

## ISLAMIC FINANCE AS A MECHANISM FOR SUSTAINABLE REGIONAL DEVELOPMENT IN THE CONTEXT OF SYSTEMIC TRANSFORMATIONS

### AS FINANÇAS ISLÂMICAS COMO MECANISMO PARA O DESENVOLVIMENTO REGIONAL SUSTENTÁVEL NO CONTEXTO DE TRANSFORMAÇÕES SISTÊMICAS

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#### Abstract

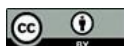
The article considers the potential of Islamic finance as an institution of the moral economy capable of serving as an infrastructural foundation for sustainable regional development. By comparing the principles of Islamic finance with the categories of the moral economy (responsibility, justice, intrinsic expediency, virtues), the authors substantiate the thesis that it is possible to create an alternative development model focused not only on macroeconomic growth but also on the moral reproduction of social, environmental, and economic relations. Particular attention is given to the mechanisms of waqf, zakat, interest-free microfinance, and sukuk in supporting the real sector, promoting inclusion, and facilitating redistribution. The conclusion is drawn regarding the applicability of the Islamic financial model in regional strategies aimed at comprehensive sustainability and the institutional revival of the moral foundations of economic activity.

**Keywords:** Islamic Finance. Moral Economy. Sustainable Development. Regional Development. Waqf. Zakat. Sukuk. Moral Infrastructure. Islamic Microfinance. Ethical Investment. Inclusive Growth. Care Economy. Partnership Financing.

#### Resumo

*O artigo analisa o potencial das finanças islâmicas como instituição da economia moral capaz de servir de base infraestrutural para o desenvolvimento regional sustentável. Ao comparar os princípios das finanças islâmicas com as categorias da economia moral (responsabilidade, justiça, conveniência intrínseca, virtudes), os autores fundamentam a tese de que é possível criar um modelo de desenvolvimento alternativo focado não apenas no crescimento macroeconômico, mas também na reprodução moral das relações sociais, ambientais e econômicas. É dada especial atenção aos mecanismos de waqf, zakat, microfinanças sem juros e sukuk no apoio ao setor real, promovendo a inclusão e facilitando a redistribuição. É tirada a conclusão sobre a aplicabilidade do modelo financeiro islâmico em estratégias regionais que visam a sustentabilidade abrangente e o renascimento institucional dos fundamentos morais da atividade econômica.*

**Palavras-chave:** Finanças Islâmicas. Economia Moral. Desenvolvimento Sustentável. Desenvolvimento Regional. Waqf. Zakat. Sukuk. Infraestrutura Moral. Microfinanças Islâmicas. Investimento Ético. Crescimento Inclusivo.



## 1 INTRODUCTION

In the current global economic situation marked by the threat of global crises, sanctions and trade wars, and the abandonment of established laws and rules of world trade, investment, and cooperation, there is growing interest in finding models that combine not only financial and investment efficiency but are also based on a moral foundation that determines economic decisions in favor of society. In this context, interest is increasing in the relatively new field of economic research known as the moral (ethical) economy and the Islamic finance model, which is one of its most prominent manifestations (Bekkin, 2009; Derzaeva & Aletkin, 2025; Yartseva & Sander, 2024; Zhuravlev, 2013).

Islamic finance should be regarded not merely as an alternative to the traditional banking system rooted in religious tradition, but as the institutional embodiment of the moral economy, implementing such ethical characteristics as social responsibility, justice, trust, etc. (Asutay, 2007; Chapra, 2008; Hassan et al., 2020). All this highlights the need to address the issue of Islamic finance development at the regional level within a broader context.

Modern models of regional development are based on a technocratic approach, in which GRP dynamics, investment inflows, and infrastructure development are used to measure growth and prosperity. Unresolved issues of social inclusion, fair wealth distribution, and the participation of local communities in planning economic development are often left outside the scope of economic policy. Macroeconomic indicators are unable to reflect the reproduction of such important attributes of social development as trust, solidarity, and care (Fraser, 2013; Sayer, 2000; Tronto, 2013; Yin, 2014).

