

RELIGION IN SOCIETY

**PROMOTING PROSPERITY:
THE ISLAMIC DEVELOPMENT BANK AND
THE RISE OF ISLAMIC BANKING AND
FINANCE IN CENTRAL ASIA**

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Islamic banking and finance is on the rise and taking root in Central Asia. Since the collapse of the Soviet Union and formation of new nation-states in 1991, Muslim republics in the region have witnessed a significant increase in Islamic financial institutions. Moreover, Islamic banking and finance has been viewed by Islamic scholars as an innovative way for the former Soviet republics of this region to form an economic bloc with other Islamic countries outside of Central Asia,

ultimately leading to a greater market advantage in a competitive global economy. One of the keys to accessing global markets is by sponsoring national and regional socioeconomic development, and liberal economic reform. The prevailing Soviet legacy in these Muslim republics, especially the notion of a centrally-planned economy, has greatly hindered such development. However, with the advent of Islamic banking and finance, the Muslim republics of Central Asia and the

Southern Caucasus have already experienced a significant boost in socioeconomic development that will hopefully continue long into the future.

Throughout the twentieth century, Islam was an important cultural and religious outlet for the people of Central Asia despite its repression under Communist rule. As the Muslim republics of this region grow more exposed to new forces of global change, including market forces, a communications and information revolution, as well as radical Islam, their governments are struggling to adapt and create new political and economic structures to survive in an increasingly interconnected world. Under these new pressures of global change, many regional rulers have clung even stronger to their previous modes and methods of governing under a command economy and one-party political system, while other leaders have attempted to liberalize national markets in a global economy.

The Soviet legacy continues to plague the modern development of most former Soviet republics in Central Asia, making it more complicated for the penetration of Islamic banking and finance to the region. Nevertheless, with the assistance of the Islamic Development Bank (IDB) based in Jeddah, Saudi Arabia, there has been a noteworthy increase of Islamic banking and finance in the region. This article examines the important role of the IDB in promoting socioeconomic development across the region. Moreover, a majority of the Central Asian and South Caucasian republics view Islamic banking and financial institutions as important outlets through which to channel the energies of radical Islamic opposition groups. Despite witnessing moderate success in the region, the IDB has confronted significant obstacles in its promotion and development of Islamic financial institutions for regional govern-

ments because of the strong Soviet legacy and precarious political situations that prevail. Even with the persistence of their Soviet past, Muslim states in the region are experiencing a growth in Islamic banking and finance. In the last decade, Islamic banking and finance have become significant forces for positive change in the region. The IDB acts as an important instrument of legitimacy for the ruling elite and neo-nomenklatura of the region who continue to experience a rise in opposition from radical Islamic forces.

For the purposes of this article, the rise of Islamic banking and finance will be compared among the six Muslim republics of the former Soviet Union: Azerbaijan, Kazakhstan, Uzbekistan, Turkmenistan, Tajikistan, and Kyrgyzstan. Each has incorporated Islamic banking and finance to varying degrees depending on the nature of its political system and economy in the post-Soviet era. The IDB has acted as the primary catalyst in this process of incorporation. It has most successfully entered the financial services sector of the economy in countries that have adopted more liberal economic reforms, most importantly Azerbaijan and Kazakhstan. In any case, for both of these countries it will be shown that the IDB has had to deal with the complex politics of a rentier state that have developed over the past decade due to the rise of oil and gas revenues. States are classified as rentier states when a substantial portion of the national revenue is generated from a local natural resource like oil or natural gas. In order for Islamic banking and finance to take a stronger hold in these countries, as well as in other regional rentier states like Turkmenistan and Uzbekistan, it is believed that the political ruling elite must be involved in the formation and subsequent financial benefits of Islamic banking and finance.

Islam in Central Asia

Despite Soviet suppression of public religious expression, Islam, and in particular Sufism or Islamic mysticism, has played an important role in the history and culture of each of the six republics

examined in this study. Since the fall of the Soviet Union, political Islam has moved to the forefront of the political arena across the region. Islamic groups, exemplified by the rise of Hizb ut-Tahrir—a global Islamic party that seeks to unify Muslims under an Islamic state or Caliphate—have grown more interconnected, organized, and violent in an age of modern communications, leaving many leaders of the region troubled by the situation. In most cases, the government's initial reaction is to repress any alleged terrorist or opposition group. In a country like Uzbekistan, for example, President Karimov has repeatedly thwarted any semblance of an Islamic movement through violent action, whether justified or not. Such violent action has only turned many people against the Uzbek government. Moreover, President Karimov faces the dilemma of having to deal with neighbors like Tajikistan and Afghanistan that—due to inadequate rule of law systems—can provide safe havens to groups such as the IMU and Hizb ut-Tahrir.

