establish small projects that benefit the community.

• Supporting the economic development of society and achieving economic well-being. Striving towards achieving development and economic prosperity and raising the level of income for the low-income groups, trying to provide new sources of income for these groups, which ensures the fulfillment of human needs and the eradication of poverty.

• Achieving good returns for owners of capital. One of the most important objectives of Islamic finance is to develop funds and protect them from consumption by saving them with financial institutions that provide investment tools that are compatible with Sharia, and these institutions play their role by investing these funds for their owners.

• Supporting social justice through the distribution of wealth and the fight against hoarding. One of the objectives of Islamic finance is to encourage people with low incomes to work and produce so that it provides a source of money and thus helps to distribute wealth and also encourages owners of money to invest their money, which leads to reducing hoarding of wealth.

2.3. Forms of Islamic Finance. Here is a brief overview of the types of finance that are often allowed in Islamic finance:

• ***Mudarabah*** (profit and loss sharing contracts). Also known as *modarabah* and *modaraba* means “an agreement between two parties, one of whom provides money and the other effort to invest it in legally permissible activities. The first is called the master of money and the second is the employer or the speculator, where the profit is distributed between them according to the contract, and the loss is borne by the owner of the money alone” [6]. The Islamic bank collects the investors’ money and bears a share of the profits and losses. This process is agreed upon with the depositors. The bank invests in mutual funds that were screened for Shariah compliance. The candidate analyzes the company’s balance sheets to determine if any of the company's sources of income are prohibited. Companies that carry a lot of debt or operate in prohibited lines of business are excluded. In addition to actively managed mutual funds, passive funds are also used. They are based on indices such as the Dow Jones Islamic Market Index and the Financial Times Stock Exchange (FTSE) Global Islamic Index [7].

• ***Musharaka.*** It expresses an "agreement between two or more parties to carry out an investment activity that the capital and profit shall be shared between them. Unlike *mudaraba*, in which there is capital on the one hand and work on the other, two or more parties contribute to the share capital and may share the work" [8]. The profit between the parties is shared according to the agreement [8].

• ***Ijarah.*** It is a contract between two parties whereby the benefit of an asset is sold, for a known price, and for a known period, where the owner of the asset (the bank) provides the asset to another party to benefit from its services in return for a known fee. Movable assets such as machinery and equipment, or fixed assets such as land and real estate can be involved.

• ***Murabaha.*** It is a person selling what he bought at the price at which he bought it with an increase of a known profit. The purchase may be made outright (lump sum) or through a series of deferred payments (installment). The credit sale is an acceptable form of financing and should not be confused with an interest-bearing loan. There are two types of *murabaha*: 1. Simple *murabaha*, which means the owner's sale of a commodity he originally owns at the same price, and an increase determined by the bank, such as sales that all traders usually carry out; 2. Complex *murabaha* is one of the trust sales, where a person asks another person to buy him a specific commodity and promises to buy it from him with a certain profit, and this type of sale is carried out by Islamic banks and constitutes a large percentage of their investments [9].

• **Sharecropping.** An arrangement in which an owner of the land allows a tenant to cultivate it or work on it in return for a share of the crops produced on that land.

• ***Msaqat.*** Irrigation is a type of partnership based on the effort of the worker in caring for the fruit trees and promising watering and care on the basis that the output of the fruits is distributed between the owner and the worker in an agreed ratio, so the bank provides the money and the necessary watering tools and with the possibility of placing a hired worker who will do the work and share output with the owner of the land [10].

• **Salam and Istisna.** These are rare forms of financing, used for certain types of business. The price of the item is prepaid, and the item is delivered at a specified point in the future (forward sales). Since there are a set of conditions that must be met to make these contracts valid, the assistance of an Islamic legal advisor is usually required [11].

2.4. Traditional sources of financing include:

External sources of funding:

• Short-term finance, commercial finance or bank credit.

• Medium-term financing: directed to the exploitation cycle of medium-term bank loans.

• Long-term financing: geared to the investment cycle.

Internal sources of funding:

• Financing using equity: by issuing new shares, raising the capital of the institution.

• Financing using long-term debt loans in which several banks and financial institutions participate.

Islamic banking services focus on investment, emphasizing the soundness of the project and applying ethical standards in acquisition. Traditional banks focus on lending, the ability to pay, and the application of financial standards.

