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## **Islamic Finance in Uzbekistan: Development, Prospects and Opportunities**

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***Abstract:** this case study provides an in-depth analysis of Iman Invest LLC, a leading Islamic financial institution that has become a respected industry leader. The study examines the challenges and strategies that the company employed to achieve its success, including its clear vision, strategic planning, and commitment to customer service, innovation, and social responsibility. The study highlights the importance of effective leadership, risk management, and regulatory compliance in achieving business success in the Islamic finance industry. The study is valuable for entrepreneurs and business leaders seeking to navigate the complex and rapidly evolving world of Islamic finance.*

***Key words:** Islamic Finance, Shariah, fatwah, fin-tech, Murabaha, investment, financial analysis.*

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### **INTRODUCTION**

Iman Invest LLC is a financial services company that provides a range of Shariah-compliant investment products and services to clients worldwide. In addition, the company provides financial planning, wealth management, and advisory services to individuals and institutional clients.

Umma benefits IMAN in several direct and indirect ways: scaling IMAN Invest by attracting money from investors worldwide using stable coins; using Umma tokens to create various incentives for IMAN Invest and IMAN Pay users, helping us with customer acquisition and retention; and enabling every IMAN user to be an owner in our Islamic ecosystem (by offering Umma tokens). It has begun building the minimum viable product for Umma.[1]

## METHODOLOGY

The research design for this article will be a qualitative case study, examining the journey of Iman Halal Investment LLC from its inception to becoming a leading Islamic financial institution. The study will be conducted using secondary sources of data, including company documents, financial reports and industry reports to provide a comprehensive overview of Iman Halal Investment LLC's journey. The data collected will be analyzed using a thematic analysis approach. The data will be transcribed and coded to identify key themes and patterns in the data. The themes will be analyzed in relation to the research questions and objectives, and the findings will be presented in a narrative format. Overall, this methodology will provide a framework for conducting a qualitative case study of Iman Halal Investment LLC's journey to becoming a leading Islamic financial institution, using secondary sources of data to analyze the company's vision, strategy, and implementation.

In accordance with the Decree of the President of the Republic of Uzbekistan "On the strategy of action for the further development of the Republic of Uzbekistan" No. UP-4947 dated February 7, 2017, measures are being taken to further expand cooperation between domestic financial institutions and the Islamic Bank development. An analysis of the banking and financial services market indicates an increased interest and need to meet the needs of citizens and entrepreneurs in the use of banking and financial services that are not burdened with bank interest.

Founded by Rustam Rahmatov and Mark Zubov, IMAN introduces a tailored mobile platform for Muslim majority markets consisting of IMAN Invest, an investment platform, and IMAN Pay, a halal BNPL (buy-now-pay-later) solution, built around a vision to become one of the leading halal fintech companies in the Muslim world. With 30,000 active users, IMAN Invest manages over \$1.2 million users from more than 1,000+ retail investors across 60 countries. Halal BNPL is also connected to more than 100 merchants offering goods and services across consumer electronics, household appliances, sports, healthcare, and education.[2]

IMAN directs funds received from investors to finance the sale of goods and services in installments. The purchased goods and services are sold to customers in installments with a margin from 0% to 35%. When applying a margin of 0%, profit is obtained due to discounts (bonuses) provided by partners. Taxes and other expenses are deducted from the profit. 90% of the remaining net profit will be distributed to the investor, and 10% to IMAN. For example, if we imagine that the funds of an investor who invested 1 million soums brought 300,000 soums of net profit, then 270,000 soums of this net profit belong to the investor, and 30,000 soums belong to IMAN.

IMAN is unique in the BNPL domain in the sense that it not only provides halal BNPL but also builds halal funding sources for such service: investors invest and shoppers buy goods/services from IMAN via merchants through a "cost-plus" financing structure ("Murabaha"). Also, IMAN does not generate revenue from late fees or other charges that are conditional upon users missing payments. With this model, the team hopes to encourage responsible spending, which will further align spending with customers' religious beliefs.