Despite the rise of violent Islamic forces, Islam remains a relatively stable force in the Central Asian republics of Kazakhstan, Azerbaijan, and Kyrgyzstan. As for Turkmenistan, conventional Islam has been greatly transformed by President Niyazov, placing it in a special category of its own.

In general, Islam remains an omnipresent force across the region and leaders of the individual republics have worked since the 1990s to incorporate greater elements of Islam into the inner structures of government. Increased piety among Muslims across the region in the last decade has led to more vocal protest against the secular governments of the region.¹ Since most of the current governments have maintained many of the old Soviet structures, they are now increasingly pushed by their respective populations to incorporate more aspects of Islam. Most government leaders have sought to resist such change because it represents a shift in the power structure of the ruling elite. A balanced fusion of Soviet structures and Islam will remain a major hurdle for governments to overcome in the future.²

IDB and the Arrival of Islamic Banking and Finance in Central Asia

With Islam's growing importance across Central Asia, a majority of the countries in the region view the presence of an international Islamic financial institution like the IDB positively because of its ability to help respective governments promote both Islam and socioeconomic development. Islamic banking and finance, where no usury or *riba* is permitted, has only just begun to take root across the region and could be used as an instrument to channel the energy of Muslims who desire greater inclusion of Islam in government.

Since the breakup of the Soviet Union, each of the above-mentioned republics has joined the IDB: Azerbaijan (1992); Kyrgyzstan (1993); Turkmenistan (1994); Kazakhstan (1995); Tajikistan (1996); and Uzbekistan (2003). By 1997, the IDB established a regional office in Almaty, Kazakhstan, to foster the Bank's efforts in social and economic development of the countries in the region.

¹ See: P. Mann, "Religious Extremism In Central Asia," *Strategic Analysis: A monthly journal of the IDSA* Vol. 25, No. 9, December 2001 (see: CIAO Net, 14 November, 2007).

² For a good synopsis of the role of Islam in Central Asia, see: International Crisis Group, *Central Asia: Islam and the State*, ICG Asia Report No. 59, 10 July, 2003.

The regional office in Almaty (ROA) has effectively become the hub for IDB group operations in the area.³

On a wider scale, the IDB seeks to establish a greater communications and trade link among Islamic countries around the globe. In this capacity, the IDB explicitly endeavors to link former Soviet republics of this region with countries from the Organization of the Islamic Conference (OIC): “The IDB is committed to bringing the transition economies of the CIS [Commonwealth of Independent States] countries (all land-locked) closer to the OIC member countries by fostering trade and investments and disseminating the best practices through institutional and capacity building assistance.”⁴ Specifically, many of the IDB’s projects are related to building infrastructure (i.e. roads, telecommunications, airports, and canals) and social development (construction and equipping of school and hospitals). The IDB has also been active in financing the construction of Islamic schools and vocational centers across the region.⁵ Table 1 lists a breakdown of the how much each country received cumulatively from the IDB up to March 2003, as well as the amount of projects currently sponsored by the IDB. Table 2 cites the amount of financing received by sector. In line with the IDB’s core mission statement of linking up OIC countries with the CIS countries, the transportation sector was the most heavily financed in the region. Lastly, it should be noted that the tables include Albania, which remains outside the scope of this paper because of its location, and exclude Uzbekistan since it only joined the IDB in 2003.

Table 1

Distribution of IDB Financing by Country up to 2003
(cumulative)

Country	US Dollars (million)	Current Projects
Albania	59.844	17
Azerbaijan	81.660	19
Kazakhstan	76.275	20
Kyrgyz Republic	64.839	16
Tajikistan	63.141	18
Turkmenistan	74.345	11
TOTAL	420.104	191

Currently, IDB Group operations across Central Asia exceed US\$650 million.⁶ It is believed that the IDB’s development of these different sectors will stimulate economic growth and expose these countries to greater trade opportunities in the global market.

