



## International Islamic Financial Institutions: Activities and Prospects for Cooperation with Uzbekistan

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### ABSTRACT

In recent years, Uzbekistan has actively supported the development of Islamic finance on its territory. An important role in this process is played by international Islamic financial institutions that are part of the Islamic Development Bank group, as well as they conduct their activities autonomously. This article examines the prerequisites, goals and objectives of the IDB in Central Asia, as well as the measures taken by the government of the country to achieve bilateral cooperation with international organizations in the field of Islamic finance. Special attention is paid to the activities carried out by commercial banks aimed at expanding Islamic banking in the country.

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The presence of the IDB in the territory of Central Asia has been welcomed since the countries of this territory acquired independence, because Islamic economy combines the goals of socio-economic development of the country, taking into account the principles of Islam.[1] At the moment, all five Central Asian republics have joined the IDB, but Uzbekistan was the last to do so only in 2003, although in 1997 the IDB had already opened a regional representative office in Central Asia on the territory of Kazakhstan to facilitate its efforts aimed at the social and economic development of these states. This office has become the center of all activities of the IDB group of institutions in the region. [2]

Nowadays, the share of Uzbekistan in the subscribed capital of the IDB is 13.4 million Iraqi dinars, or 0.03% of the total capital of the bank. Uzbekistan is also a member of other Islamic institutions of the IDB group. In total, 49 projects were implemented in the country together with the IDB, and 54 more are currently in operation. The total amount of financing from the Islamic Development Bank is 2.4 billion US dollars. [3]

One of the promising tasks of the IDB is the expansion of trade and economic cooperation between Muslim countries. In particular, this concerns the strengthening of ties between Uzbekistan and the OIC countries that have seaports, because Uzbekistan, containing on its territory about 45% of the population of Central Asia, has no direct access to the sea. In this regard, the main sectors of IDB financing in the region were infrastructure, telecommunications, roads, airports, as well as Muslim schools and centers. [4]

**Table 1. Distribution of IDB financing in Central Asian countries**

The country	Number of projects	Total funding, USD
Kazakhstan	68	1.7 billion
Kyrgyz Republic	71	421 million
Tajikistan	88	641 million
Turkmenistan	19	1.1 billion
Uzbekistan	103	2.4 billion

**Table 2. Allocation of IDB financing to Uzbekistan projects by sectors<sup>1</sup>**

Sector	Number of projects	Funding amount, mln USD
Agriculture	9	702.4
Education	11	78.2
Energy	5	203.1
Finance	43	496.2
Healthcare	14	413.2
Industry ( including mining)	9	59.9
Telecommunications	1	0.1
Transport	3	348.0
Water supply, sewerage, municipal services	3	93.1
Other <sup>2</sup>	5	51.0

In recent years, in accordance with the Decree of the President of the Republic of Uzbekistan "On measures to further improvement of the efficiency of cooperation with international and foreign financial institutions", the influence of alternative financing on the territory of the Republic of Uzbekistan has increased. Thus, according to the Decree of the Cabinet of Ministers of the Republic of Uzbekistan "On measures to further development of cooperation with the Islamic Development Bank Group and the funds of the Arab Coordination Group", Roadmaps (action plan) were adopted to further expand the country's cooperation with Islamic financial organizations. As part of this project, in September 2021, the Annual Meeting of the IDB Board of Governors was held in Tashkent, at which

<sup>1</sup> Source : IsDB Group in Brief (Q3/2021), 30\09\2021

<sup>2</sup>This includes Public administration and Trade-related projects

Uzbekistan and the Islamic Development Bank signed agreements for more than 330 million US dollars, including [5]:

- a memorandum of cooperation on the establishment of the Uzbekistan Economic Empowerment Fund with an initial capital of \$100 million, signed by the governments of Uzbekistan, Saudi Arabia and the Islamic Bank;
- an agreement to open a \$15 million trade finance line between the International Islamic Trade and Finance Corporation (ITFC) and "Trustbank";
- an agreement between the International Islamic Trade and Finance Corporation (ITFC) and "Turonbank" on the provision of technical assistance in the implementation of reporting in accordance with international financial reporting standards (IFRS), etc.