Ed Simnett,[3] Battery Road commented, *"IMAN is BRDH's first investment in Central Asia. We could not be more excited about the team, the business segment, and the market. A number of our success stories were super-app businesses. The combination of a rapidly growing economy and consumers' increased comfort with technology creates an exciting opportunity for the IMAN team to build a halal super-app."* Olzhas Zhiyenkulov,[4] founder of Tesla Capital (Singapore) added, *"IMAN represents the best of Frontier Techno-preneurship: building an inclusive financial ecosystem that empowers MSMEs and consumers to control cash-flow, access funding and transact in a socially acceptable and*

*responsible way. Coming from a Muslim family, but also being a professional in “traditional” finance, I know how important it is to have access to the same financial innovation that the broader financial world enjoys while being in harmony with one’s system of beliefs and morals. That is the true spirit of financial inclusion.”*

## SHARIAH COMPLIANCE

The Shariah Council is a department that monitors compliance with the principles of ethics and honesty. In IMAN, any decision regarding business processes must go through this council (figure 1).

*Shariah Council:* Dr. Ziyad Mohammed, Head of the Sharia Council, is an advisor on Islamic Law. At IMAN, Dr. Ziyad is responsible for issuing a fatwa as part of the correctness of financial processes and conducting an annual audit for compliance of business with Fair finance standards.

*Education:* PhD in Islamic Finance, INCEIF, Anglia Ruskin University.

*Experience:* 20+ years in commercial banks (HSBC Amanah) and consulting firms.

About fatwa: A fatwa is a decision on any issue made by scholars based on the principles of Islam and Islamic Legal Practice.



**Figure 1. Shariah compliance<sup>1</sup>**

After testing its Shariah compliant buy-now-pay-later (BNPL) product in the electronics/furniture/home appliance space, IMAN Invest — which offers Islamic BNPL and digital Halal investment services — is currently negotiating a partnership with a major retailer to enter the fast-moving consumer goods (FMCG) space. “We are the first mover in the market and expect to generate at least US\$1 million in monthly sales and over 100,000 user base over the next six months from that partnership alone. The goal is to reach US\$10 million in installments disbursed by the end of the year, from US \$3.5 million to date,” the start-up projects.

The company is one of the few BNPL players that relies solely on halal sources of funding and allows people across the world to fund consumers’ purchases directly at the point of sale. To further

<sup>1</sup> <https://imaninvest.com/en/sharia>

accentuate its commitment to Islamic Finance principles, IMAN received compliance certification (“fatwa”) from the esteemed Islamic professor Dr. Ziyaad Muhammad of INCEIF (Malaysia) and the Muslim Board of Uzbekistan.

The company plans to expand into other frontier markets by the end of 2023 with predominantly young and tech-savvy Muslim populations, increasing disposable incomes, and rising e-commerce digital payment systems penetration.

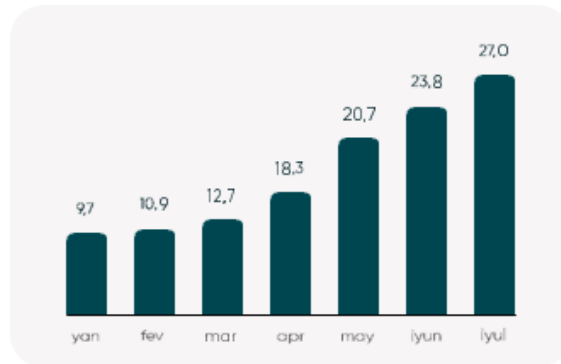
**ANALYSIS OF ITS FINANCIAL ACTIVITY**

Financial Statement Analysis is considered one of the best ways to analyze the fundamental aspects. It helps us understand the company’s financial performance derived from its financial statements. It is an important metric to analyze its operating profitability, liquidity, leverage, etc. The following financial analysis example outlines the most common financial analysis used by professionals.

Here are given the financial indicators of the “IMAN HALAL INVESTMENT” LLC, which are followed by a relevant analysis.

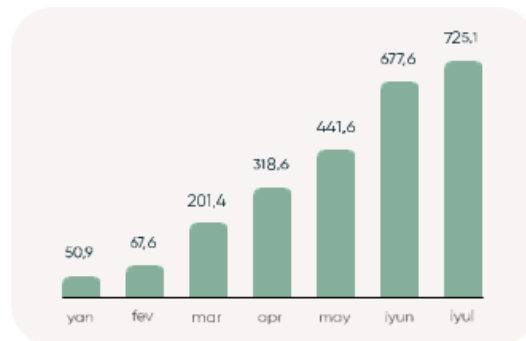
*Financial indicators:*

The increase of the authorized capital by 2.63 times in just 7 months is the result of the steady growth of dividends.



