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Islamic economy and finance: Iran’s experience and the outcomes of the experiment in Russia

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Article Info	Abstract
Original Article Main Object: Economics Scope: Iran and Russia Received: 06 October 2025 Revised: 25 October 2025 Accepted: 25 October 2025 Published online: 23 December 2025 **Keywords:** financial inclusion, ijarah, Islamic economy, Islamic finance, murabaha, musharaka, policy reform, Sharia compliance, sukuk, takaful.	The study examines the evolution and architecture of the Islamic economy and finance, with a focus on Iran’s model and its relevance for Russia’s ongoing pilot of Islamic finance (2023–2025). It outlines theoretical foundations, Sharia-compliant principles, and core instruments (murabaha, mudaraba, musharaka, ijarah, sukuk, takaful, istisna), and compares national models across Iran, Sudan, the Persian Gulf, Malaysia, and Indonesia. Iran’s experience-comprehensive Islamization of banking, strong state role, and asset-backed finance under sanctions-serves as a reference point for building regulatory, institutional, and market infrastructure. The Russian pilot in Tatarstan, Dagestan, Bashkortostan, and Chechnya demonstrates early traction: growing portfolios, rising client loyalty, and participation by SMEs and non-Muslim users. Key constraints include tax asymmetries (double VAT risk) and a shortage of accredited specialists. The paper proposes policy measures on tax neutrality, standards alignment (AAOIFI/IFSB), human-capital development, Sharia governance, product certification, and staged geographic scaling. It concludes that adapting Iran’s lessons—while ensuring competition, transparency, and international integration-can help Russia establish a sustainable, ethical, and competitive Islamic finance segment and deepen links with global Islamic markets.

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1. Introduction

Islamic finance as an economic category is one of the most dynamically developing sectors of the global economy. Over the past two decades, the volume of assets in the Islamic financial market has grown manifold: according to the Islamic Financial Services Board, by 2024 it reached approximately $3.88 trillion, with an average annual growth rate of over 7%, whereas the average growth rate of the traditional global banking sector is about 2–3% (Islamic Financial Services Board, 2025). The Islamic economy and finance are present in more than 80 countries, and their adoption is gradually occurring not only in Muslim but also in non-Muslim economies, including Russia.

The significance of the Islamic economy and finance is defined by a set of legal and ethical principles-the prohibition of riba (interest), restrictions on speculation (maysir), an orientation toward risk-sharing and real economic activity, and the avoidance of gharar (excessive uncertainty). These principles shape an array of instruments-sukuk, mudaraba, musharaka, murabaha, ijarah, and others-that ensure financing linked to real assets, promote resilience, and reduce systemic risks. Islamic financial mechanisms also foster financial inclusion, the development of ethical and responsible investment, the creation of alternatives for diversifying capital sources, and long-term project finance.

At the same time, the sector's development faces a number of challenges: the absence of unified international standards and Sharia governance practices, difficulties with liquidity and secondary markets, the need to adapt national legal frameworks and taxation, and human capital and institutional constraints. For countries considering the integration of Islamic financial instruments, these challenges call for well-thought-out regulatory policies, infrastructure development, and mechanisms for interaction with the conventional financial system.

2. Methodology

The primary methodology employed in this paper is a systematic review, which entails a rigorous and protocol-driven process of identifying, evaluating, and synthesizing all relevant academic and professional literature on the Islamic economy within the specific context of the Russian Federation. This approach moves beyond a singular focus to holistically examine the sector's different dimensions—including Islamic finance, the halal industry, waqf endowments, and ethical business practices—and analyze their distinct characteristics as shaped by Russia's unique legal-regulatory framework, regional demographics, market dynamics, and geopolitical strategy.

3. Discussion

3.1. Preconditions for the emergence of the Islamic economy

The formation of economic thought dates back to antiquity and developed over millennia, step by step, with a certain chronological sequence and regional specificities, customs, traditions, and local mindsets on which particular systems were built-models that contributed to the development of humanity, to science, and to the economies of the world's states.

The Islamic economy, as a concept, began to take shape even before the establishment of the first Islamic financial institutions. The term "Islamic economy" was first introduced by the Indian scholar Sayyid Manazir Ahsan Gilani (1947), when he published a book in Urdu devoted to an ideal economic system consistent with Islamic principles. However, it took more than fifteen years before the first Islamic financial institutions appeared in the world, and the term became established in academic literature only in the mid-1970s.

The main theoretical preconditions for the emergence of the Islamic economy boil down to numerous interpretations and definitions proposed by Muslim economists. They recognize the Islamic economy's aspiration to ensure welfare through the allocation of scarce resources in accordance with Islamic doctrine, without infringing on individual freedoms and while avoiding macroeconomic and environmental imbalance.