³ See: Islamic Development Bank, *Regional Office Almaty, Annual Report 1425H*, 5, available at [http://www.isdb.org/], 1 April, 2006.

⁴ Ibid., cover letter from the VP of Operations, Dr. Amadou Boubacar.

⁵ See: A.W. Bashir, “Islamic Development Bank (IDB) Delegation Returns from Inspection Tour of CIS Projects,” *Moneyclips*, 5 September, 1993 (see: Lexus Nexus, 20 March, 2006).

⁶ See: Islamic Development Bank, *Regional Office Almaty, Annual Report 1425H*, Cover letter from the VP of Operations, Dr. Amadou Boubacar.

Table 2

**Distribution of IDB Financing by Sector up to 2003
(cumulative)**

Sector	US Dollars (<i>million</i>)	%
Transport	137.398	34.5
Utilities	100.047	25.2
Agriculture	75.893	19.1
Social	56.480	14.2
Others	19.700	5.0
Technical assistance	8.149	2.0
TOTAL	397.667	100.0

Source: Islamic Development Bank.⁷

Having looked at the broader regional role of the IDB in Central Asia, the individual country assessments provided below allow for a more targeted examination of how both the IDB and Islamic banking have fared across the region. Each country possesses very different political and economic environments in which to establish Islamic banking and finance.

Kazakhstan

In addition to the establishment of private Islamic banks, the IDB and Kazakhstan have developed a strong partnership in supporting social and economic development. Good relations between the two, a thriving Kazakh economy, and a relatively strong banking sector have led to the opening of a regional office of the IDB in Kazakhstan. For the IDB, Kazakhstan is also a model for Islamic banking and finance in the region because of the government's success in incorporating both the IDB and other private Islamic banks into its banking system. Moreover, Kazakhstan has continued to permit liberal reforms in the banking sector that allow more Islamic banking. These reforms stand in contrast to President Nazarbaev's political actions aimed at consolidating his political power and economic wealth through oil revenues. Nonetheless, in the past decade the IDB has sponsored some of the following important projects:

- US\$9.57 million as a loan for the Almaty-Gulshad road project. The project, traversing through industrial and agricultural areas, is expected to assist the people in the project area to improve their economic situation through greater accessibility to new markets and trade routes.⁸

⁷ See: Islamic Development Bank, "Activities of the IDB in Albania, Azerbaijan, Kazakhstan, Kyrgyz Republic, Tajikistan and Turkmenistan," March 2003 [http://www.isdb.org/english_docs/idb_home/idb_cis.htm], 20 March, 2006.

⁸ See: "IDB Board Executive Directors Approves New Finances," *Moneyclips*, 17 June, 1998 (see: Lexus Nexus, 25 March, 2006).

- At the initiative of the IDB, fifty Saudi businessmen set up the Central Asian Investment Company in Kazakhstan for accomplishing development projects.⁹
- US\$20 million loan for financing the reconstruction of the Astana-Vishnevka stretch of the Astana-Karaganda highway in central Kazakhstan.¹⁰
- US\$13.6 million was allotted for financing for the construction of an academy at the Kazakhstan University of Law and Humanities.¹¹
- US\$14.7 million was issued as a credit line to finance leasing for three major Kazakh commercial banks—Kazakh People’s Bank (an open-type joint-stock company), Kazakh Commerce Bank (an open-type joint-stock company), and the Bank TuranAlem (an open-type joint-stock company).¹²
- US\$30 million allocated to finance a project upgrading two sections of the Astana-Almaty highway.¹³

Kazakhstan has invested greatly in its IDB membership. It was recently rewarded for its involvement in 2003 when Kazakhstan’s former head of the Presidential Administration and current Industry and Trade Minister, Adilbek Dzhaksybekov, was elected chairman of the IDB Board of Governors. Although not explicitly stated, naming this Kazakh official who is part of Nazarbaev’s ruling elite and clan structure demonstrates that the IDB understands the way politics and business works in a rentier state like Kazakhstan. In other words, for any international financial institution to succeed in a country controlled in large measure by a small clan-based ruling elite, it must work to establish good relations with the rulers of the leading clan while at the same time ensuring that their members receive a cut in any financial transaction. Nevertheless, this election is a significant accomplishment for Kazakhstan—demonstrating the extent to which relations with the IDB have increased in recent years. Islamic banking and finance through the IDB will no doubt continue to thrive in the future because of Kazakhstan’s relatively stable political situation and flourishing economy.