**Figure 2. Charter capital, billion soums.<sup>2</sup>**

Net profit of 725 million soums in July is a 14.3 times increase in 7 months. Such an achievement is due to the increase in the volume of trade under the Musawama contract. In August 2022 alone, the company attracted more than 8.4 billion soums, which is 35% of the total investment.



**Figure 3. Net profit, billion soums.**

<sup>2</sup> Financial statement for the period January-July 2022

— Profitability

The amount of dividends for July amounted to 541.8 million soums and increased by 13.7 times. The yield itself rose to 2.28% in July from an average of 0.44%.

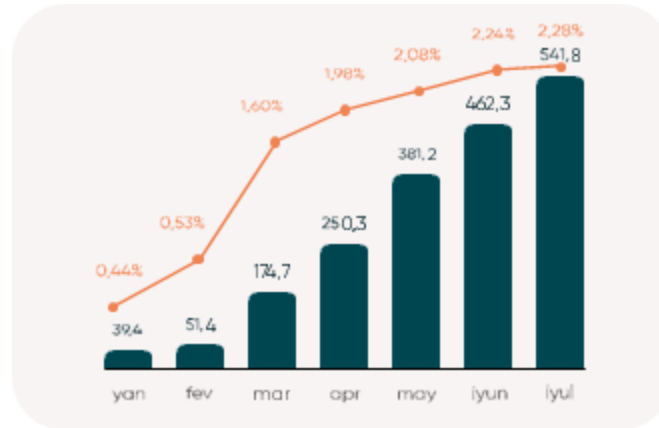


Figure 4. Investors' dividend, million soums.

— Number of sales

"Musavama" portfolio amounted to 30.3 billion soums. That is, it increased 4.67 times in 7 months. The number of users of the service reached 7491 people.

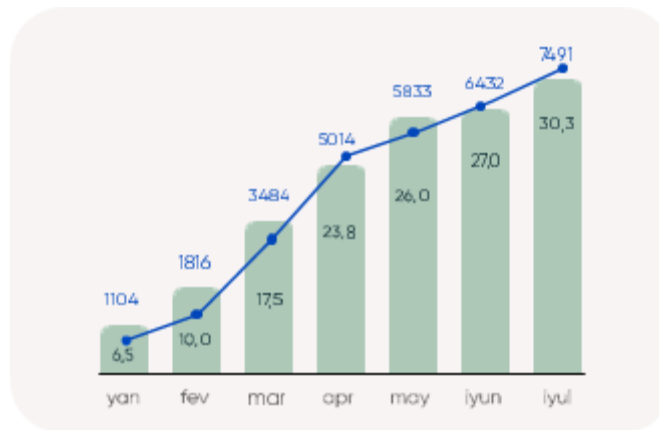
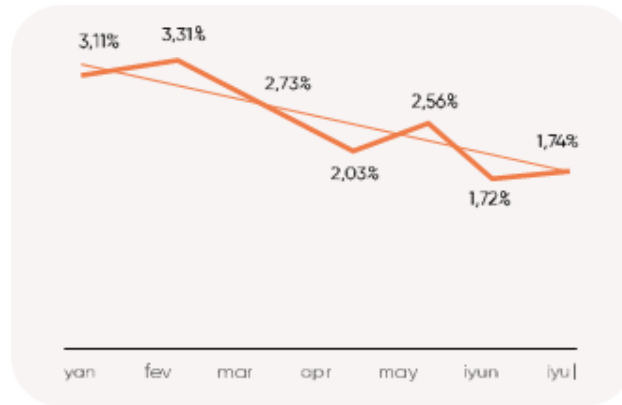


Figure 5. "Musavama" portfolio.

Analysis and forecasts:

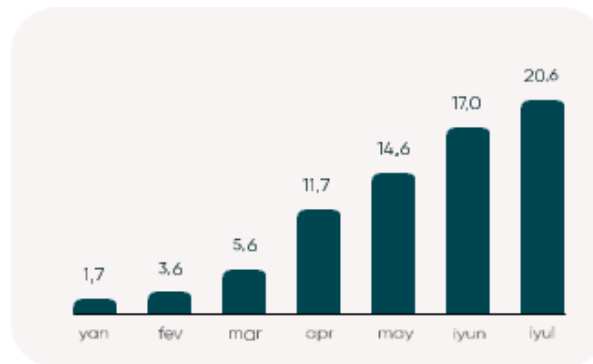
Investment withdrawal rates by investors have decreased. This means not only a good financial performance, but also a strengthening of investors' confidence in IMAN. The main reasons for this positive change are related to the increase in investment volume and profit itself.