3. A comparison between conventional finance and Islamic finance

Islamic finance is distinguished from conventional finance by several important basic matters that must be clarified to arrive at a clear idea of adopting Islamic finance. The traditional finance mainly depends on interest-bearing loans [12], while Islamic finance does not depend on interest-bearing loans, but may appear in partnership with others, such as *murabaha* or *mudaraba*.

We also find that the cost of Islamic finance is much less than traditional finance, as Islamic finance does not allow delaying the repayment of the debt, and the imposition of interest-delayed interest on it. On the contrary, in conventional finance, it is in the interest of the creditor that the delay in repaying the debt leads to the imposition of interest [3; p. 301].

Islamic finance is characterized by stability, as the Islamic financial institutions bear the profit and loss with the clients. That mitigates the loss which is a major cause of the emergence of financial and economic crises observed in traditional finance [3; p. 301].

Islamic finance is subject to Islamic Sharia rules and controls, because Islamic finance contracts must conform to the provisions and principles of Islamic Sharia. Thus, Islamic banking legislation refers to prohibitions that cannot be applied, as in the prohibition of dealing with usurious interest by taking and giving and financing for illegal goods or services under the provisions of Islamic Sharia.

4. Islamic finance in international and Arab banks

Islamic finance appeared 50 years ago in countries with a large Muslim population that were keen to ensure that their sources of financing were governed by the requirements of Sharia and the principles of Islam. The global Islamic finance market can be divided by sector into: Islamic banking, Islamic insurance "Takaful", other Islamic financial institutions (OIFLs), Islamic bond "sukuk" and Islamic funds. By geographical region the Islamic finance market can be divided into: Gulf Cooperation Council (GCC) countries (Saudi Arabia, Kuwait, UAE, Qatar, Bahrain, Oman); Middle East, North Africa (MENA) (Iran, Egypt, rest of MENA); South Asia, Asia Pacific (Malaysia, Indonesia, Brunei, Pakistan, rest of South Asia, Asia Pacific) and Europe (UK, Ireland, Italy and the rest of Europe).

1. Global Islamic Assets. The global Islamic finance market is growing at a steady pace, posting a compound annual growth rate of 7.8% between 2014 and 2019. The industry has benefited greatly from strong investments in the halal, infrastructure, sukuk and Islamic funds sectors, particularly from electronic methods in all products and services (*Table 1*).

In 2019, global Islamic financial assets grew 14.4% to reach $ 2,500 billion, marking their pace after a moderate 2.0% increase in 2018. This double-digit growth was recorded in part due to higher Sukuk issuance in traditional markets. The Sukuk market expanded by 14.5% to reach $ 538 billion in 2019 compared to an increase of 10.3% in the previous year, and accounted for 19% of the total assets of the global Islamic finance industry. It should be noted that green Sukuk and SRI (Socially Responsible Investment) sukuks are gaining prominence in the UAE and Southeast Asia. This sector rebounded from a 10% decline in 2018 to record the highest growth over the past decade. This growth was primarily driven by the new launch of Islamic Exchange Traded Funds (ETFs) in several countries and ESG-related investment assets made available through digital media.

Islamic banking, which represents 69.3% of the total assets of the global Islamic finance industry, grew at a pace of 14.2% year over year (YoY) during 2019 to reach US$ 1,993 billion (*Table 2*). Non-core markets experienced the fastest expansion such as Morocco, where "participation banking" was introduced in 2017. Islamic banking in Morocco has since experienced an annual growth rate of 120%. Other markets likely to see further expansion of Islamic banking include the Philippines and Turkey. The Philippines passed a new Islamic banking law in 2019 that allows domestic and foreign banks to set up Sharia-compliant banking windows.

Core markets accounted for the highest share of Islamic banking assets in GDP in 2019.

On the other hand, global *takaful* assets grew by 10.9% YoY to reach $ 51 billion, which is a significant recovery from the losses experienced over the past two years. Saudi Arabia, the world's largest *takaful* market, recorded an 8.8% YoY growth in contributions as the introduction of mandatory health insurance triggered new business. *Takaful* assets in other GCC markets registered higher growth, with contributions up to 14% in 2019. During the year, *Takaful* operators in GCC countries reported improvement in investment profitability as growth was observed across several business lines. Finally, Other Islamic Financial Institutions (OIFI), which include financial institutions such as investment, finance, mortgage, leasing, and factoring firms, grew by 5.5% YoY to reach US$ 153 billion in 2019. Malaysia topped the list of OIFIs with assets of 54 billion USD in 2019. The Maldives was the fastest growing market for OIFI, with total assets increasing by 62% to USD 44 million, aided by government support to develop favorable frameworks. The growing popularity of Shariah-compliant housing finance in the Maldives led to a 31% increase in these assets during 2019.