The diversity of opinions means there is no single, universally accepted definition of the Islamic economy. Three main groups of Muslim researchers are distinguished according to their views on creating an economic system consistent with Islam:

- Conservatives believe that all necessary economic provisions are already laid out in the Qur'an and the Sunnah as primary sources. They do not recognize the need to develop a separate discipline or structure called the Islamic economy.
- Traditionalists regard the Islamic economy as one of the Islamic sciences, like jurisprudence or Qur'an recitation. They emphasize that the Islamic economy should function in the interests of the Muslim community, not humanity as a whole.
- Modernists see the Islamic economy as a distinct strand of global economic thought that can serve as an alternative to the capitalist and socialist systems. This group studies and develops an economic model based on Islamic principles, contrasting them with Western economic theories.

The Islamic economy is forming as a transnational phenomenon not tied to any specific state. It aims to create an economic system that balances the material and moral needs of society, avoiding the extremes of capitalism and socialism.

Thus, the preconditions for the emergence of the Islamic economy lie in the search for an alternative to existing economic systems, the pursuit of social justice, and adherence to Islamic religious and ethical norms.

3.2. Definitions and Concepts of the Islamic economy

The Islamic economy is a unique economic system fundamentally based on the norms and principles of Muslim law (Sharia), reflecting the ethical and moral standards of Islam. Unlike conventional economic systems, which often rely on purely rational approaches, the Islamic economy lies at the intersection of religious ethics and social responsibility. This makes it not only an economic system but also a spiritual practice aimed at ensuring societal well-being.

The foundations of the Islamic economy are the Qur'an and the Sunnah (the actions and sayings of the Prophet Muhammad), which form its theological-legal postulates. These postulates determine the rules for conducting economic activity, behavior in society, and relationships between people. The fundamental difference between the Islamic economy and conventional economies is that the law not only regulates economic relations but also sets moral guidelines calling for justice, honesty, and solidarity.

One of the key components of the Islamic economy is the concept of labor as the source of all material goods, highlighting the importance of work in creating value. This leads to the principle of "labor-derived ownership in Islam," where property is seen as the result of labor rather than merely a means of accumulating wealth. This combination allows for models that account for both individual interests and societal needs.

Thus, the Islamic economy is a multi-layered system that combines religious, moral, and economic aspects. It not only regulates economic relationships but also shapes the social and ethical framework within which these relationships develop. This creates an atmosphere of harmony and resilience, where every participant in the economy strives not only for personal prosperity but also for the well-being of society as a whole, making the Islamic economy an important subject of study for modern economists and sociologists.

As an integrative system, the Islamic economy is oriented toward achieving a range of objectives:

- **Meeting basic needs.** A priority is ensuring all members of society have essential resources: food, clothing, housing, healthcare, and education. This is pursued with an emphasis on social justice and solidarity, implying societal responsibility for the most vulnerable.
- **Ensuring equality of opportunity.** The system aims for equal conditions for all, regardless of race, gender, or social status. This includes access to finance, education, and employment, helping to reduce social conflict.
- **Preventing wealth concentration and reducing inequality.** A key

Countries Studies, Vol 4, No 4, Winter 2027

task is preventing excessive concentration of wealth among individuals or groups. This is achieved through institutions such as zakat (mandatory almsgiving), which motivate resource redistribution and reduce the gap between social strata.
- **Enabling spiritual self-improvement.** Economic activity within the Islamic concept is also viewed as a means of spiritual and moral growth through contribution to the common good.
- **Ensuring stability and sustainable economic growth.** Particular importance is placed on developing responsible economic systems that harmoniously combine growth with risk mitigation.

These objectives represent a comprehensive approach to organizing economic relations that brings together economic, social, and spiritual dimensions. The Islamic economy sets its goals based on principles of justice, equality, and solidarity, making it an effective instrument for achieving sustainable welfare in society.

The Islamic economy is based on several key principles that define its structure and functioning:
- **Principle of combined ownership.** Ownership is perceived as a tool for achieving the public good, not merely personal enrichment. Owners bear social responsibility and use resources with regard for societal interests, including mandatory payments (zakat) and charity.
- **Principle of economic freedom within limits.** Rational economic initiative and entrepreneurship are possible only within the moral and ethical norms of Sharia: the prohibition of riba (interest-based transactions), of haram (prohibited activities), etc. This ensures a balance between private and public interests, protects consumers, and promotes market stability.
- **Principle of social justice.** Fair resource distribution, the elimination of forms of discrimination and social inequality, and the protection of vulnerable groups are fundamental guidelines of the Islamic economic model.

These principles shape a resilient and harmonious structure, ensuring not only material but also spiritual development of society.

As a system of organizing economic life, the Islamic economy has a number of characteristic features that define its conceptual and practical boundaries:
- **Prohibition of interest (riba).** This eliminates the possibility of exploiting borrowers, encouraging financial institutions to participate in the risks and profits of real investment projects.
- **Risk-sharing.** In financial operations, risks and profits/losses are shared among the parties (through instruments such as musharaka, mudaraba, murabaha, etc.), which increases trust and

fairness in transactions.