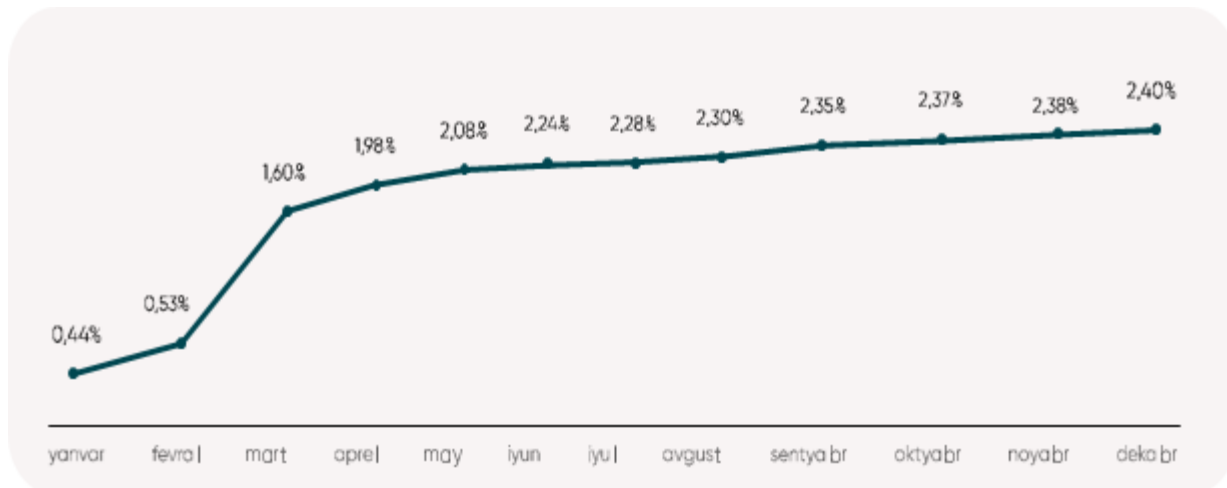
**Figure 6. Dynamics of withdrawal of investments.**

At the beginning of the year, 3.11% of total investments were withdrawn, but by August, this indicator decreased to 1.74%.

The volume of new investments attracted during the considered period, including the reinvestment of the profits received by users, is 20.6 billion soums.



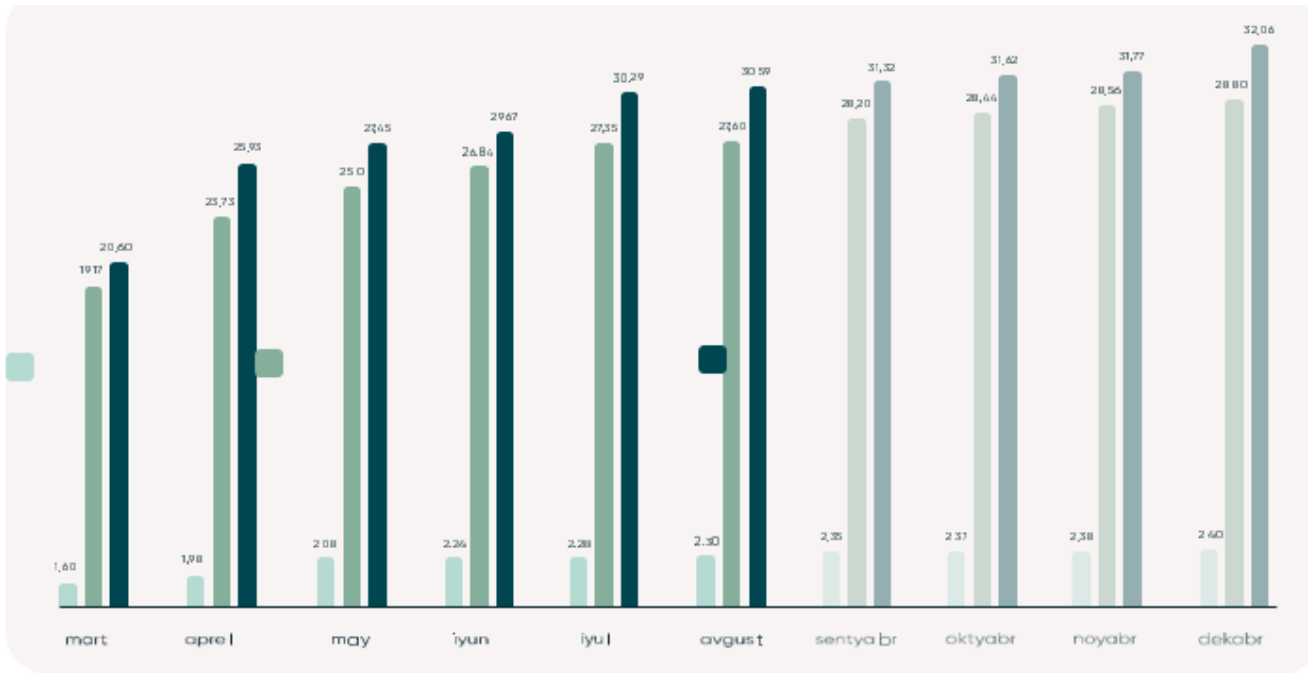
**Figure 7. Amount of invested capital.**