2. Top 10 Global Islamic Assets Market. The global Islamic asset market remained largely concentrated in Iran, Saudi Arabia, and Malaysia, which together accounted for 66% of total assets in 2019. Bahrain has the highest Islamic finance assets as a percentage of GDP with a percentage of 124%, followed by Malaysia (53%), Iran (47%), Kuwait (43%), and Qatar (40%). Countries with large Muslim populations, outside the core markets of the GCC and Malaysia,

Table 1
Islamic Financial Assets by Sector (US$ billion, 2014–2019)

Total, US$ billion	Islamic banks, %	Islamic banking, %	Islamic money, %	Solidarity, %	Other Islamic Financial Institutions,%	Year
1,975	73.1	15.1	3.3	1.8	6.6	2014
2,201	72.7	15.5	3.2	2.1	6.4	2015
2,307	72.5	15.0	4.3	2.1	6.2	2016
2,461	70.2	17.3	4.9	1.9	5.8	2017
2,513	69.4	18.7	4.3	1.8	5.8	2018
2,500	69.3	18.7	4.9	1.8	5.3	2019

Source: compiled by the authors based on the data from the International Monetary Fund (IMF) for 2014–2019.

Table 2
Global Islamic Finance Asset Distribution (2019)

Size (billion dollars)	Share of Islamic finance Assets, %	Number of Institutions/ Tools	Banks
1,993	69	526	Islamic banking services
538	19	3,420	Instruments
153	5	645	Other international financial institutions
140	5	1,749	Islamic funds
51	2	336	Symbiosis

Source: compiled by the authors based on the data from the IMF for 2014–2019.

are also gaining momentum. For example, Morocco recorded the fastest growth in 2019, after opening its first "participation bank" in 2017. Tajikistan and Nigeria followed suit with the fastest growth in Islamic financial assets during the year. Among the top 10 Islamic finance countries in terms of assets, Iran topped the list with $ 698 billion in assets, followed by Saudi Arabia with $ 629 billion, and Indonesia recorded the highest average growth of 19.7% over the five years to 2019 (*Table 3*).

Regionally, the GCC countries had the highest share of Islamic finance assets with 43.6% or $ 1,253 billion, while the Middle East, North Africa, and Southeast Asia (Southeast Asia) accounted for 26.3% (US$ 755 billion) and 23.8% ($ 685 billion), respectively. Notably, Southeast Asia has gained a lot of momentum in terms of growth in Islamic finance over the past few years. This growth has been largely fueled by the growing Muslim population in the region, as well as the high proportion of Muslims seeking to make investments in line with their religious beliefs. Thus, governments in the region, especially Malaysia and Indonesia, have played an active role in promoting Islamic finance instruments and have introduced several regulations to support this trend.

5. A study of the UK's experience in Islamic finance

Of the 20 UK banks that offer Islamic finance services, 5 are fully Sharia-compliant licensed banks, raising $ 728 million in net assets of Islamic funds in the UK [13]. "Total Shariah-compliant banking assets in the UK were around $ 4.5 billion in 2016" [13].

Since the 1980s, the London Metal Exchange has recorded many commodity transactions for *Murabaha* contracts, meaning that financial institutions have been providing sharia-compliant options for the growing demand for Islamic finance in the UK, largely because English law is one of the best jurisdictions to operate Islamic contracts. From 2003 onwards, the UK introduced a series of financial laws, especially with regard to dual character obligations, and legislation was adopted to eliminate double

Table 3
Top Countries for Islamic Finance Assets (Billion USD, 2014–2019)

5-year compound annual growth rate (%)	2019	2018	2017	2016	2015	2014	Country
15.1	698	575	568	545	434	354	Iran
8.8	629	541	509	473	447	413	Saudi Arabia
6.5	570	521	491	406	414	415	Malaysia
7.7	234	238	222	203	187	161	UAE
10.7	144	125	129	68	101	87	Qatar
6.3	132	116	109	120	100	98	Kuwait
19.7	99	86	82	82	48	40	Indonesia
5.6	96	86	84	99	81	73	Bahrain
3.1	63	51	54	50	52	54	Turkey
14.2	45	38	34	31	26	23	Bangladesh
−9.1	164	136	169	230	311	265	Other
7.8	2,574	2,513	2,461	2,307	2,201	1,975	Total

Source: compiled by the authors based on the data from the IMF for 2014–2019.

taxation. There was also tax exemption on Islamic finance products so that they could be balanced with traditional transactions.

