

**MTMSD 2022****I International Conference «Modern Trends in Governance and Sustainable Development of Socio-economic Systems: from Regional Development to Global Economic Growth»****DEVELOPMENT OF PARTNER FINANCING IN THE CHECHEN  
REPUBLIC AND DAGESTAN**

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**Abstract**

For many years, scientists in Russia have not stopped talking about legislative changes in favor of partner funding. Back in 2015, the State Duma of the Russian Federation was considering a law that would remove obstacles to the full implementation of the idea of Islamic banking. At the center of this proposal was the need to attract foreign investment from Muslim countries. Businessmen talked about the problem of double taxation of Islamic finance companies, and therefore they wanted a federal law that would eliminate high pricing and a number of other problems in the Islamic finance industry in Russia. Only 7 years later, a law on partnership financing activities and related laws were prepared. According to the law, new participants in the experimental legal regime should be created, headed by the Central Bank of the Russian Federation and with all the ensuing features. Testing of this law is expected on the basis of the Chechen Republic, Dagestan, Tatarstan and Bashkortostan. At the same time, organizations operating in the bosom of Islamic law are already functioning in the territories of these regions of Russia. In this regard, it is necessary to analyze the current state and prospects for the development of partner financing in order to identify growth reserves for this segment of the financial sector.

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## **1. Introduction**

Partnership financing is often referred to as a socially responsible business, although its understanding varies among different authors: concern for society, the environment, its employees and the state (Karpushin & Garibyants, 2016); duty to society, collective, individual for their actions and their social consequences (Leonova, 2013); relationships consistent with the principles of social justice and economic efficiency (Roshchina et al., 2010), etc. Some authors consider partnership financing as part of ethical business (Anikeeva, 2016; Leonova, 2013; Savina, 2016). Recently, partner financing has most often been perceived in the Russian-speaking scientific community as a segment of Islamic finance.

The law specified in the article, in fact, confirms scientific research, as it is aimed at meeting the demand from the Muslim population of Russia. All over the world, these kinds of trends are occurring, even in countries where Muslims are a minority (Alam, 2019; Idrisov, 2021), as there is a high level of investment potential among them (Randeree, 2019).

## **2. Problem Statement**

The Islamic finance industry in Russia has been facing various obstacles such as double taxation and high pricing, preventing it from gaining momentum. The need to attract foreign investment from Muslim countries has urged the State Duma of the Russian Federation to consider legislative changes for the full implementation of Islamic banking. Although it took 7 years, a law on partnership financing activities and related laws were finally prepared, and testing is expected to be conducted in several regions. However, with existing organizations already operating under Islamic law, it is imperative to analyze the current state and potential growth opportunities for partner financing in Russia, to identify key points of industry growth.

## **3. Research Questions**

This study prompts the following research inquiries: What are the current challenges faced by the Islamic finance industry in Russia? What are the key provisions of the law on partnership financing activities and related laws? What is the status of organizations operating under Islamic law in the territories where testing will be conducted? What are the growth prospects for partner financing in Russia, and how can these reserves be identified?

## **4. Purpose of the Study**

The purpose of this study is to examine the current state of the partner financing industry in Russia amidst the recent legislative changes surrounding Islamic banking. By identifying the challenges faced by the industry and analyzing the provisions of the new laws, this study aims to determine the potential for growth opportunities in the partner financing sector. The study will also seek to identify strategies for identifying growth reserves and maximizing the potential for partner financing in Russia.

## 5. Research Methods

The methodological basis of the scientific article is an analysis to identify key trends, determine structural features, as well as an inductive approach, which involves the formation of a hypothesis about the importance of partnership finance for the economy of any region.

The research material is official data from Russian statistical authorities.

The choice of the Chechen Republic and the Republic of Dagestan is determined by the law in which they are mentioned.

## 6. Findings

The key differences between the Islamic finance industry and the traditional system can be summarized in the following aspects.

### 1. Prohibition of usury.

The Quranic prohibition (2:275–276; 2:278–279, etc.) applies to mortgages, goods on loans, bonds, preferred shares, etc. At the same time, the restriction applies to all parties reflected in the loan agreement (Muslim, No. 1598). The topic of usury is reflected in a huge number of works (Benaicha, 2020; Suharto, 2018), including my monographs (Shovkhalov, 2020).

### 2. Prohibition of maysir.

Maysir is a game with a random result, the achievement of which does not depend on the skills of the parties involved in the game (5:90-91). Based on this restriction, insurance, betting, lottery, casinos, etc. are prohibited.

### 3. Prohibition of gharar.

Gharar is a contractual uncertainty for the seller and the buyer, not uncertainty at all (Abu Dawud, no. 3382). That is, if one of the parties to the contract may be in an extremely disadvantageous situation in the future when a specified condition occurs or some action is performed, then we can say that there is an element of gharar in the contract. This restriction applies to Forex, futures, binary options, intraday stocks and more.

### 4. Prohibition on the use of certain warranty instruments:

#### 4.1. Penalties.

It is known that this is a key tool in the fight against defaulters, while a number of authors state that such sanctions should be tangible compared to the loan amount (Makovleva, 2018).