Islamic finance is guided by the moral norms of Sharia, which in the economic sphere prevent exploitation through the prohibition of *riba* and *gharar*, rely on a system of risk-sharing and reinvestment in the real economy, and redistribute wealth through

such mechanisms as zakat, sadaqah, and waqf (El-Gamal, 2006; Kamla, 2015; Obaidullah, 2008). Thus, capital functions not as a neutral resource but as a morally charged form of social responsibility, i.e., a tool for shaping the moral infrastructure of development: norms, institutions, and practices that ensure sustainable socio-economic development (MacIntyre, 1981; Nussbaum, 2011; Sayer, 2000; Wilson, 2007).

This is particularly relevant for the economy of the Russian Federation, with a traditionally large Muslim population for whom the introduction of elements of Islamic finance is an important aspect of their role in the country's economic development (Mamedov & Stelmakh, 2024; Toropov & Rozhdestvenskaya, 2024).

## 2 LITERATURE REVIEW

### 2.1 The moral economy: from inclusion to virtue

The concept of the moral economy emerged as a counterbalance to the reductionist models of *homo oeconomicus* and technocratic rationalism. K. Polanyi (1944) claims that economic practices are deeply embedded in social relations and norms. In his classic work, A. Sayer argues that the economy is not only socially conditioned but also inherently moral since any economic decision has ethical consequences and reflects the ideas of those involved in economic relations about good, duty, justice, and responsibility (Sayer, 2000).

If the economy possesses ineliminable moral aspects, it is necessary to consider its “ethical surplus” and “invisible hand of care,” which are not reflected in traditional economic indicators (Tronto, 2013).

It is worth mentioning the theory of virtues (agatology) developed by A. MacIntyre and V. Shokhin, according to which only the moral motivation inherent in economic and other professional practices as bearers of internal goods can ensure the sustainability and effectiveness of economic and other institutions (MacIntyre, 1981; Shokhin, 2014, 2020).

Thus, the foundations of the moral economy provide analytical tools for viewing Islamic finance not only as a normative system but also as an infrastructure of virtues and public trust (Anderson, 1993; Nussbaum, 2011).

## 2.2 The Islamic economy: normative foundations and goals

The Islamic economy is based on a synthesis of law (fiqh), ethics (akhlaq), and the objectives of Sharia (maqāṣid al-sharī'a). According to the Islamic paradigm, development should combine a morally driven expansion of human capabilities with the observance of social justice and harmony between the material and the spiritual (Asutay, 2011; Chapra, 2008). Therefore, the Islamic financial system prohibits riba (interest), gharar (uncertainty, risk), and maysir (speculation), while requiring fairness in the distribution of risks and profits and imposing the obligation to redistribute wealth through zakat, sadaqah, and waqf on participants in economic activity (El-Gamal, 2006; Iqbal & Mirakhor, 2011).

## 2.3 Islamic finance and sustainable development

In recent years, a growing number of scientific works have analyzed the alignment of Islamic finance principles with the SDGs and the ESG agenda. Instruments such as green sukuk, Islamic microfinance, and waqf projects combine ethical principles, social inclusion, and environmental responsibility (Hassan et al., 2020; Mohieldin et al., 2012).

There is a notable lack of research devoted to the role of Islamic finance in ensuring sustainable regional development in the post-Soviet space (Ibragimov, 2017).

## 2.4 Regional development and institutional infrastructure

The theory of sustainable regional development (Barca, 2009; Rodríguez-Pose, 2013) emphasizes the importance of development institutions, social capital, and trust. In this regard, Islamic finance embedded in the relevant local social context can provide a morally grounded infrastructure that aligns investments and economic activities with the long-term social development goals.

Therefore, a promising research agenda would involve comparing the principles of Islamic finance with the concept of the moral economy as complementary institutional forms that pursue shared goals: a sustainable, just, and inclusive economy.

### 3 THEORETICAL FRAMEWORKS

#### 3.1 Moral infrastructure: definition and structure

According to the concept of moral infrastructure, effective economic development requires such institutional components as legislation, the market, finance, etc. and conditions that ensure the reproduction of justice, trust, and inclusiveness, i.e., elements that provide the economic system with moral legitimacy (Sayer, 2000; Tronto, 2013).