Besides the required financial expertise, due to the legal amendments and flexibility created for Islamic finance contracts, this has increased the need for specialized legal advisers. Most important UK law and accounting companies provide services in all Islamic finance matters. In addition, offers in training and education at Islamic finance have been numerous in the UK, and are considered one of the biggest providers of this topic, in a range of courses and qualifications. All of the UK's efforts to make London the centre of Islamic finance in the Western world, making the UK one of the best options for Islamic investments and trade deals, was the first Western country to issue sovereign instruments. In 2014, the UK government sold £ 200 million worth of instruments, due in 2019, to UK-based investors and major global Islamic finance centres. The first UK sovereign instruments were increased in underwriting with very strong demand and orders totaling about £ 2.3 billion [13].

LSE (London Stock Exchange) is also a central instrument issuance market for various multinational companies, such as Airbus and Emirates. "To date, a total of 65 instruments have been listed on the London Stock Exchange with a total value of $ 48 billion" [13].

Overall, based on the IMF data for 2017, the UK has been a leader in the Western world in the Islamic finance industry. "The growth of the industry is facilitated by a unified but secular framework that promotes equal opportunities for all financial institutions". The UK government has been a key player in promoting Islamic finance locally, recognizing the importance of the industry in booming its economy, thus maintaining a flexible and equitable framework for all in the financial industry. As a result, the growth of Islamic banking assets in 2015 exceeded 30 per cent, while traditional banks recorded a 0.7 per cent decline.

5.1. The History of Islamic Finance in the United Kingdom. The following key events characterize the history of Islamic finance in the UK:

- Islamic finance came to the UK for the first time in the 1980s, with the introduction of *murabaha* transactions, and the first Islamic bank in the UK was launched in 1982, the Global Islamic Pond, followed by the growth of sharia-compliant products in trade, leasing and project finance.

• In the early 2000s, the UK government began to take a serious interest in Islamic finance, and developed an action programme to bring the UK's financial services systems into line with the growth of Islamic finance. Changing the tax transaction, to ensure that equivalent-purpose Islamic and traditional financial transactions lead to similar tax bills, was also an important step to allow the market to grow.

• Meanwhile, there has been significant growth in the offer of Islamic Retail Finance Services, providing choice to more than 2.5 million Muslims residing in the UK. At present, there are five fully Sharia-compliant banks in the UK, with 20 institutions providing Islamic Finance Services.

• To serve this growing industry, large-scale vocational education and training programme has been developed in the field of Islamic finance. Currently, four vocational institutes and some 70 universities and business faculties offer qualifications in the field of Islamic finance.

• The UK's Islamic Bond (*Sukuk*) market began in 2007 and continued to grow. By 2015, 57 instruments had been listed on the London Stock Exchange, with a total value of $ 51 billion. In 2014, the UK government became the first western government to issue sovereign instruments, exceeding the underwriting 11 times.

With strong Islamic insurance, money management and banking sectors, the UK has also developed expertise in supportive occupations, while adopting advisory and legal forms of Islamic finance practices.

In 2015, the UK made its first global event: $ 913 million in *Sukuk* export credit guarantees were provided to finance the purchase of four Airbus A380 aircraft for Emirates.

In April 2017, the UK's first Islamic fintech company received full approval from the Financial Conduct Authority. This approval was another example of the UK's efforts to retain its position as a global financial hub and hub for Islamic finance and fintech and to provide support to Muslim homebuyers in the UK. As of October 2017, there were more than 20 companies in Britain offering sharia-compliant products, a level above any other Western country. This included five Islamic banks: the Gatehouse Bank, the Rayyan Qatari Bank, the London and Middle East Bank, the Abu Dhabi Islamic Bank, and a unit of the Qatar Islamic Bank, as an observer member of the Council for Islamic Financial Services in Kuala Lumpur.