In addition, during this event "Asia Alliance Bank" received "The First Partner Bank in Uzbekistan" award from the International Islamic Trade and Finance Corporation from the President of the Islamic Development Bank Muhammad al- Jassir for attracting and implementing the first line of Islamic trade finance in Uzbekistan. [6]

The transaction added a feature that is innovative for the International Islamic Trade Finance Corporation to support the Murabaha process. The problem in Uzbekistan was that commercial banks are prohibited from trading while there are no Islamic banks in the country. In this regard, a special solution was proposed - the introduction of a trade finance line using "waqala" structures and guarantees. Thus, Asia Alliance bank found clients, assessed their creditworthiness and signed Murabaha contracts on behalf of MITFC, however, in this process, the bank is a "vakil". After that "Asia Alliance bank" issues the guarantee shortly before MITF disburse funds directly to eligible suppliers of goods. [7]

The successful implementation of the transaction made it possible for seven more banks from Uzbekistan to apply to MITFC with a request to conclude similar deals on Islamic trade finance. The same structure was later applied in Tajikistan and the Kyrgyz Republic.

In addition, in connection with the successful implementation of the bank's line of trade financing in the amount of 9 million US dollars, the partners reached an agreement to provide the bank with a second line of financing and develop further bilateral cooperation. At the moment "Asia Alliance Bank" thanks to the use of the Murabaha product, has successfully started and continues to finance long-term projects of its clients through the fourth line of financing of the ICRC in the amount of \$10 million. It is also expected that the bank will open an "Islamic window" with the advisory assistance of the ICRC with the possibility of providing the population of Uzbekistan with banking services on the principles of Sharia, as well as issuing securities in the form of "sukuk" to attract foreign investment to Uzbekistan. [8]

Also, at the 46th Annual Meeting of the Board of Governors of the Islamic Development Bank in Tashkent between the Chairman of "Trustbank" and the CEO of the Islamic Corporation for the Development of the Private Sector (ICD), an agreement was signed in the amount of 10 million US dollars. "Trustbank" plans to use these funds to develop the healthcare sector, including the food and pharmaceutical industries. At the same time, "Trustbank" has already successfully implemented a credit line of the Islamic Corporation for the Development of the Private Sector in the amount of 7 million USD, allocated in 2018. Now the bank is also preparing to open an "Islamic window" to meet the financial needs of customers through alternative banking services. [9]

In total, "Trustbank" attracted three lines of financing from the ICRC and MITF for a total of 19 million

US dollars, and all these funds, as noted by Sardor Normukhamedov, Chairman of the Board of PJSB "Trustbank", were aimed at promising projects of the bank's clients, such as the production of cable products, electronic parts, construction, the production of electrical appliances, textiles and pharmaceuticals. Moreover, now the bank plans to "introduce services such as Murabaha (trade finance), Ijara (this product is similar to leasing in the traditional financial system), Mudaraba (a type of partnership in which one of the parties provides 100% of the capital, and the other provides its special knowledge and experience required for project management) and Wakala (similar to representation in the traditional financial system), and then introduce other Islamic products based on customer requirements. Islamic products will be offered to all types of customers, both individuals and legal entities. When introducing an Islamic product, first of all, the market demand and supply, as well as the prices of traditional banks, are studied, after which attractive competitive products for deposits and financing will be presented to customers." [10]

Thus, a number of commercial banks are preparing to open "Islamic windows", for example, "Qishloq qurilish bank", "Agrobank", "Turon Bank", "Kapitalbank" and others.

In conclusion, it is necessary to note the dynamic activity of the Islamic financial institutions of the Islamic Development Bank group on the territory of the Central Asian countries from the moment they gained independence. The main purpose of these actions is to expand trade and economic relations between the countries of the Muslim world. In recent years, the IDB has been carrying out a number of activities to introduce elements of Islamic finance in the Republic of Uzbekistan, with a special role in this process being played by the country's commercial banks. Thus, banks being the only providers of Islamic banking services in the country, are planning to organize the work of "Islamic windows" operating in accordance with Sharia principles, which will enable customers to receive high-quality banking services and products.

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