Moral infrastructure includes the following components:

- 1) Formal institutions as legal and organizational structures that regulate economic behavior;
- 2) Virtues as sustainable moral qualities embedded in relevant practices (MacIntyre, 1981);
- 3) Recognition as the ability of institutions to identify and duly value moral contributions (Fraser, 2013);
- 4) Redistribution as the ethically motivated correction of inequality and damage (Nussbaum, 2011; Sen, 1999).

Islamic finance incorporates these components, combining them with market mechanisms, including regional economic development adjusted to ensure their alignment with the moral economy.

#### 3.2 The logic of moral reproduction: from justice and trust to sustainability

Existing models of sustainable development rarely include mechanisms of moral reproduction, even though the very idea of sustainability is based on the premise that modern civilization must ensure future generations have the same access to natural resources as it enjoys today, which inherently implies a moral dimension to economic development. Nevertheless, trust, justice, recognition, and inclusion are not typically the subject of in-depth economic analysis.

By adhering to the norms of the moral economy, the Islamic finance model employs the following elements to ensure sustainable development:

- Justice based on the prohibition of asymmetric transactions, exploitation, and

- speculation (Chapra, 1995, 2008);
- Trust, which encompasses commitments to honesty, transparency, and partnership, secured by institutional norms;
  - Inclusion, guaranteed through microfinance, waqf, and redistribution mechanisms;
  - Environmental responsibility, promoted through the issuance of green sukuk, sustainable investment, and Islamic ESG products (Hassan et al., 2020).

## 4 METHODS

### 4.1 Methodological approach

Our study is qualitative and based on the multi-case method (Nussbaum, 2011) combined with contextual conceptual modeling (Blatter & Haverland, 2012; Jabareen, 2009). This approach helps identify the conceptual foundations of Islamic finance as moral infrastructure through the analysis of real practices in diverse institutional and cultural settings.

The key methodological framework is the interpretative paradigm, which treats reality as a social construct and focuses on the study of meanings, norms, and values embedded in economic institutions (Schwandt, 1994). Within this approach, Islamic finance is examined not as a neutral system of resource allocation, but as a normative institution that defines acceptable forms of trust, justice, and reciprocity (Asutay, 2007; Kamla, 2015).

The methodology is also grounded in the principles of institutional pluralism (Jessop, 2001), which allows for the coexistence of multiple moral orders. This helps understand how Islamic financial institutions interact with conventional mechanisms of sustainable regional development within the broader economic paradigm.

### 4.2 Case selection principles

The case analysis covers six geographically and institutionally diverse regions: Indonesia, Malaysia, Turkey, Jordan, Central Asia (Kazakhstan and Uzbekistan), and the Russian Federation (Republic of Tatarstan). The following methodological principles

were applied in the study:

- Heterogeneity of legal and religious regimes, including both countries where regulation is based on Sharia (Malaysia, Indonesia) and secular states that integrate elements of Islamic finance (Russia, Kazakhstan);
- Diversity of Islamic financial instruments: from sukuk and waqf to Islamic microfinance and partnership models based on Sharia principles (murabaha, mudaraba, musharaka);
- Institutional experimentation, i.e., the consideration of regions where Islamic financial mechanisms have been integrated into sustainable development policies (for example, green sukuk in Indonesia);
- Empirical verification as the use of verified data sources, quantitative indicators, and official documentation related to the cases under review;
- Regional relevance, i.e., the assessment of how well the selected cases contribute to sustainable and inclusive regional development.

## 5 CASES

The study analyzed six cases concerning the use of Islamic finance as a moral infrastructure for sustainable regional development. Each case was examined according to four criteria: (1) financial instruments used, (2) ethical criteria, (3) institutional framework, and (4) socio-economic effect (Table 1).

Particular attention was given to the development of partnership finance in the Russian Federation, specifically the Republic of Tatarstan (Kulkova et al., 2023; Mamedov & Stelmakh, 2024; Shovkhalov, 2023).