- **Money as potential capital.** Money is seen only as a medium of exchange or an investment resource, not as a tool for accumulation via interest.
- **Prohibition of speculative operations (maysir).** Financial transactions must have a clear economic basis; gambling and highly speculative deals are prohibited.
- **Observance of contractual obligations.** Contracts must be transparent, fair, and upheld by all parties.
- **Prohibition of excessive uncertainty (gharar).** Transactions involving uncertainty and excessive risk are restricted to promote a predictable economic environment.

These approaches define the ethical and functional structure of the Islamic economy, aimed at sustainable development, social stability, and justice.

3.3. The Islamic economic system

The modern world economic system, which periodically triggers crises, necessitates the transformation of national economies through the adoption of new principles and instruments. The world economic system is a complex of interrelated economic relations and processes among countries, encompassing all major types of economic activity: production, distribution, exchange, and consumption of goods and services.

At various stages of its development, the global economic complex has long included different types of economic systems, each with its own model characteristic of a particular country or region, differing by the history of formation, level of socio-economic development, and mode of economic management. Recurrent economic and financial crises, as well as geopolitical and economic confrontations among countries, significantly influence the transformation and replacement of economic models. Thus, mixed economic systems emerged, transitions occurred from administrative-command systems to modern market economies, the socially oriented market system developed, and new elements-including the Islamic economic system and its unique models-took shape.

Economic systems are holistic structures of interacting elements functioning as a single mechanism. Modern economic models are open and interact with one another and with the external environment, which gives them flexibility and dynamism. In practice, no system exists in a pure form; instead, there is typically a synthesis of different models borrowing elements from each other.

In recent decades, the Islamic economic system has become an integral part of the global economy, serving as both an alternative and a complement to existing systems, as well as a driver of global development and of greater resilience in the world financial system. Increasingly, Islamic, Muslim, and non-Muslim countries are integrating into the world economic system with elements of the Islamic economy. This trend promotes active participation of all countries in the international exchange of goods, services, innovations, and technologies.

Today, more than 1.9 billion Muslims live in 57 countries worldwide (including 22 Arab countries and over 120 non-Muslim states) (The Pew Research Center, 2025). The Islamic economy is becoming global: the projected size of the Islamic financial market in 2024 exceeds $3.7 trillion with annual growth rates above 7%, more than double the average growth rate of global GDP (The Council for Islamic Financial Services, 2025). If considered as a separate country, the Islamic economy would rank eighth in the world (*Thomson Reuters*, 2023). This opens up broad opportunities for the spread of Islamic financial practices based on ethical principles and social responsibility, turning the Islamic financial sector into an important element of sustainable development.

The foundation of any economic system is made up of economic institutions-established formal and informal rules, norms, and mechanisms in society that regulate the behavior of economic agents and their interactions. The establishment, development, and transformation of these institutions determine the type and specificity of the system itself.

Key institutions of the Islamic economic system include:

- Islamic banks that offer financial services in accordance with Sharia principles (in particular, the payment and receipt of interest are prohibited);
- Islamic investment funds;
- Islamic insurance companies (takaful), which operate on principles of mutual assistance and collective responsibility;
- Islamic securities (sukuk);
- Waqfs-public or charitable endowments managed according to Islamic norms;
- Islamic taxes (e.g., zakat-mandatory almsgiving for public needs);
- The gold dinar-a traditional currency.

The development of Islamic financial institutions is accompanied by growing interest from international investors and consumers seeking more ethical and socially responsible ways of doing business. This promotes the creation of specialized products and services tailored to different social groups and confirms that systems based on ethical principles can be less vulnerable to economic instability and crises.

Approaches to organizing the Islamic economy may differ depending on regional and cultural conditions. Different Muslim

Countries Studies, Vol 4, No 4, Winter 2027

countries have developed their own models of the Islamic economy, taking into account national traditions and contemporary economic realities. The diversity of Islamic models reflects the cultural and social features of different regions and attests to the adaptability and resilience of the Islamic economic system.

3.4. Islamic economic models

The main Islamic economic models include:

- **The Iranian model.** Characterized by active state involvement in economic processes. This model emphasizes economic planning based on Islamic norms, implying a significant role for state structures in regulating financial and production relations.
- **The Sudanese model.** Incorporates elements of Islamic finance with an emphasis on cultural and social aspects. However, it faces problems of instability and internal conflict, which hinder its effective functioning and development.
- **The Persian Gulf model.** This model actively develops financial institutions, adapting to modern economic conditions and introducing innovations. A variety of financial products and services compliant with Islamic principles operate within global markets, helping attract international investment.
- **The Indonesian and Malaysian models.** These represent attempts to synthesize Islamic financial practices with contemporary economic realities. They introduce unique offerings for different segments of the population, promoting access to financial services and stimulating economic growth.