#### 4.2. Bank guarantee.

Basically, it is allowed, but the presence of a commission for a bank guarantee removes this financial instrument from the category of permitted ones.

#### 4.3. Lost profit.

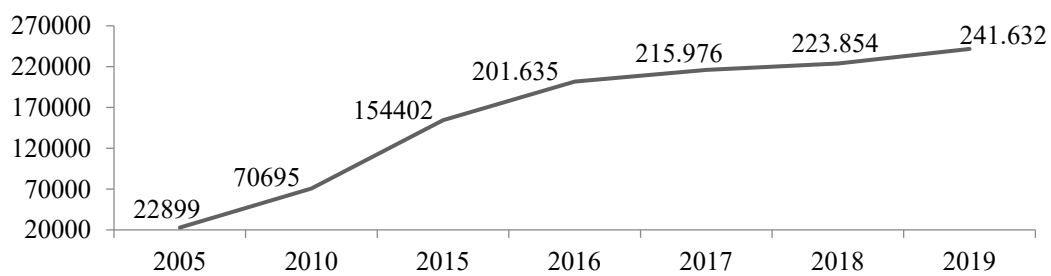
This term is not widely discussed in the scientific literature (Akatov, 2017; Bogdanov, 2019; Mamikonyan, 2021). In Islamic law, any damage can be compensated only within the limits of actually recognized losses.

Under the project, new forms of organizations will be able to provide interest-free loans, act as intermediaries in installment and leasing transactions, finance the authorized capital of enterprises, and also provide guarantees.

Initially, the law was proposed to be implemented only in the Chechen Republic and Dagestan, which is why we will analyze the socio-economic situation in these regions, highlighting the Islamic finance industry.

As of January 1, 2021, the population of the Chechen Republic was 1,498 thousand people, while at least 96.7% of them are Muslims (Chechens, Kumyks and Avars).

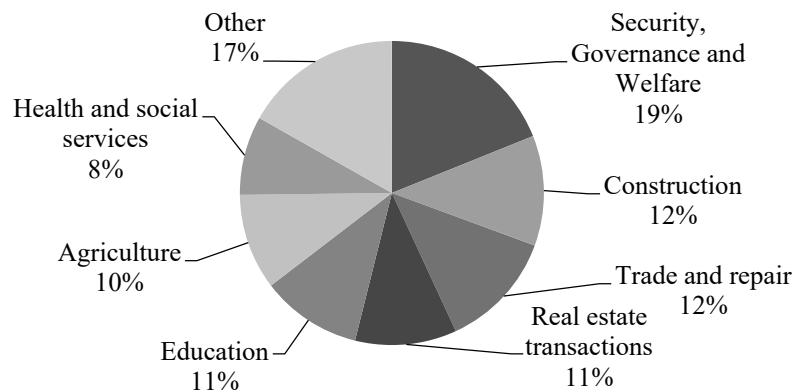
Since 2005, there has been a significant increase in the gross regional product (GRP), as shown in Figure 1.



**Figure 1.** GRP dynamics of the Chechen Republic, million rubles

At the same time, the share of the GRP of the Chechen Republic in the gross domestic product of Russia is about 0.2%.

Noting the structure of GRP in 2019, we can highlight the key types of economic activities reflected in Figure 2.



**Figure 2.** GRP structure of the Chechen Republic in 2019

Also, according to the data of the Federal State Statistics Service, in the same period, there was an increase in the incomes of residents of the Chechen Republic.

By 2022, a number of organizations operating in the bosom of the Islamic finance industry functioned in the Chechen Republic (Table 1).

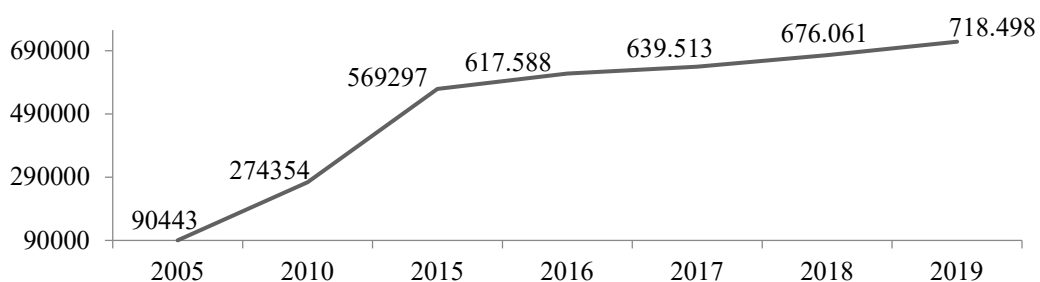
**Table 1.** Islamic finance industry organizations in the Chechen Republic in 2022