**Table 1**

*Islamic Finance Instruments as Moral Infrastructure for Sustainable Regional Development: Comparative Case Analysis*

Case	Instruments	Ethical criteria	Institutional framework	Socio-economic effect
<b>Indonesia: green sukuk as climate policy based on morality</b>	Green sukuk, whose proceeds are directed to environmental protection projects, including renewable energy, flood prevention, and forest restoration (Nikulina, 2021)	The principle of maslaha (public good), accountability for actions, prohibition of speculation, pursuit of environmental equality (ensuring that all people, regardless of income, live in environmentally favorable conditions) (Hassan et al., 2020)	The Ministry of Finance issues bonds with Sharia certification and public ESG reporting	Over \$4 billion in investments attracted and directed to environmental projects in the most vulnerable regions. Strengthened accountability and trust between citizens and the state (Climate Bonds Initiative, 2023)
<b>Turkey: waqf universities as a form of institutionalizing care</b>	Non-profit private universities funded through waqf (Islamic charitable funds)	Education as an intrinsic moral value, expressing the virtues of care, justice, and contribution to the public good (Kuran, 2001; MacIntyre, 1981; Shlykov, 2010)	These organizations are non-profit but operate within the general regulatory framework of a market economy	Expanded access to quality education, growth of human capital, reduction of social inequality
<b>Jordan: microfinance and women's inclusion</b>	Qard al-hasan (interest-free loans), murabaha, and Islamic microfinance	Support for vulnerable population groups on a non-profit basis, promotion of ethical values of mutual assistance and trust (Obaidullah, 2008)	Tamweelcom and the Microfund for Women operate on the principles of Islamic microfinance	Increased economic independence of women, growth of self-employment, reduction of rural poverty
<b>Malaysia: Value-Based Intermediation (VBI)</b>	Integration of Islamic banking instruments (murabaha, istisna, sukuk) with ESG assessment and Sharia principles	Maqasid al-Shariah is embedded in banking strategy, ensuring compliance with the norms of justice, sustainability, and the preservation of human dignity (Asutay, 2012)	The Central Bank of Malaysia (Bank Negara Malaysia) implemented this standard as mandatory for all Islamic banks	Increased trust in the Islamic banking system, growth of investments, and stimulation of socially oriented projects
<b>Kazakhstan/Uzbekistan: agricultural halal clusters and Islamic microfinance</b>	Murabaha, ijara, sukuk, the Islamic microfinance model	Formation of value chains in accordance with ethical and religious standards, ensuring food security and regional employment	Islamic banks and microfinance institutions supported by government programs	Increased self-employment and competitiveness of export products, reduction of debt burden

		(Ibragimov, 2017; Nagayev & Ahmadi, 2022; Reznik, 2017)		
<b>Republic of Tatarstan: partnership finance as an ethical model</b>	Murabaha, diminishing musharaka, mudaraba, Islamic leasing finance	An alternative to interest-based lending, consideration of regional trust practices in implementing business projects, support for cooperative economic models (Bank of Russia, 2024; Sabitova et al., 2024; Zakirova et al., 2023)	Federal Law No. 417-FZ (2023), pilot regions for implementing the partnership finance program: Republic of Tatarstan, Republic of Bashkortostan, Republic of Dagestan, and Chechen Republic	3.8 billion rubles attracted to partnership finance projects, increased activity of Islamic microfinance organizations, formation of an Islamic investment community

Source: compiled by the authors

### 5.1 The Republic of Tatarstan: partnership finance as an ethical model

Since 2023, under Federal Law No. 417-FZ, an experiment on the development of partnership finance has been implemented in the Republic of Tatarstan, the Republic of Bashkortostan, the Chechen Republic, and the Republic of Dagestan (Bank of Russia, 2024; Shovkhalov, 2023, 2024; Zakirova et al., 2023).

According to this law, partnership finance activities include the following operations for the placement of funds:

1. Provision of funds in the form of loans to individuals and legal entities;
2. Financing of individuals and legal entities through the purchase and sale of goods, including real estate, on deferred or installment payment terms, with remuneration paid for granting such deferral;
3. Financing of individuals and legal entities by providing property under a financial lease or leasing agreement, as well as contributing shares to the authorized capital of legal entities, including the implementation of joint activities based on an investment partnership.