Table 1. The compare of Islamic economy and finance models across countries

Country/ Region	Legal framework	Role of the state	Key instruments & institutions	Features
Iran	Constitution, special laws (post-1979), Islamization of the financial sector	Very high (state-dominated, planned economy)	Interest-free (riba-free) banks, zakat, murabaha, musharaka, ijarah, sukuk, takaful, awqaf	Full Islamization of the banking system; dominance of state capital; system insularity due to sanctions
Sudan	Adoption of Islamic finance laws after 1983	High, bank oversight	Musharaka, murabaha, zakat, Islamic insurance (takaful), awqaf	Frequent reforms; weak institutionalization; foreign exchange controls; internal instability
Persian Gulf	Segmented regulation	Medium/low; large private	Islamic banks, sukuk,	Rapid growth of Islamic finance;

Country/ Region	Legal framework	Role of the state	Key instruments & institutions	Features
countries (UAE, Saudi Arabia, Qatar, etc.)	(some banks Shariah-compliant, others conventional); laws on Islamic finance	capital but close state supervision	Islamic insurers (takaful), Islamic investment funds, awqaf, ijarah, mudaraba	developed infrastructure; orientation toward international standards
Malaysia	Dual-layer regulatory system (Offocial Malaysian Government (2025); Islamic finance laws)	Strong regulator; government interest in sector development	Full spectrum: Islamic banks, sukuk, takaful, Islamic investment holdings, microfinance	Global leader in innovation; synthesis of Islamic and Western approaches; strong human capital base; transparency
Indonesia	Islamic finance law; National Shariah Council	Significant (advisory support; co-financing of projects)	Islamic banks, microfinance, murabaha, ijarah, sukuk, Shariah-compliant hedge funds	Focus on broad-based inclusion; microfinance; intensive development of education

Source: the author

The development of the Islamic banking sector across countries demonstrates a broad spectrum of approaches: in Iran, there is comprehensive Islamization of the banking system, strict state control, and isolation under sanctions, whereas Sudan faces domestic instability and institutional weakness while building an Islamic economy tailored to local specifics. The Persian Gulf countries have opted for innovative hybrid models that integrate Islamic and conventional banking services, actively attracting private and foreign capital, while Malaysia serves as a benchmark for dynamism and innovation thanks to a modern legislative framework, transparent regulation, and a deliberate policy of international leadership. Indonesia, by contrast, implements an inclusive model, with particular emphasis on microfinance, accommodation of religious diversity, and an active role of the state in sector development.

The Islamic economic system is a dynamic and evolving model grounded in a deep understanding of ethical, social, and economic principles. Its essence lies in harmonizing individual interests with societal needs, which makes it relevant and effective amid contemporary challenges. The Islamic economy continues to evolve, contributing to both economic development and social progress, and will undoubtedly occupy an important place in the future global economic system.

3.5. Finance as an economic category: Theoretical foundations of Islamic finance

Finance is one of the key economic categories that defines the aggregate of monetary funds and financial relationships arising in the process of creating, distributing, and using financial resources. Finance plays a central role in ensuring the functioning of the economy by linking different sectors and participants and by facilitating the efficient allocation of resources. As the financial system develops, various mechanisms and instruments emerge that enable the management of capital, its accounting and control, and the integration of economic processes.

Islamic financial systems, based on Sharia principles, offer a unique approach to the formation and functioning of financial relations. Islamic finance can be defined as a system of financial operations and institutions that operate within Islamic principles and norms, including the prohibition of riba (interest), gambling, and investment in improper (haram) sectors.

The primary goal of Islamic finance is to create a system that promotes a fair distribution of wealth and supports sustainable development. Unlike conventional finance, Islamic finance places emphasis on ethical aspects and social responsibility. This includes obligations to society and the use of financial resources to support economic activity that yields real benefit.

According to the Islamic Development Bank, as of 2024 there are more than 1,400 Islamic banks operating successfully in 80 countries. At the same time, the sukuk market amounts to around $550 billion (The Council for Islamic Financial Services, 2025).

Islamic finance is characterized by an effort to integrate spiritual values with economic practices, thereby shaping a secure financial environment that fosters trust and cooperation among market participants. These features distinguish Islamic finance from traditional Western models, underscoring its adaptation to cultural and religious contexts.

3.6. Islamic financial instruments

There are several key instruments of Islamic finance used to conduct financial operations in accordance with Sharia principles. The main ones include:

- **Murabaha.** A financing instrument used to fund the purchase of goods. Under murabaha, the seller discloses to the buyer the cost price and the markup. This establishes a fair price and avoids the practice of charging interest. This instrument is especially common in Islamic banks to provide clients with access to financing while ensuring transparency and fair dealings.

- **Mudaraba.** A form of partnership in which one partner (the investor) provides capital and the other (the manager) runs the business. Profits are shared between the partners in a pre-agreed ratio, while losses are borne only by the investor. Mudaraba enables investment in real assets and promotes entrepreneurship, making it popular among Islamic financial institutions.
- **Ijarah.** A type of lease that involves transferring the right to use an asset under agreed rental terms and conditions. Through ijarah, parties can access necessary resources without purchasing them, contributing to more efficient resource allocation.
- **Sukuk.** The Islamic analogue of bonds, providing financing through the creation of special investment instruments backed by real assets. Sukuk helps attract willing investors seeking to participate in projects that comply with Islamic norms.
- **Istisna.** A unique Islamic finance instrument representing a contract for the manufacture and delivery of goods, under which one party (the buyer) commissions the other party (the seller/contractor) to produce a specified product or carry out construction work with predetermined characteristics and deadlines. Unlike standard credit schemes, istisna does not allow income from interest; financing is provided for the creation of a real asset. This instrument is widely used to finance infrastructure projects, construction, and equipment manufacturing, allowing flexibility in delivery and payment schedules, which makes it sought after for large projects in the Islamic world.