In addition to Kazakhstan’s successful involvement with the IDB, it is important to note that the director of the Central Asia regional IDB office, Nik Zainal Abidin Nik Yusuf,¹⁴ has also sought to establish better relations between Kazakhstan and Malaysia. This relationship is significant because Malaysia serves as an important Islamic banking hub that has promoted innovative Islamic products for use in Islamic banking and finance around the world. Specifically, the IDB regional director has worked to promote a relationship between the National Bank of Kazakhstan and Malaysian banks to facilitate the introduction of new banking programs to Kazakhstan such as lending facilities to assist its yet-to-be developed financial system.¹⁵

⁹ See: “Saudis Set Up Investment Firm in Kazakhstan; Envoy Sees Scope for Tie-ups in Electricity Sector,” *Money-clips*, 3 August, 1997 (see: Lexus Nexus, 25 March, 2006).

¹⁰ See: “Islamic Bank to Lend Kazakhstan \$20 Million,” *Interfax News Agency*, 26 January, 2000 (see: Lexus Nexus, 25 March, 2006).

¹¹ See: “Kazakhstan: IDB Session Approves US\$278 mln Financing for new Projects,” *Infoprod*, 3 September, 2003 (see: Lexus Nexus, 25 March, 2006).

¹² See: “Islamic Bank to Give 14.7m-Dollar Loan to 3 Kazakh Banks,” *BBC Monitoring*, 11 November, 2000 (see: Lexus Nexus, 25 March, 2006).

¹³ See: “Islamic Development Bank to Credit \$30m to Upgrade Kazakh Road,” *BBC Monitoring*, 26 May, 2000 (see: Lexus Nexus, 25 March, 2006).

¹⁴ This position is directly approved by President Nazarbaev, a further indication of how the IDB must deal directly with the ruling elite of Kazakhstan if it wants to succeed in its operations. (This is according to Kyle Marquardt, currently a Watson Fellow studying Kazakh politics in Almaty.)

¹⁵ See: “M’sian Banks Urged to Venture into Kazakhstan’s Booming Economy,” *The Malaysian National News Agency*, Bernama, 23 September, 2003 (see: Lexus Nexus, 25 March, 2006).

Azerbaijan

Due to its Islamic practices and commitment to socioeconomic development, Azerbaijan has sought, in recent years, to strengthen its relationship with the IDB.¹⁶ In fact, the IDB is set to open a local branch in Baku next year, further contributing to a successful partnership with Azerbaijan. In the past decade some of the IDB projects have included:¹⁷

- US\$10 million in assistance for refugees, including the construction of schools, businesses, and roads, after the signing of a ceasefire with Armenia in 1994 over the Nagorno-Karabakh.¹⁸
- US\$9.8 million for a finance loan to reclaim and cultivate 300,000 hectares of saline soil.¹⁹
- US\$9 million interest free loan to help restore schools, apartment buildings, and other government installations after the 2000 earthquake.²⁰
- US\$58 million in advantageous loans for the financing of an electrical energy project, the construction of the Khachmaz substation (northeastern Azerbaijan), and the laying of an electricity transmission line in 2004.²¹
- US\$22 million in assistance for implementing a road project.²²
- US\$13.5 million credit to construct a substation in Khachmaz to connect it to the Yashma-Derbent high voltage power line which connects the energy system of Azerbaijan with Russia.²³ In recent years, Azerbaijan has looked to the IDB for assistance in developing its non-oil energy sector.²⁴
- US\$10.4 million project financing loan for the construction of the Valvalacay bridge.²⁵

As a Muslim country, Azerbaijan can use the IDB as a positive force in helping calm Islamic opposition groups within Azerbaijan. Although there are no major radical and violent Islamic groups that critically threaten President Aliiev's administration, the Azeri government is nevertheless aware of the regional trend toward increasing religiosity and a subsequent rise in violent Islamic groups. Moreover, with Chechnia to the north, Iran to the South, Iraq to the southwest, and Afghanistan to the east, Azerbaijan must remain attentive to its population to ensure that radical Islamic forces do not undermine the Aliiev regime. Therefore, it is alleged that in the past decade the Aliiev family has used its membership with the IDB to demonstrate to Islamic leaders its compliance with Islamic practices in such areas as socioeconomic development.²⁶

¹⁶ See: "Economics Minister Stresses Necessity for Expansion of IDB-Azerbaijan Relations," *AssA-Irada*, 16 September, 2004 (see: Lexus Nexus, 24 March, 2006).