Rayyan Bank first released £ 250 million in 2018. Al Waskah issued USD 50 million in instruments in 2019. This provides an alternative financing solution for companies and institutions and gives investors access to a wider range of sharia-compliant investments and assets in the United Kingdom.

The UK issued its second sovereign instruments (Islamic bonds) in 2021. The Pound500 million instruments were sold to a wide range of institutional investors in the United Kingdom and in key Islamic finance hubs in the Middle East and Asia. This second show is more than double the size of the UK's first release in 2014. It increased the market's supply of sharia-compliant and high-quality liquid assets and supported the development of Islamic finance in the United Kingdom. The United Kingdom had also been heavily involved in the first Pound200 million instruments and had made the United Kingdom the first Western State to issue sovereign instruments.

5.2. Demand factors for Islamic finance in the UK. The United Kingdom is the leading financial market for Islamic finance in the Western world. There are many explanations for the continued growth in the UK. In the wake of the financial meltdown, the effects of which are still affecting global markets, it is becoming increasingly necessary for financial institutions to find ways to expand their market base. According to [14], the Islamic finance industry was worth $ 1.3 trillion by the end of 2011. It is expected to grow even further in the coming years due to the following factors.

• Islamic product differentiation: According to the information HSBC Bank, banks offer different products such as real estate funds, investment accounts, motor financing, corporate accounts, asset financing, security interest savings, and real estate financing that attract a large number of clients, increasing the bank's market share. Through a customer base and increasing assets, the development of distinguished Islamic banking products has also contributed to the growth of Islamic banking in the UK. The results of empirical analyzes indicated that Islamic banking institutions and non-Islamic banks that offer an Islamic window offer innovative financial products and services to the markets. Product differentiation has enhanced the provision of various types of Islamic financial products and services to Muslim and non-Muslim clients in the UK. These products included speculation which is a product that includes profit and loss sharing schemes. Clients are funded to acquire assets, do business and share profits or losses with banks. Other products offered by Islamic banking institutions and conventional banks with Islamic windows, include a financial service for keeping customer deposits commonly referred to as savings. Also, banks offer a *musharaka* contract which is generally referred to as a joint venture, i.e., Islamic banking institutions form a joint venture with customers and share profits or losses.

• Islamic banking reports also indicated that Islamic banking institutions and traditional banks with an Islamic window offer *murabaha* products at an increased cost. Islamic mortgage products are offered in the United Kingdom for buying homes and real estate development in Britain, and *ijarah* is offered to intermediaries, which facilitates leasing. Customers can access at affordable prices, develop and deliver contractual services to market for customers who go into building manufacturing establishments, and offer *takaful* type of traditional insurance products where risk is shared in a transparency approach. This clearly indicates that the development and provision of differentiated Islamic products and services have contributed to the increase in the Islamic banking market. Moreover, there is an increase in Islamic banking networks and an increase in the Islamic banking customer base which has led to an increase in the size of banks' assets and growth in the level of profitability in the UK.

• Political structure: The study revealed that political goodwill and political structure in the UK contribute to the growth of Islamic banking in the UK. The UK government and banking sector governors support and embrace the vision of developing Islamic banking in the UK. The documented report indicated that the government adopts pragmatism and realism in banking development. It is an effort to create competitive international Islamic financial banking products and services and to promote financial inclusion, where people regardless of their beliefs, religions or traditions have access to competitive financial services and products [15]. The support of the government that established financial regulation through the Financial Services Authorities (FSA) and government support for the development of Islamic banking has contributed to the growth of Islamic banking in the UK.

• Flexibility of the legal framework: The legal framework in the United Kingdom is characterized by the presence of flexible legal structures, facilitating the adoption of the financial regulatory framework on credit law and the application of equity principles, under British law, facilitating dealing with property issues that may arise from Islamic banking structures. An additional change in tax systems led to the development of Islamic banking and made London competitive. Opening up to foreign trade centers by attracting more Islamic banks and non-traditional banks that provide Islamic banking services. This contributed to the growth of Islamic banking services in the UK [16].

• The HSBC report indicated that Islamic banks provide banking products and services that comply with UK law, the financial regulatory framework, the legal framework, and regulations. There are no restrictions on Islamic banking institutions. This positive government support contributes to the provision of Islamic products and services to the Muslim population and non-Islamic customers, which increases the bank's market share, as the bank is witnessing a growth in the customer base, opening new branches across the UK which leads to a high level of profitability.