Comparing Islamic and conventional financial instruments, several key differences stand out. First, Islamic finance does not permit risks associated with speculation and the earning of fixed interest income, as is observed in traditional banking. Investments in the Islamic economy must support real economic activity, which limits the use of purely financial mechanisms to generate profit.

Second, Islamic instruments encourage partnership and cooperation among participants, whereas conventional methods often focus on the unilateral profit of the creditor. This makes Islamic finance more resilient to economic crises and more oriented toward social needs.

Islamic financial instruments operating in Iran demonstrate significant potential both for stimulating economic growth and for enhancing social responsibility in the economy. Their application in a number of successful projects underscores the effectiveness of this model under modern conditions, offering accessible and ethical alternatives to traditional financing.

3.7. Features of the banking sector in the context of Islamic finance

The banking sector operating on the basis of Islamic finance has a number of unique characteristics defined by Sharia principles and national economic specifics. Unlike conventional banks, Islamic banks structure relationships around shared participation in risk and profit, creating an ethical foundation for transactions and emphasizing resilience and social welfare rather than purely commercial gain.

Islamic banks are key players in the economic system, providing Sharia-compliant services demanded by both individuals and legal entities. Their activity goes beyond ordinary lending: banks invest funds, contribute to social development, and shape a resilient financial environment. One of the main areas of activity is financing and investment. For example, when purchasing housing, a murabaha structure is often used, under which the bank first acquires the property and then sells it to the client with a transparent markup, excluding interest. In business finance, partnership models (mudaraba) are applied, where the bank provides capital and the entrepreneur contributes expertise, sharing both profits and risks.

A second important function is the creation of alternative, interest-free products such as ijarah (lease with an option to buy) and Sharia-compliant investment funds. These instruments increase flexibility and expand access to financing for the acquisition of core assets such as real estate and equipment.

A third important task is social responsibility. Following the principle of maslahah (service to the public interest), Islamic banks invest in social projects-education, healthcare, infrastructure-particularly where this aligns with Sharia requirements.

Islamic banks are proving their relevance by combining financial efficiency with a social mission. Their share of the global banking market is about 6%, and by 2024 the total volume of Islamic financial assets reached $3.1 trillion (Islamic Finance Development Report, 2024).

The main problem of the Islamic financial system is the lack of unified standards and international regulation, which leads to differences in the interpretation of Sharia norms (for example, regarding riba or deal structures) between countries and creates difficulties when interacting with foreign banks. In addition, Islamic banks have to adapt their processes to the conventional financial system, which requires deep understanding of Sharia and creates a risk of not meeting client expectations.

The Islamic banking sector also faces strong competition from conventional banks with larger capital and access to a wider range of instruments. Therefore, Islamic banks are compelled to actively innovate and improve customer service. For example, according to the Islamic Financial Services Board, in 2023 the growth rate of Islamic banks slowed to 7.7%, compared to 10% in 2022 (IFSB, 2025).

Sustainable development of Islamic banks requires the unification of standards, capacity building, the introduction of new products, and active engagement with international institutions.

3.8. The Iranian Islamic economic model and its features

The formation of the Islamic economy in Iran began after the Islamic Revolution of 1979 and became a key factor in the country's transition to an economic model based on Sharia principles. Revolutionary transformations led to a fundamental restructuring of the state's economic framework and the abandonment of certain capitalist practices that had dominated before 1979. Under the new economic policy, the financial system was systematically reconstructed to bring it into conformity with Islamic law.

Muhammad Baqir al-Sadr (2025) made a significant contribution to the theoretical substantiation of the Islamic economic model. In his work *Our Economy* (*Iqtisaduna*), he considers Islam's socio-economic doctrine as an integral part of the broader Islamic conception, forming an alternative ideological basis for economic development distinct from both capitalist and socialist paths.

One of the central areas of reform was the creation of an Islamic banking sector. During the political, social, and economic transformations, existing financial institutions were restructured and new credit institutions were established to operate in accordance with Islamic norms. A key principle of the reforms was the rejection of interest (riba) and a shift to schemes based on risk and profit sharing (mudaraba, musharaka, etc.), which helped focus attention on financing real economic activity and ensuring a fairer distribution of economic benefits.

According to the Islamic Financial Services Board, more than 95% of banking assets in Iran operate on Islamic banking principles, the combined assets of the country's Islamic banks exceed $700 billion, and Iran's share of global Islamic financial assets is estimated at roughly 35%. Iran has more than 35 major banks and financial organizations fully compliant with Sharia, making the country one of the leading centers for the development of Islamic financial institutions (IFSB, 2025).