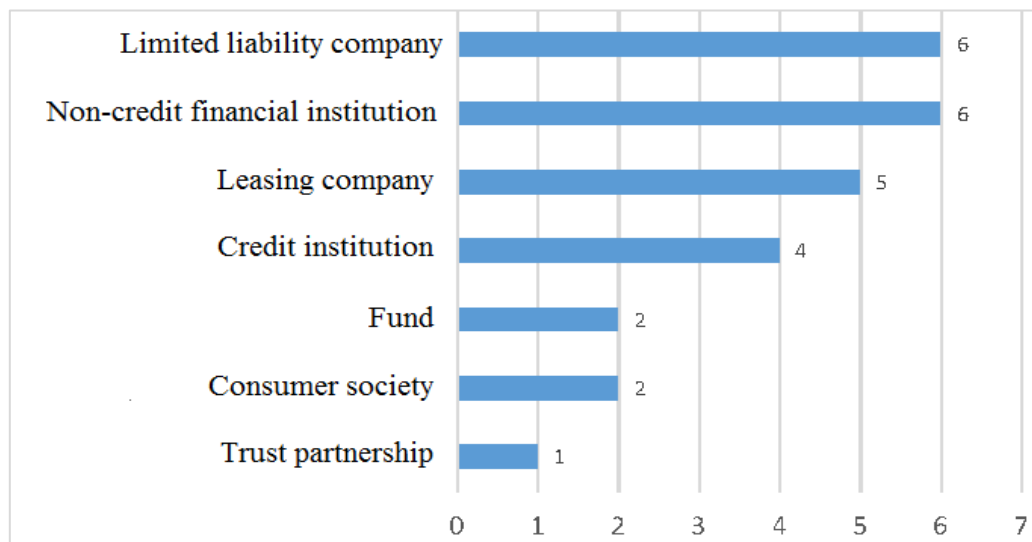
Partnership finance encompasses such Islamic financial models as murabaha, mudarabah, ijara, and diminishing musharakah. All of these are characterized by the rejection of interest, participation in risk-sharing, and real economic activity based on physical (tangible) assets.

According to the Bank of Russia, as of September 30, 2024, the register of participants in the experiment included 24 companies, i.e., three times bigger than the figure at the end of 2023. The total volume of fund placement operations amounted to 2.8 billion rubles, while the volume of fundraising operations reached 3.8 billion rubles, indicating growing interest in Islamic forms of financing as an alternative to conventional credit.

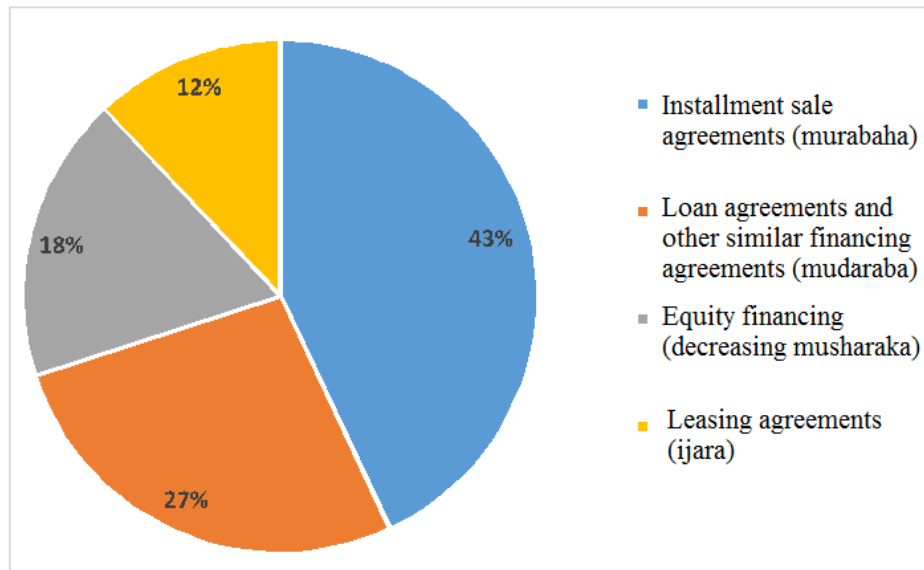
Among the organizational forms of partnership finance companies, limited liability companies, leasing companies, and non-credit financial institutions prevail (Figure 1).