• Brand development and market demand: The results of the PriceWaterCopper Market review[1] indicated that the development of Sharia compliance, market growth, and demand for Islamic products contributed to the growth of Islamic banking in the UK. The report[2] indicated that the demand for Islamic financial services has increased in the UK market. Due to the increasing number of Muslim and non-Muslim clients in the UK resulting in an increase in the bank's client base as well as contributing to an increase in market share, HSBC and Lloyd TSB Bank data indicated that Islamic banks and conventional banks offering Islamic windows boost Islamic product development to an extent.

• Participation of the Muslim community organizations in events in the UK: An Islamic economic institution works to improve the relationship between the Islamic community, banking management, and government. This has resulted in good relations with government bodies such as the Financial Supervisory Authority, Treasury, Commerce and Industry [13]. This has led to the

[1] PriceWaterhouseCooper. Building trust in a time of change Global Annual Review 2013. 2013. URL: https://www.pwc.com/gx/en/annual-review/2013/assets/pwc-global-annual-review-2013.pdf

[2] Ibid.

modification of Islamic banking tax regulations and increased awareness of Islamic banking products and services through participation in international events.

- Increased investment: Islamic banking services contribute to economic growth by improving and expanding the investment portfolio. The information collected from documented reports revealed that Islamic banking and institutions of conventional banking with Islamic outlets enhance investment by financing real estate, providing insurance services, and financing transport companies without interest fees on loans. Many customers and non-customers of Islamic financial products and services invest in income-generating projects without fear of loss as no interest is charged on borrowed capital and banks provide profit and loss sharing structures.

5.3. Challenges and obstacles facing Islamic finance in the United Kingdom. Among the most important challenges facing Islamic finance are as follows [17]:

1. The absence of a reference framework or incubator, whether governmental or non-governmental, that protects and assists Islamic financial institutions in providing solutions to problems and obstacles, helps them succeed and prevents them from failing.

2. There are problems related to Islamic deposit insurance in terms of standards, as the International Accounting Standards Board has not adopted a standard or guidance on deposit insurance that is compatible with Islamic Sharia [18].

3. Difference of opinion among scholars as to whether the practices, products, and services provided by Islamic financial institutions are compatible with Islamic law. Consequently, multiple and diverse opinions emerged regarding the compliance of the Islamic transactions, and this led to people to confusion [19].

4. Islamic banks rely heavily on current accounts, and this necessitates maintaining a large percentage of liquid funds to meet the needs of regular or emergency withdrawals from current accounts. This leads to the loss of a percentage of capital that could have been invested and thus obtaining the revenues necessary for development and investment work.

5. The disputed cases in Islamic banks are subject to the same legal system as in conventional banks, while the nature of the legal system of Islam is significantly different from the traditional system [20].

6. The absence of Islamic banking laws requires the enforcement of agreements in the courts with additional efforts and costs. Therefore, banking and corporate laws in many countries may need amendments to provide a level playing field for Islamic banks. Moreover, the international acceptance of Islamic financial contracts requires that they be compliant with Islamic law as well as acceptable under major legal systems such as common law and civil law systems [20].

7. The absence of any legal cover so that the Islamic bank can protect itself, in case the customer refuses to pay the rent in the lease contract.

8. Deposits in Islamic banks are based on the principle of profit and loss (participation or *Murabaha*), and therefore if something happens and the bank suffers a loss, this loss is transferred directly to the depositor. This fear of loss is the biggest obstacle to mobilizing deposits in Islamic banks [20].

9. Some dealers using Islamic financing methods, including the *Murabaha*, use several methods to deceive Islamic financial institutions to obtain cash in a way that is not permissible by Sharia For example, it is possible to agree with the seller to return the goods to him after the institution buys them and sells them to the purchase orderer.

10. Islamic finance lacks any risk assessment mechanism. With the absence of clear and explicit legislation and laws that define the mechanism of work of this sector of finance, banks and Islamic financial institutions face many risks, challenges and problems [21].

5.4. The future of Islamic finance in the UK. The challenges, mentioned previously, does not prevent the possibility of the continued growth of Islamic finance in the United Kingdom, The Islamic model of business financing is becoming increasingly popular, and witnessing rapid growth in the United Kingdom, as the demand is increasing by Muslim entrepreneurs, who try to stay within the confines of Sharia or Islamic teachings.