3.8.1. Islamic financial instruments in Iran

Islamic financial instruments used in Iran are a significant component of the country's economic system. They are based on Sharia principles and differ from conventional financial instruments, allowing both economic and moral aspects of financing to be taken into account. The main instruments include Islamic investment mechanisms, insurance (takaful), and various financing models suited to the local context.

One of the most widespread Islamic financial instruments in Iran is murabaha, under which a bank purchases a good and then sells it to the client with an added markup. This allows businesses to obtain needed goods without paying interest, in accordance with Sharia principles.

Another important contract is musharaka, based on joint financing whereby several participants invest capital in a project and share both profits and losses in proportion to their stakes. This structure is particularly relevant for establishing new enterprises and startups.

Ijarah should also be noted; it is the leasing of an asset for a specified term with an option to purchase it thereafter. In the context of the Iranian economy, this instrument is often used to finance real estate and infrastructure projects.

Takaful is Islamic insurance based on principles of mutual aid and solidarity. Participants create a common fund from which payouts are made in the event of insured incidents. This helps minimize risks for individuals and business owners.

A large number of successful projects and enterprises in Iran actively use Islamic finance. For example, a national telecommunications project was implemented using resources raised through bank musharaka schemes. This not only improved communications in the country but also ensured sustainable company growth.

In addition, many small and medium-sized agricultural enterprises that utilized murabaha instruments were able to increase output and employment in their regions. An example is a successful project to expand olive oil production, which significantly improved the local population’s economic situation.

3.8.2. Implementation of Islamic finance in contemporary Iran

Current realities of Iran’s Islamic financial system show the convergence of traditional approaches with challenges arising from the international political and economic environment. Economic sanctions and Iran’s isolation from global financial markets require Islamic banks to adapt to difficult conditions, which in turn increases the role of domestic resources and the development of local investment mechanisms.

In response to emerging challenges, Iranian financial institutions are seeking to introduce innovative technologies, creating new opportunities to improve access to finance and expand the range of client offerings. For example, the use of electronic platforms for transactions and lending improves process efficiency and service quality.

However, several obstacles stand in the way of successfully implementing Islamic financial instruments, such as insufficient transparency, high inflation, and limited access to international finance. These factors can hinder the realization of Islamic economic principles and reduce investor confidence.

3.8.3. Prospects for the development of Islamic finance in Iran

The prospects for Islamic finance in Iran appear encouraging and have potential areas of growth. The development of Islamic financial practices can contribute not only to the country's economic growth but also to improved social welfare, thanks to an emphasis on social responsibility and justified resource allocation.

An important aspect of enhancing the attractiveness of Islamic finance will be establishing international ties and exchanging experience, which will allow Iran to integrate into the global Islamic finance market. Attracting foreign capital and creating joint projects can give new impetus to sector development and its integration into the world economy.

3.8.4. Economic policy of Iran in the context of the Islamic economy

Iran's economic policy, integrated within the framework of the Islamic economy, covers a wide range of areas aimed at achieving sustainable growth and social well-being. The main emphases of state policy are defined by Islamic values, which is reflected in the formation and implementation of economic decisions. The directions of Iran's economic policy encompass effective resource management, the development of national industry, support for agriculture, and improvements in living standards.

One of the key aspects of economic policy is the pursuit of economic self-sufficiency. Iran is actively working to reduce dependence on external factors, especially under international sanctions. This necessitates the creation of new production capacities and economic diversification, which should primarily be based on domestic resource endowments. Thus, state programs are aimed at stimulating local production and creating conditions for the development of small and medium-sized businesses.

In addition, social justice-based on Sharia principles-is a vital component of economic policy. The Iranian government actively initiates projects to improve living conditions for the most vulnerable segments of the population. Within this approach, social protection programs are implemented to meet citizens' basic needs in such crucial areas as healthcare, education, and housing.

In healthcare, the "Healthy Iran" program represents a step toward improving access to medical services and raising the quality of care. It entails expanding access to essential medical services, which is particularly important under economic difficulties. Thus, the government seeks to ensure not only access but also a high standard of public health, which, in turn, underpins social welfare.

Education also plays a central role in Iran's economic policy. Within the national education project, the government designs programs to provide affordable, quality education for all citizens. Investments in education are directed toward developing human capital, which in the long term contributes to sustainable economic development. Support for science and technology and the introduction of innovation in the educational process are key factors that help ensure the competitiveness of Iran's economy on the international stage.

Iran's social protection sphere includes gradual reform of the pension and social insurance systems. The government strives to modernize existing programs, providing protection not only for workers but also for their families. This creates a foundation for social stability and supports living standards, especially during difficult economic periods.

Iran's economic policy in the context of the Islamic economy demonstrates a comprehensive approach aimed at achieving sustainable development. The integration of social and economic aspects grounded in Islamic values directs state efforts not only toward economic growth but also toward improving citizens' quality of life.