¹⁷ See: "IDB to Open Representation in Baku," *AssA-Irada*, 29 June, 2005 (see: Lexus Nexus, 24 March, 2006).

¹⁸ See: M. Vadayar, "Azeri President Seeks Financial Help; Signs \$9.8m Loan Pact with IDB," *MoneyClips*, 13 July, 1994 (see also: "Islamic Development Bank to Allocate a Credit for Development of Primary Schools and Organization of Business Management in Azerbaijan," *AssA-Irada*, 25 May, 1998) (see: Lexus Nexus, 24 March, 2006).

¹⁹ See: "Azerbaijan Gets \$9.8m IDB Loan," *MoneyClips*, 12 July, 1994 (see: Lexus Nexus, 24 March, 2006).

²⁰ See: "Islamic Banks Gives Azerbaijan 9M to Eliminate Aftermath of 2000 Quake," *BBC Monitoring*, 22 August, 2003 (see: Lexus Nexus, 24 March, 2006).

²¹ See: "IDB to Allot \$58M to Azerbaijan," *AssA-Irada*, 27 December, 2004 (see: Lexus Nexus, 24 March, 2006).

²² See: "Saudi Arabia: IDB Allocates \$22 MLN for Azerbaijani Road Projects," *InfoProd*, 18 May, 2004 (see: Lexus Nexus, 24 March, 2006).

²³ See: "Islamic Development Bank to Finance Energy Project in Northern Azerbaijan," *BBC Monitoring*, 23 July, 2004 (see: Lexus Nexus, 24 March, 2006).

²⁴ See: "Islamic Development Bank Pledges More Funding for Azerbaijan," *BBC Monitoring*, 5 January, 2005 (see: Lexus Nexus, 24 March, 2006).

²⁵ See: "Azeri Leader, World Islamic Bodies Discuss Cooperation in Saudi Arabia," *BBC Monitoring*, 11 March, 2005 (see: Lexus Nexus, 24 March, 2006).

²⁶ More empirical research and study is needed to further solidify this thesis that the IDB acts a legitimizing tool for former Soviet Union governments that want to quiet Islamic opposition.

The IDB has demonstrated its abilities to succeed in the financial sector of the Azeri economy. Thus, Islamic banking and finance might be an area the government wants to develop in future years. Moreover, thanks to the strong track record of the IDB in promoting socioeconomic development, Islamic banking and finance may act as an important legitimizing tool for the future of the Aliev presidency.

Kyrgyzstan

Since the Tulip Revolution that peacefully overthrew President Akaev in 2005, Kyrgyzstan's political situation has remained relatively unstable because of a lack of political cohesion and widespread corruption. In addition, Kyrgyzstan has witnessed a rise in radical Islamic activity that further contributes to political instability, including violent attacks carried out by the Islamic Movement of Uzbekistan (IMU) in recent years.²⁷

In any case, since becoming a member of the IDB, Kyrgyzstan has greatly benefited from IDB projects because of the importance of socioeconomic development for the country. It is also believed that the government has benefited from being able to tout its involvement with an Islamically-compliant financial institution to opposition groups who want Islam to play a greater role in government. According to Akaev, Islam has always played an important role in his government as a legitimizing and unifying instrument.²⁸ Akaev's demonstrated belief in Islam explains Kyrgyzstan's significant relations with the IDB. In the past decade, for example, the IDB has sponsored some of the following programs:

- In 1997, a US\$10 million loan for establishing power transmission lines, a US\$3 million loan for the supply of medical equipment and a US\$280,000 grant for conducting a feasibility study on a 222-km road.²⁹
- In 2001, US\$9.5 million was issued for project finance to upgrade the airport in the town of Osh.
- US\$36.4 million was credited for project finance to upgrade a road connecting Kazakhstan with Kyrgyzstan.³⁰
- US\$54 million has been allotted to thirteen projects in recent years for public health, industry, power engineering, and transportation.³¹

Despite having received a significant project finance support from the IDB, Kyrgyzstan remains a very poor and undeveloped country with a weak banking sector. While Kyrgyzstan works to stabilize the political situation, Islamic finance projects will most likely be limited to more low-risk sectors like transportation or public health. Nevertheless, the IDB will remain a positive catalyst in promoting Islamic banking and finance for a government that seeks to align with moderate Islamic forces like the IDB.