Company	Financial Services
Favorite 13	Commodity financing for legal entities and individuals (real estate, equipment, vehicles, etc.)
FinInvest	Commodity finance (real estate, cars)
FinCity	Commodity financing (household appliances, telephones, etc.)
Fund them. Sheikh Zayed barakat	Commodity financing (equipment, vehicles, etc.)
TD Barakat	Interest-free loans to individuals
Tijara	Commodity financing (household appliances, telephones, etc)
Riba.no	Commodity financing (household appliances, telephones, etc)
ProFinance	Commodity financing (household appliances, telephones, etc)
ShamFinance	Commodity financing (household appliances, telephones, etc)
R95	Commodity financing (household appliances, telephones, etc)
Mega Installment	Commodity financing (household appliances, telephones, etc)
Khalim	Commodity financing (household appliances, telephones, etc)
Imam	Commodity financing (household appliances, telephones, etc)

Also in the Chechen Republic there are players that are extremely small in terms of financial resources, in addition, manufacturers and retailers themselves provide installment services in the bosom of Islamic law on the market. There are players who claim that the company's activities comply with the norms of Islamic law, but in reality there are contradictions.

As of January 1, 2021, the population of Dagestan was 3,133.3 thousand people, while at least 94.7% of them are Muslims.

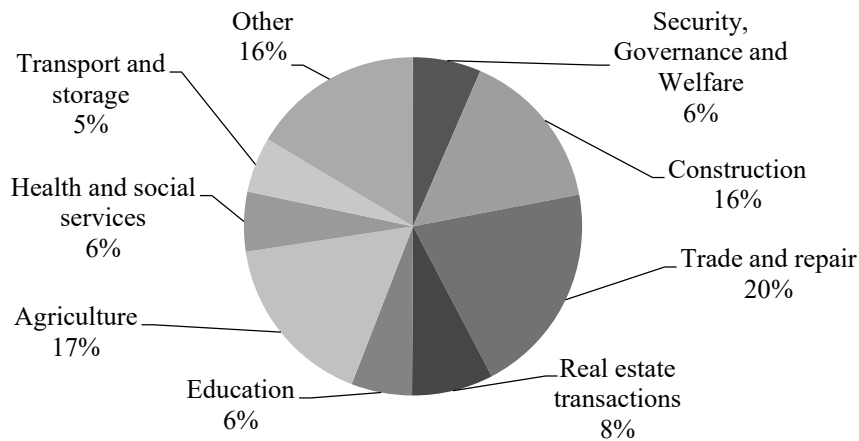
Since 2005, there has been a significant increase in the gross regional product (GRP), as shown in Figure 3.



**Figure 3.** Dynamics of the GRP of Dagestan, million rubles

At the same time, the share of the GRP of Dagestan in the gross domestic product of Russia is about 0.8%.

Noting the structure of the GRP of Dagestan in 2019, one can single out the key types of economic activity shown in Figure 4.



**Figure 4.** GRP structure of Dagestan in 2019

Also, according to the data of the Federal State Statistics Service, in the same period there was a slight increase in the income of residents of Dagestan.

By 2022, a number of organizations operating in the bosom of the Islamic finance industry functioned in Dagestan (Table 2).

**Table 2.** Islamic finance industry organizations in Dagestan in 2022

Company	Financial Services
LaRiba Finance	Commodity financing (household appliances, telephones, etc
Reyhan	Commodity financing (household appliances, telephones, etc
K05.RU	Commodity financing (household appliances, telephones, etc
Watan	Commodity financing (household appliances, telephones, etc
Amanat	Commodity financing (household appliances, telephones, etc
CIF	Commodity financing (household appliances, telephones, etc
Saada	Commodity financing (household appliances, telephones, etc
Alif	Commodity financing (household appliances, telephones, etc
ZetCapital	Commodity financing (household appliances, telephones, etc

In Dagestan, there are also players that are extremely small in terms of financial resources; moreover, manufacturers and retailers themselves provide installment services in the bosom of Islamic law on the market.

## 7. Conclusion

Comparing these data with the presence of existing credit institutions and their divisions, it should be noted that in the Chechen Republic in 2022 there are 2 branches of credit institutions, 1 representative office, and 46 additional offices; in Dagestan in 2022 there are 2 head offices of credit institutions, 3 branches, 1 representative office, and 82 additional offices. At the same time, the scale of the Islamic finance industry and these banks are not comparable.

Thus, an increase in business activity, an increase in the standard of living, and hence an increase in the level of investment potential of the Chechen Republic and Dagestan can be clearly seen.

Against this background, we will identify the growth potential of Islamic finance. Thus, according to the data of the Central Bank of the Russian Federation, the volume of loans to individuals in 2020 in the Chechen Republic amounted to 24,188 million rubles, and in Dagestan - 57,092 million rubles. At the same time, the banking system does not always operate efficiently, which can be seen in the amount of overdue debt. For example, this indicator for housing mortgage lending alone in 2020 in the Chechen Republic amounted to 219 million rubles, and in Dagestan - 473 million rubles.

Thus, the potential for the development of partner financing in the Chechen Republic and Dagestan is extremely high, as evidenced by the regional structure of the population, the growing demand for Islamic finance products, as well as the existing market potential, which is currently satisfied by the services of the traditional banking system.

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