**Figure 1**

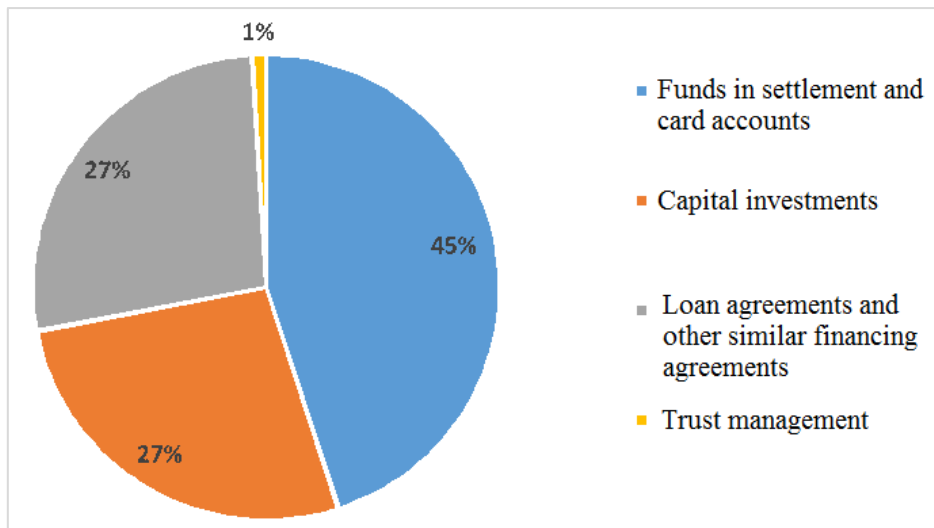
*Types of partnership finance companies*



The structure of fund placement operations within the partnership finance model is as follows. The largest share is accounted for by sale contracts with deferred payment (43%), involving such goods as real estate, transport, and equipment. In the terminology of Islamic finance, these transactions correspond to murabaha and musawama contracts. Investment loans (mudaraba) account for 27% of operations, while leasing activities (closely related to the concept of ijara) make up 12% (Figure 2).

**Figure 2***Structure of fund placement operations as of September 30, 2024*

In the structure of fund-raising operations, the dominant share is the placement of funds in settlement and card accounts in credit institutions (45%), followed by equity investments and loan agreements (27% each) (Figure 3).