²⁷ See: A. Khamidov, "Kyrgyzstan: Organized Opposition and Civil Unrest," *Eurasianet.org*, 16 December, 2002, available at [<http://www.eurasianet.org/departments/civilsociety/articles/eav121602.shtml>], 24 March, 2006.

²⁸ See: "Kyrgyzstan-Iran to Commence New Chapter in Relations," *Moneyclips*, 11 May, 1992 (see: Lexus Nexus, 24 March, 2006).

²⁹ See: "IDB and Kyrgyzstan Sign 3 Pacts," *Middle East Newsfile*, 18 November, 1997 (see: Lexus Nexus, 24 March, 2006).

³⁰ See: "Islamic Development Bank. Kyrgyzstan Sign Memorandum of Understanding," *BBC Monitoring*, 6 July, 2001 (see: Lexus Nexus, 24 March, 2006).

³¹ See: "Islamic Development Bank to Allocate Kyrgyz 9M Dollars to Revamp Road," *BBC Monitoring*, 20 June, 2003 (see: Lexus Nexus, 24 March, 2006).

Turkmenistan

Under President Niyazov, Islamic finance projects have been relatively limited because of his desire to wield tight control over Turkmenistan's society and economy. Indeed, President Niyazov has welcomed foreign direct investment and other finance projects to develop Turkmenistan's lucrative natural resources because profits from the exportation of gas flow directly to the President's coffers that help fortify his rule. However, anything in the area of socioeconomic development has been very limited. Although Turkmenistan has been a member of the IDB since 1994, the IDB has played a relatively limited role in development because of tight political control of its activities. The following is a list of some of its projects:

- US\$8 million approved in 1993 for the construction of a road linking Turkmenistan with Iran.³²
- US\$9.7 million as a loan to the government for the construction of a Diagnostic Center Project in 1999.³³
- In 1996, the IDB financed a multi-million dollar project cosponsored by Turkmenistan and Iran to build the Turkmen section of a 711 km Trans-Asia-Europe fiber-optic communications line. Eventually, the fiber-optic cable will link Frankfurt and Shanghai.³⁴

Uzbekistan

Akin to Turkmenistan, Uzbekistan is run by an authoritarian leader that has consistently adopted economic policies to keep him in direct control of the economy. In the last thirteen years, for example, Uzbekistan has only attracted \$700 million worth of foreign direct investment. This is surprisingly low for a country of 25 million with significant quantities of natural resources and minerals like gold, copper, lead, and zinc.³⁵ Nonetheless, Uzbekistan's new membership into the IDB can be interpreted as the government's way of confronting the critical rise in Islamic opposition to President Karimov's rule. In other words, President Karimov is likely using his membership to the IDB as a way to prove to his Muslim base, and to organizations like Hizb ut-Tahrir, that he is catering to their demands and incorporating greater Islamic components into government. In the last few years, Karimov has faced increased opposition to his rule from Islamic activists, forcing him to find alternative solutions other than violent oppression when dealing with opposition groups.

As a land-locked country, the IDB has sponsored programs that aim to link Uzbekistan with other OIC members, including those countries like Iran with seaports. In the past three years, IDB has sponsored several important projects and signed many significant treaties:

- US\$30 million in loan financing, cofinanced with the Asian Development Bank, to improve water supply to major cities around the country, including Bukhara and Samarkand.³⁶

³² See: "Islamic Bank OKs Loans for Central Asia," *Japan Economic Newswire*, 6 April, 1993 (see: Lexus Nexus, 20 March, 2006).

³³ See: "IDB Approves Projects Worth \$200 Million," *Moneyclips*, 8 December, 1999 (see: Lexus Nexus, 20 March, 2006).