The United Kingdom, like other Western countries, is looking forward to the development of Islamic finance, based on the search for earning and the multiplicity of sources of funding, to face the global challenges that have become imposed by globalization and capitalism, Among the manifestations of its future directions to adopt this financing are the following:

1. Increasing demand for Islamic finance products by British small and medium businesses: The increasing availability of Islamic finance comes in response to an increase in the Muslim population in the United Kingdom, with 2.6 million in 2010, according to a 2011 report by the Bee and Population Research Center. It was found that the projected Muslim community will double to 6.2 million by 2030. In 2012, it was estimated that there were 10,000 Muslim-owned businesses in the UK, with at least half of those companies based in London. While most of its financing is considered to be within the financing of small businesses and is carried out through traditional financing, 20% of the most devout Muslims are concerned about traditional financing tools and are looking for alternative legitimate options such as Islamic financing based on *Murabaha*, *Musharaka* or *Ijarah* [22].

This is evidence that there is a direct equation between the increase in the number of Muslims in the United States of America and the increase in the demand for Islamic financing, which proves the merit and continuity of this financing, to double the number of Muslims in the future, and this was confirmed by several reports on the increase in the number of Muslims in the United Kingdom, the greater the number of Muslims.

2. Expansion of Islamic financial and banking institutions in the United Kingdom: As a result of the increasing desire of small and medium-sized companies owned by Muslim investors and businessmen to obtain financing compatible with the provisions of Islamic Sharia, it will provide opportunities for British financial institutions and banks, whether traditional or operating according to an Islamic method. Noting the growth in the demand of these institutions for Shariah financing, and therefore the offer must respond to these requests."

Some experts expect that the British financial market will constitute a great opportunity for Islamic banking institutions, such as banks, takaful insurance companies, *Murabaha* companies, leasing, and others, to break into this technical market that is full of future growth opportunities, especially since there is an increasing demand from international and Arab investors, in general, to invest in Islamic markets, especially Asian and Western markets. Among them, Malaysia and Britain are pioneers in granting Islamic financing to small and medium-sized enterprises and companies, as these companies are the backbone of trade and a vibrant and sound economy in any country. Government funding for large companies, especially after the recent financial crisis.

Some also believe that global Islamic banks will compete with each other for a share of the British market, although Arab, Pakistani, Indian, and Malaysian banks may have branches that compete with the branches of Islamic banks in the United Kingdom, which are few, and traditional banks and traditional lending institutions may enter the competition. It may open windows for Islamic finance and banking, so that its clients from the Muslim community, especially in areas with a high Islamic concentration, do not go to other competing banks, not only this, but the financial market may enter global and local investment funds to obtain a share of financing the projects resulting from those companies [22].

Finally, it is expected that the government may enter into this type of banking service through a bank that it represents, especially when the percentage of demand for Islamic finance increases, 25 percent of the total funding granted to these companies, to issue Islamic bonds (i.e., bonds without interest in return for a specified return) as did the beginning of the Malaysian market, And then the experience has developed of issuing Islamic Sukuk in its modern sense to finance projects in cooperation with medium and large institutions, mostly [22].

6. Conclusion

The banking sector in the United Kingdom has witnessed great and continuous developments.

Through the previous discussion, the researchers reached the conclusions that can be listed as follows:

- The Islamic Bank is a banking institution that collects financial resources and employs them by Islamic Sharia regulations to achieve profit.
- The first breakthrough for the establishment of Islamic banks in the United Kingdom was in the eighties of the last century when the first Islamic bank (Al Baraka Bank) was established. After that, some laws and regulations related to either supervising the work of Islamic banks or related to service and product providers were issued and amended. Currently, it has become one of the most developed countries in the Islamic banking industry.
- Islamic finance is used in the United Kingdom for several purposes, either to purchase securities (Islamic Sukuk), purchase real estate, or finance

working capital. Funding is also directed to several sectors, including insurance, real estate, the family sector, education and health, transport and communications, etc.

• The following activities may be considered in the United Kingdom to improve the Islamic banking system:

• An advanced infrastructure for Islamic banks can be established in the United Kingdom, supported by modern technologies, especially digital technologies, and open to Islamic science, in addition to establishing law firms working to draft Sharia contracts, as well as brokerage offices.

• Islamic banking laws in the UK may be made independent of conventional banking laws.

• Establishment of specialized centers for education, training, and promotion in the United Kingdom for the Islamic banking industries.

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