**Figure 3***Structure of fund-raising operations as of September 30, 2024*

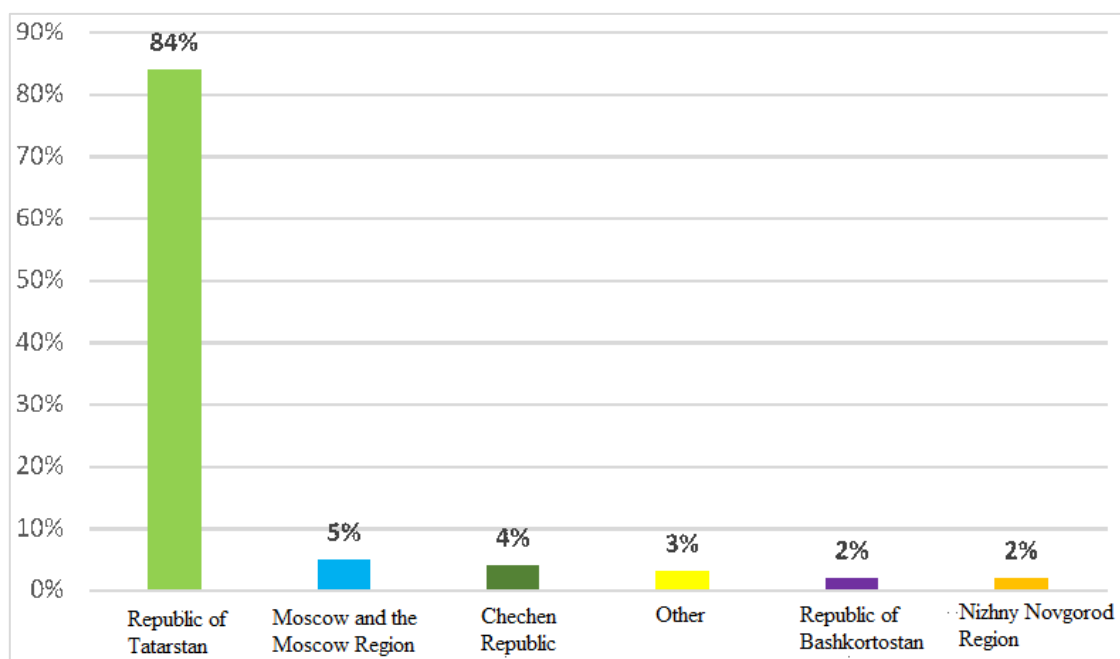
The most active region in the field of partnership finance is the Republic of Tatarstan, accounting for 84% of fund placement operations and 66% of fundraising

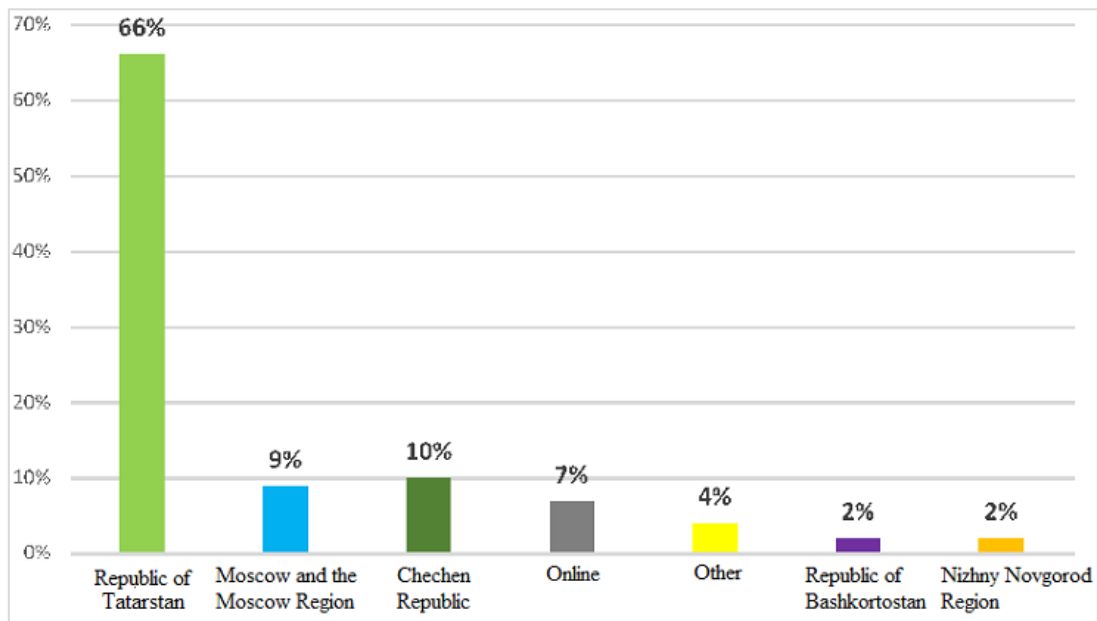
operations.

Considering other regions participating in the pilot project, fund placement operations are actively being conducted in Moscow and the Moscow Region (5% of operations), the Chechen Republic (4%), and the Republic of Bashkortostan (2%). In terms of fund-raising through partnership finance, these regions account for 9%, 10%, and 2%, respectively (Figures 4 and 5).