³⁴ See: "Turkmenistan: Economy," *Quest Economics Database*, 15 February, 2001 (see: Lexus Nexus, 20 March, 2006).

³⁵ See: "Uzbek Bank, Islamic Financial Body Sign Cooperation Deal," *BBC Monitoring*, 8 October, 2005 (see: Lexus Nexus, 22 March, 2006).

³⁶ See: "Uzbekistan to Seek \$470mln in Foreign Loans for Utilities by 2011," *The Central Times of Central Asia*, 7 April, 2005 (see: Lexus Nexus, 22 March, 2006).

- US\$54 million grant: Of this amount US\$15 million will go the National Bank for Foreign Economic Activity to finance small business projects; US\$12.5 million will be spent on modernizing an asphalt factory, constructing roads and buying equipment for these purposes; US\$25 million will be spent on the construction of an electricity line from two existing power stations; and US\$143,000 will be spent on preparing a project on setting up an investment company.³⁷
- In 2005, the Islamic Corporation for the Development of the Private Sector, a member of the IDB Group, and the National Bank of Uzbekistan signed an agreement of cooperation to further develop the Uzbek private sector.³⁸

In the three years following Uzbekistan's induction into the IDB, the IDB has already established a strong presence within the country—providing the Uzbek government with considerable financing and sponsorship of numerous projects. This trend will likely continue in the future. President Karimov has experienced significant opposition in recent years to his rule from the conservative Muslim population and the arrival of the IDB can be used by Karimov as an instrument to quiet Islamic opposition forces that want Islam to play a more prominent role in government.

Tajikistan

Given that Tajikistan is one of the poorest and most underdeveloped countries in the world, the presence of Islamic banking and finance structures have been limited to national infrastructure projects sponsored by the IDB. Tajikistan remains a very rural and segmented society with more than 70% of the population living in rural areas because of a mountainous terrain that covers approximately 90% of the country. The following is a list of some of the finance projects sponsored by the IDB:

- US\$52.4 million provided in credit and technical aid as part of the IDB's three year program (2001-2003) to develop Tajikistan's social and economic sectors—health, transport, education, energy, irrigation.³⁹
- US\$9.1 million as loan financing for the construction of the Sharon Igor Road Project in 2001.⁴⁰
- US\$2.5 million as loan financing for the Emergency Surgical Care Center in 2001.⁴¹
- US\$64 million allotted in 2003 to go toward financing some of the 124 projects proposed by the government of Tajikistan, including ventures in hydroenergy, the extraction of gold and silver, and transport infrastructure.⁴²

³⁷ See: "Islamic Development Bank to Give Uzbekistan 52M-Dollar Grant," *BBC Monitoring*, 5 October, 2004 (see: Lexus Nexus, 22 March, 2006).

³⁸ See: "Uzbek Bank, Islamic Financial Body Sign Cooperation Deal," *BBC Monitoring*, 8 October, 2005 (see: Lexus Nexus, 22 March, 2006).

³⁹ See: "Tajik President Meets Head of Islamic Development Bank," *BBC Monitoring*, 20 September, 2001 (see: Lexus Nexus, 20 March, 2006).

⁴⁰ See: "198th Session of the IDB Board of Executive Directors Approves New Financing for More than US\$300 Million," *Middle East Newsfile*, 28 February, 2001 (see: Lexus Nexus, 20 March, 2006).

⁴¹ See: Saudi Gazette Staff, "IDB Approves \$507 Million for New Financing," *Moneyclips*, 9 January, 2001 (see: Lexus Nexus, 20 March, 2006).

⁴² See: "Islamic Bank Chief Says 64M Dollars Allotted to Support Tajik Businesses," *BBC Monitoring*, 25 September, 2003 (see: Lexus Nexus, 20 March, 2006).

