

REGIONAL ECONOMIES

**THE ACTIVITIES OF THE ISLAMIC
DEVELOPMENT BANK
IN SOUTHERN EURASIA:
IDENTITY-FRAMED COOPERATION OR CHANNEL
FOR ARAB GULF INVESTMENT?**

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ABSTRACT

This article examines the activities of the Islamic Development Bank in Azerbaijan, Kazakhstan and the four other Muslim majority states of southern Eurasia, where the institution has been active, in a rather discreet but targeted way, in the fields of transport, energy and water infrastructure, finance and industrial development since about one and a half decades.

Besides offering an analytical overview of the regional activities of this rather little known development institution, it discusses how it is de facto a channel and way-opener for investment from the Arab and more particularly the Arab Gulf sphere, and how its presence fits into a trend among southern Eurasian governments and economic elites to diversify sources of aid and investment.

KEYWORDS: *development aid, alternative trade, Islamic Development Bank, Organization of Islamic Cooperation, South-South cooperation, Arab Gulf countries.*

Introduction

Unique among international development institutions in the sense that its membership and approaches are defined by faith and religious identity and as such challenge standard international development concepts, the Islamic Development Bank (IDB, *al-bank al-islami'i li-tanmiya* in Arabic) has, rather discreetly, been working in the southern Eurasian region since about one and a half decades now. This paper examines whether there is a pattern and interest base in its activities. It also looks into the question if the bank's presence in the region fits into the fledgling diversification trend in aid donorship, in which aid actors, other than those from member states of the predominantly Western Organization for Economic Cooperation and Development (OECD) and the multilateral institutions dominated by them, gain a growing space and role in southern Eurasia.¹

The IDB Group and Southern Eurasia

The Islamic Development Bank was established by the finance ministers of the member states of the then Organization of the Islamic Conference (OIC, called Organization of Islamic Cooperation since 2011) in the wake of the oil boom in 1973. It started its operations one and a half years later and gradually evolved into what the institution itself calls “a South-South multilateral development financing institution,” whose official purpose is to “foster the economic development and social progress of member countries and Muslim communities individually as well as jointly, in accordance with the principles of Islamic law.”² The IDB is a specialized institution under the OIC and is, together with the Islamic Solidarity Fund, one of the OIC's subsidiaries, a key institution of the organization. It operates independently, yet its activities reflect the OIC's development priorities. Member states or prospective member states of the IDB also have to be members or must adhere to the OIC too.³ The IDB has 56 shareholding member states that comprise states with secular as well as proclaimed Islamic and with republican as well as monarchic forms of government. It is quite unique in the sense that it is the only international financial institution and development bank whose membership and working principles are in the first place defined on confessional and cultural bases, and not by regional geography or by secular, neoliberal development dictates.

Like several other international development banks, the Islamic Development Bank is a group of financial and developmental entities. Besides the Islamic Development Bank itself this group comprises the Islamic Corporation for Insurance and Export Credit (ICIEC), the Islamic Corporation for Development of Private Sector (ICD), the International Islamic Trade Finance Corporation (ITFC) and the Islamic Research and Training Institute (IRTI). The first southern Eurasian countries to join the IDB group were Azerbaijan and Kyrgyzstan, who did so in mid-1992 and late 1993, respectively. Turkmenistan followed in 1994, Kazakhstan in 1995, Tajikistan in 1996 and Uzbekistan in the fall of

¹ This article was previously published in a different working form in the online Central Asia Economic Papers series of the Elliott School of International Affairs.

² See: Islamic Development Bank, *The Islamic Development Bank Group in Brief*, IDB Economic Research and Policy Department, 1433 H. (2012), p. 1 and the IDB Portal, “About IDB” section, available at [www.isdb.org].

³ One of the fundamental criteria for OIC membership besides being a recognized state by the U.N. is that if not a majority then or at least a significant portion of the state's population adheres to the Islamic faith or is at least culturally associated with it. All southern Eurasian countries mentioned in this brief became OIC members in 1992 with the exception of Kazakhstan and Uzbekistan which did so in the years 1995 and 1996, respectively.

2003, seven years after it joined the OIC. In terms of group entity membership, as Table 1 shows, all southern Eurasian states are members of the IDB and the ICD with only Kazakhstan being member of ICIEC too. Besides this, one of the IDB's four regional offices in the world is in Kazakhstan. This office was set up in 1997 and groups the six majority Muslim southern Eurasian countries plus, oddly perhaps, Albania.⁴ The IDB also has field representatives in Uzbekistan and Azerbaijan. This representation structure suggests that the region certainly has importance in the IDB's long-term strategy.

Table 1

The Southern Eurasian States' IDB Entity Memberships

	IDB	ICIEC	ICD	ITFC
Azerbaijan	☑		☑	
Kazakhstan	☑	☑	☑	
Kyrgyzstan	☑		☑	
Tajikistan	☑		☑	
Turkmenistan	☑		☑	
Uzbekistan	☑		☑	

Source: Islamic Development Bank, *The Islamic Development Bank Group in Brief*, IDB Economic Research and Policy Department, 1433 H. (2012), p. 17.