**Figure 4**

*Allocation of funds*



**Figure 5***Fundraising*

This allows Tatarstan to be regarded as a model region for the development of Islamic finance, including through the creation of a regional moral infrastructure based on partnership principles. Such a concentration of operations can serve as a foundation for forming an ethical financial ecosystem within regions with a significant Muslim population.

## 6 DISCUSSION

### 6.1 Common and specific features of the cases

Despite institutional and geographical differences, all the cases examined share common features:

- 1) Focus on the real sector of the economy, i.e., the rejection of speculation or purely financial operations in favor of transactions based on real assets (murabaha, ijara, sukuk);
- 2) Dependence on ethical norms, i.e., all the cases are implemented based on Sharia norms, giving priority to the principles of justice, responsibility, and care (Asutay,

2012);

- 3) Inclusivity, i.e., special attention to vulnerable population groups, development of self-employment, and support for small entrepreneurship (Obaidullah, 2008);
- 4) Institutional creativity, i.e., synthesis of traditional forms of Islamic finance (waqf, zakat) and modern financial instruments (VBI, green sukuk);

Specific differences among the cases considered are as follows:

- 1) The ratio of private to public involvement (in Malaysia, the model is implemented by the Central Bank; in Indonesia, it is done by the Ministry of Finance; in Turkey, the actors are private waqf funds);
- 2) The maturity of regulatory frameworks (the most developed in Indonesia and Malaysia, still at the pilot stage in the Russian Federation);
- 3) Scale of impact: from the regional level (Jordan, pilot regions of the Russian Federation) to the national level (Malaysia and Indonesia).

## 6.2 Hybrid models and post-secular models of ethical economy

The analysis of cases, particularly those of the Republic of Tatarstan, Kazakhstan, and Uzbekistan, demonstrates the possibility of creating effective forms of ethical economy based on the synthesis of Islamic and secular principles (e.g., ESG, social entrepreneurship, community practices). Given that any religious denomination is characterized by strict ethical norms, we can assume the potential for developing similar models based on Christian, Buddhist, or other principles.

Such hybrid forms have several advantages:

- Cultural legitimacy in regions with a predominantly Muslim population;
- Alignment with global economic trends (ESG, SDG);
- Institutional flexibility enabling the integration of religious ethical norms into secular regulatory and legal systems.

## 7 CONCLUSIONS AND PRACTICAL IMPLICATIONS

Our study showed that Islamic finance should be regarded as an alternative to traditional financial mechanisms and an infrastructure of the moral economy. While

providing access to capital, it simultaneously supports such ethical norms as justice, responsibility, and solidarity. As demonstrated by the six practical examples of Islamic finance examined, these mechanisms can serve as a foundation for sustainable regional development based on the principles of the moral economy.

Contrary to the prevailing view that Islamic finance cannot be applied outside its corresponding religious and cultural norms, practical examples have demonstrated its effectiveness and universality for both secular and hybrid institutional models. The key distinction between Islamic finance and neoclassical models lies in the fact that it integrates ethical principles into the very logic of financial instruments, rather than placing them outside the financial market. Therefore, Islamic finance ensures the effective integration of ethical principles and economics, as well as the formation of a moral infrastructure.

## **8 PRACTICAL IMPLICATIONS**

### **8.1 For regional governance**

Support the use of Islamic finance as a significant component of sustainable development strategies. In the Russian Federation, the potential of Islamic banking is still far from being fully realized (Praim, 2025).

Establish regulatory and institutional frameworks for the introduction of Islamic microfinance institutions, waqf funds, partnership finance, and Islamic banks.

Incorporate moral parameters (ethics, trust, care) into regional planning and develop effective mechanisms for their assessment and monitoring.

### **8.2 For Islamic financial institutions**

Promote products fostering intrinsic goods, including education, healthcare, and agricultural financing.

Combine Sharia-based certification with ESG and SDG indicators.

Develop transparency, accountability, and social verification mechanisms for Islamic finance instruments.

## ACKNOWLEDGMENTS

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### **Authors' Contribution**

All authors contributed equally to the development of this article.

### **Data availability**

All datasets relevant to this study's findings are fully available within the article.

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