- US\$11.6 million to build five mini-hydroelectric power stations in 2005-2006.⁴³

In addition to financing projects, the IDB has also sponsored Islamic business conferences to spark investment interest in Tajikistan. In 2003, for example, the IDB invited more than 150 investors from various Islamic countries around the world to Tajikistan for a three-day conference on investment and business opportunities.⁴⁴

For the time being, it appears as if Islamically-compliant finance projects will continue across Tajikistan. However, the full establishment of an Islamic banking system remains to be seen in the near future. Tajikistan must first address socioeconomic development that will alleviate poverty and promote greater economic growth before being able to consider incorporating Islamic banking into its national banking system. Moreover, Tajikistan's transborder populations of Uzbeks, Kyrgyz, and Meskhetian Turks located in the Ferghana Valley leave Tajikistan a very unstable and volatile region for any investor. Despite a volatile political situation, the relative success of the Islamic Revival Party of Tajikistan (IRPT) bodes well for an active Muslim population that desires greater incorporation of Islamic practices into the upper levels of government. Therefore, it is very probable that both Iran and the IDB will continue to finance more socioeconomic development projects in the future because of the population's propensity to support Islamic institutions.

Conclusion

In just over a decade, the Muslim republics of the former Soviet Union in Central Asia and the Southern Caucasus have proven to be prime candidates for the establishment of Islamic banking and finance. Although primarily landlocked, the countries of this region for the first time are being linked to a greater network of commerce and trade throughout the Muslim world with the help of the IDB. Not only has an organization like the IDB effectively demonstrated its support for socioeconomic development, but it has also provided the six Muslim republics of this study with a means to remain Islamically-compliant when running various banking and finance projects that promote national development.

Although the region has experienced relative success in promoting Islamic banking and finance projects, this paper also addressed the dilemmas faced by the industry across the region. Most importantly, the industry has had to deal with the pervasive Soviet legacy that continues to infiltrate both politics and the economy. Most of the republics have continued with centralized planning and maintain tight control over the banking sector. However, the two countries with large oil resources and wealth, Azerbaijan and Kazakhstan, have demonstrated a tendency toward more liberal reform due to greater exposure to international market forces—one reason, perhaps, why each country has been more receptive to sponsor Islamic banking and finance projects. Conversely, Turkmenistan and Uzbekistan both have substantial natural gas resources but—because of their dictatorial tendencies—the leaders of both countries continue to maintain tight control over both society and the national economy, thus making it more difficult for IDB to penetrate.

In addition to the lucrative oil and gas profits made by these four countries, there has been a rising trend of rentier state formation across the region. This paper attempted to illustrate the complexities faced by an international financial institution like the IDB when trying to open up financial

⁴³ See: "Islamic Bank to Invest in Tajik Mini-Hydroelectric Stations," *BBC Monitoring*, 14 April, 2005 (see: Lexus Nexus, 20 March, 2006).

⁴⁴ See: "Some 170 Investors from Islamic World Attending Conference in Tajikistan," *BBC Monitoring*, 25 September, 2003 (see: Lexus Nexus, 20 March, 2006).

and banking facilities. Due to the nature of the ruling clan system that has prevailed since the collapse of the Soviet Union and subsequent petrodollar windfall, the IDB has had to operate in a manner that does not threaten the various clan-based political structures. Moreover, it is believed that the IDB approves of the policy of catering to the rentier state structure where the ruling elite must remain an integral part of any banking and finance projects. In any case, if Islamic banking and financial institutions desire to expand business and operations in the future, they must account for the politics of these rentier states.

Aside from the difficulties faced in building relations with a rentier state, the rise of religiosity and Islam across the region has also been a major issue for the six Muslim republics examined in this paper. Since the fall of the Soviet Union, the governments that formed in the 1990s were largely secular in nature and still mired in a closed Soviet-style one party system. However, due to the influence of rising radical Islamic forces that have engulfed the region in the past decade, they have been forced to fuse old Soviet structures with new Islamic ones. As posited in this paper, it is believed that most of the countries in the region have used the IDB to demonstrate Islam's incorporation into government effectively. Moreover, these governments can use Islamic banking and finance to further mitigate vocal Islamic opposition groups that have rejected the secular-style rule that has emerged since the collapse of the Soviet Union.

Indeed, the IDB has penetrated to varying degrees all of the Muslim republics of Central Asia and the Southern Caucasus. However, only Azerbaijan and Kazakhstan appear to have the most promising future in the area of Islamic banking and finance. The other four countries are either presently too politically unstable and economically underdeveloped, as in the case of Tajikistan and Kyrgyzstan, or too politically closed, like Turkmenistan and Uzbekistan. Nevertheless, Islamic banking and finance has only just begun to flourish in a region that is ripe for socioeconomic development and the establishment of Islamically-compliant financial and banking institutions.