3.8.5. Challenges and prospects for the development of the Islamic economy in Iran

The Islamic economy in Iran, notable for its unique views on financial activity and social justice, faces numerous challenges amid global economic change. These challenges arise both domestically and externally, creating a complex dynamic for implementing Islamic economic principles.

One of the main problems is the Iranian economy's dependence on the oil sector. Volatile oil prices and insufficient diversification exacerbate growth-related risks. A drop in global prices can significantly affect state revenues, which in turn complicates funding for social programs and infrastructure development.

Moreover, international sanctions imposed on Iran create additional difficulties for the financial sector. Limited access to international capital and technology complicates the investment climate and reduces the attractiveness of Islamic financial institutions to foreign investors. This constrains innovation and the development of new financial products that could attract a broader client base.

Domestic problems such as high inflation and currency instability also negatively affect Islamic financial institutions. Irregular income and economic uncertainty make risk management and financial planning difficult, which can lead to mistrust among potential clients.

Nevertheless, there are numerous prospects and avenues for adapting the Islamic economy to modern conditions. A key step in this direction is developing economic diversification. This can be achieved through targeted investments in other sectors of the economy, such as agriculture, information technology, and tourism. Reducing reliance on raw materials will help mitigate the negative effects of global price fluctuations.

The integration of modern technologies into Islamic financial practices is another promising avenue. Implementing such solutions can significantly increase the population's access to financial services and improve the quality and speed of customer service. Technologies such as blockchain can ensure the security and transparency of financial transactions, which will foster greater confidence in Islamic financial institutions.

Education and public awareness in the field of Islamic finance also play an important role in the sector's sustainable development. Raising financial literacy will create more favorable conditions for citizen participation in the economy, which will stimulate domestic demand and entrepreneurial activity.

The Islamic economy in Iran faces a number of serious challenges; however, it also has significant potential for adaptation and development. Economic diversification, the introduction of modern technologies, and improvements in financial literacy can foster more sustainable economic growth in line with the principles of the Islamic economy under contemporary conditions.

3.9. Iran's experience in developing Islamic finance: A path to integration in Russia; Results and Analysis of the experiment

Iran, with its unique experience in building a full-fledged Islamic economic model and an integrated financial system, provides an important benchmark for Russia's experiment in introducing Islamic finance. This is especially relevant within an existing market economy that contains elements of command-administrative regulation, amid diverse social structures, religious traditions, and moral-ethical norms. The Iranian experience can serve as a basis for developing approaches to shaping an Islamic economic model and corresponding financial institutions suited to Russia.

Iran's practice shows that successful integration of Islamic principles requires developing a dedicated legislative and regulatory framework tailored to Islamic financial products, as well as broad interaction between Islamic and conventional banks.

Since autumn 2023, Russia has been implementing its own federal experiment to launch Islamic finance-primarily in Tatarstan, Dagestan, Bashkortostan, and the Chechen Republic. By July 1, 2025, it has become possible to analyze not only initial impressions but also more concrete outcomes based on statistics, a review of implemented practices, and the identification of barriers and risks. The pilot regime operates in four regions under Federal Law No. 414-FZ dated 04.08.2023, which allows "partner financial organizations" to provide services outside a direct banking license, subject to Sharia principles (Federal Law of The Russian Federation, 2023). Additionally, over the year three decrees of the Government of the Russian Federation were adopted to remove certain administrative barriers and regulate the operation of Islamic financial organizations (IFOs).

The Central Bank of Russia published the first draft of regulatory documents, gradually aligning the local market with international standards (AAOIFI, IFSB) (The Central Bank of the Russian Federation, 2024).

According to analytical data from the Association for the Development of Islamic Finance and the Economy of Russia (ARIF), as of July 1, 2025, the portfolio of Islamic financial products in the pilot regions reached 16.3 billion rubles, nearly double the figure for the same period in 2024. More than 13,000 individual and corporate clients have been registered as regular users of Islamic financial instruments. Approximately 35% of them are SME legal entities (ibid).

The most developed segment is Islamic mortgages using murabaha and ijarah structures. In Tatarstan, the amount of loans issued under these schemes exceeded 6.8 billion rubles, about 5.7% of the region's new mortgage market. In Dagestan, pilot projects in Islamic microfinance for small enterprises have been implemented with a total application portfolio exceeding 1.1 billion rubles (Central Bank of Russian, 2025).

The Chechen Republic and Bashkortostan are focusing on Islamic investment products; by mid-2025, more than 400 million rubles had been successfully raised for infrastructure projects via musharaka arrangements with local businesses (Ministry of Economic Development of the Chechen Republic, 2025).

Islamic banks and non-state partner financial organizations enjoy steady demand. According to estimates by a research group at Kazan Federal University, client loyalty over the last 18 months increased from 75% to 88% (Kazan Federal University, 2025). The proactive participation of non-Muslim consumers has become noticeable-the Russian market has been convinced of the appeal of alternative ethical products.