**Figure 8. Profit forecast.<sup>3</sup>**

<sup>3</sup> Financial statement for the period January-July 2022

The profit forecast shows steady growth. According to previously published forecasts, the company has achieved more than expected profit for the month several times, taking the profit to a new level. The reason for this success is a proven development strategy.



ROI (montly),% ROI (annual) without capitalization,% ROI (annual) taking into account the capitalization,%

**Figure 9. Increase in profits when dividends are reinvested.**

The analysis shows that if the investor reinvests the monthly dividends without withdrawing them, the annual profit can reach 32.06% instead of 28.8%. Such a result occurs due to the fact that the profit received by the investor is also directed to trade.

**Table 1. Profit and Loss statement.<sup>4</sup>**

<i>July,2022</i>	<i>Thousand soums</i>
<b>Income</b>	1 668 535
<b>Cost of sales</b>	669 187
<b>Gross profit</b>	999 349
<i>Period expenses</i>	
<b>Transaction costs</b>	12, 255
<b>Scoring costs</b>	105,899
<b>Salary</b>	1,848
<b>Rent</b>	1,558
<i>Other expenses</i>	0
<i>Other income</i>	1,558
<b>Income from core activities</b>	879,348
<b>Exchange rate losses</b>	1,233

<sup>4</sup> <http://www.imaninvest.com/>

<b>Royalties</b>	25,000
<b>Profit before profit tax</b>	583,115
<b>Profit tax</b>	127,967
<b>Net profit (loss)</b>	725,148
<b>IRR transfer to reserve</b>	116,814
<b>IRR withdrawal from reserve</b>	0
<b>Dividend tax</b>	30,464
<b><i>Dividend Distribution:</i></b>	

After the introduction of the IFRS revenue recognition model and the increase sales in the last quarter of last year net profit at the beginning of 2022 improved compared to last year. Taking into account the investment reserve risk, tax on dividends and shares IMAN net dividends for investors reached 45 (0.50%), 52 (0.54%) and 175 million soums (1.60%) in January, February and March respectively Due to the decline in sales during Ramadan, the sales forecast for April and beyond months adjusted. By the end of the year, this figure is expected to reach almost 43 billion soums, increasing by about 15 percent per month. With expected improvements in the credit scoring process and optimization of key costs (transaction costs and credit scoring) ROI is expected to improve and reach by the end of the year almost 2.3 percent per month.

## CONCLUSION

In conclusion, Uzbek Islamic fin-tech start-up IMAN Invest is on an aggressive expansion push, preparing to enter new segments, including the Web3 space, as well as to foray into the South Asian market, having secured funding commitments. Iman Invest LLC is committed to promoting social responsibility and ethical investment practices in the Islamic finance industry. The company adheres to strict Shariah principles, which prohibit investments in industries such as gambling, alcohol, tobacco, and weapons. The company also places a strong emphasis on community engagement, philanthropy, and financial inclusion, and supports a variety of charitable causes and initiatives.

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