3.9.1. Main barriers and integration challenges

- Taxation remains unresolved at a systemic level. Murabaha and ijarah arrangements risk double VAT, which limits product affordability for the mass market.
- An insufficient number of internationally accredited specialists slows the development and scaling of new products. By the end of 2025, there are only 37 certified Islamic finance experts in the country.

3.9.2. Practical recommendations for developing the Islamic economy in Russia

1. Amend the Tax Code of the Russian Federation to reflect the specifics of Islamic transactions:
   - Develop and adopt special provisions exempting murabaha and ijarah (and analogues) from double taxation, particularly from

repeated VAT charges;
- Introduce a separate tax regime for Islamic financial products to avoid situations in which the same transaction is taxed multiple times (e.g., across two stages of asset resale);
- Coordinate regulatory changes with the Federal Tax Service and the Ministry of Finance to prevent legal gaps, and provide guidance to accountants and tax consultants on the accounting treatment of Islamic transactions.

2. Launch comprehensive state and interregional programs for training and accreditation
   - Establish master's and continuing professional programs in Islamic finance at leading universities (e.g., Financial University under the Government of the Russian Federation, Kazan Federal University, RUDN University);
   - Offer short-term certification courses for banking and insurance staff, as well as lawyers specializing in financial law;
   - Ensure Russian specialists participate in international programs by AAOIFI, IFSB, INCEIF (Malaysia), and attract foreign experts for knowledge exchange and practical internships;
   - Encourage retraining through state grants and subsidies.
3. Expand the geography and functionality of the pilot
   - Prepare a phased plan to extend Islamic finance mechanisms from the four pilot regions to other federal subjects with relevant demographics and demand (e.g., regions of the Volga area, the North Caucasus, and Siberia with active Muslim populations);
   - Create dedicated Islamic finance service centers in major Russian cities (Moscow, St. Petersburg, Novosibirsk) to improve product accessibility for all population groups;
   - Support project scaling through infrastructure financing (building IT platforms, legal support, and outreach to entrepreneurs);
   - Introduce regular monitoring of implementation quality at regional and federal levels, with public reports and assessments of socio-economic impact.
4. Draw on Iran's experience in building infrastructure while minimizing risks of excessive monopolization
   - Establish a multi-tiered support system that maintains an active state role at the initial stage, followed by a growing share for private players (banks, microfinance institutions, investment companies);
   - Avoid concentrating Islamic financial services solely in state/semi-state structures-encourage market competition and the emergence of alternative private initiatives;
   - Implement mechanisms for independent, comprehensive Sharia oversight so Islamic finance providers are not solely dependent on state regulators;

- Ensure process transparency by creating specialized public councils and independent auditing bodies.

5. Integrate international regulatory and compliance standards
   - Translate key AAOIFI and IFSB standards into Russian and adapt them to Russian practice in cooperation with the Bank of Russia and leading universities;
   - Implement product and service certification procedures under international Islamic organizations' standards, and establish a national Sharia council with recognized expert status;
   - Develop new products in close cooperation with global Islamic finance centers (Iran, Malaysia, UAE, Bahrain), applying international best practices;
   - Conduct external Sharia audits for major operations and supplement Russian financial legislation with relevant Islamic finance terms and instruments.

4. Conclusions

Implementing these steps will allow Russia to build a sustainable, competitive, and ethically oriented branch of the national financial system that fully accounts for the features and potential of Islamic finance. This will increase the country's investment attractiveness, expand financial opportunities for citizens and businesses, and strengthen integration with the international Islamic finance market.

The analysis shows that Russia's experiment in introducing Islamic economic principles (IEPs) and integrating Islamic finance is characterized by positive dynamics and growing demand among both Muslim and non-Muslim populations. At the same time, further sector development requires systemic transformations: aligning national legislation with Islamic finance requirements, including in tax and banking; developing a specialized legal and regulatory framework for Islamic financial products; upgrading human capital and professional expertise; and forming full-fledged infrastructure (sukuk markets, clearing and settlement mechanisms, rating agencies and Sharia boards, etc.) to ensure liquidity and integration with the conventional financial system.

Furthermore, the ongoing strategic shift of the Russian economy toward a knowledge-based and resilient model, as analyzed by Rasoulinezhad and Eksi (2024), can be significantly accelerated by integrating Islamic financial instruments. This integration would serve as a powerful incentive by aligning financial practices with the ethical principles of Russia's substantial Muslim population, thereby mobilizing their capital and entrepreneurial participation more fully into the national economy.

Adapting Iran's experience to Russian realities can serve as a significant guide for the phased institutionalization of Islamic finance and the broader application of IEPs, contributing to the diversification of the national economic and financial system. This must be accompanied by a critical assessment of transplanted institutions, taking into account the diversity of social structures, religious traditions, and moral-ethical norms in Russia.

Conflict of interest

The author declared no conflicts of interest.

Ethical considerations

The author has completely considered ethical issues, including informed consent, plagiarism, data fabrication, misconduct, and/or falsification, double publication and/or redundancy, submission, etc. This article was not authored by artificial intelligence.

Data availability

The dataset generated and analyzed during the current study is available from the corresponding author on reasonable request.

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