More Benefits than Input?

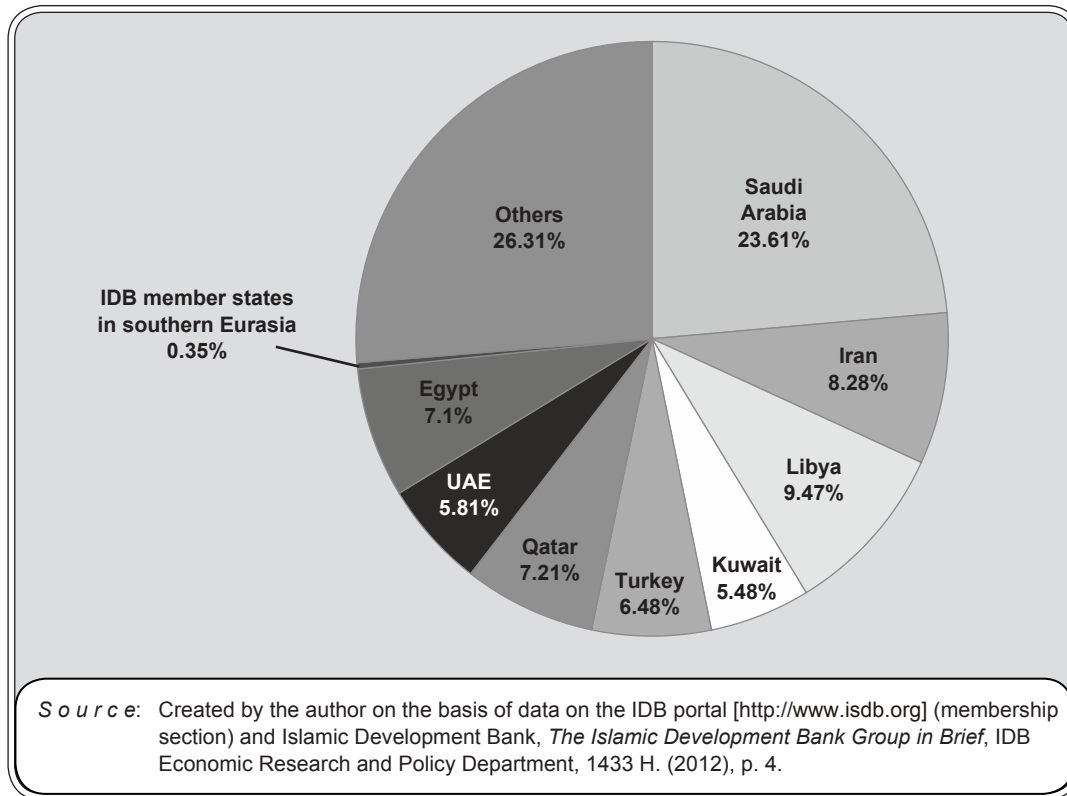
If we look at the IDB members' capital shares in the group as they are shown in Graphic 1, we see that the six southern Eurasian economies' joint capital share in the IDB totals a mere 0.35 percent, which is slightly more than individual share of Iraq in the IDB.⁵ As one can see, the whole capital structure of the group is clearly dominated by Saudi Arabia and the other states of the Gulf Cooperation Council (GCC, a body which also groups other high-income Arab Gulf economies like Kuwait, Qatar, the UAE and Oman), who jointly hold more than 40 percent of the capital shares in the IDB group. One of the more determining initial motives of several if not most southern Eurasian governments to adhere to the IDB was the hope to attract economic investment from the Gulf for that matter. International development structures, IDB and others, were also perceived as a way to continue the funding and maintenance of public infrastructure which was previously taken charge of by the Soviet state. There were, of course, other motives than practical and financial opportunism too. In some instances, like Azerbaijan, immediately after independence, the national-revivalist government that was in power back then had the genuine ideological will to strengthen ties with the wider Islamic sphere again. What certainly boosted further cooperation with the OIC and the IDB in this case was the OIC's explicit condemnation of the Armenian aggression and ethnic cleansing in Nagorno-Karabakh.

⁴ There is an understandable rationale behind this, though. The six southern Eurasian states and Albania all experienced a form of Socialist-Communist societal transformation project and were largely cut off from the wider Muslim Ummah for decades. As such, they have if not a common then at least a similar development paradigm from the IDB's point of view.

⁵ The breakdown per country of these 0.35 percent comes at 0.10 percent for Azerbaijan, 0.11 for Kazakhstan, 0.03 each for Tajikistan, Turkmenistan and Uzbekistan, and 0.05 percent for Kyrgyzstan.

Graphic 1

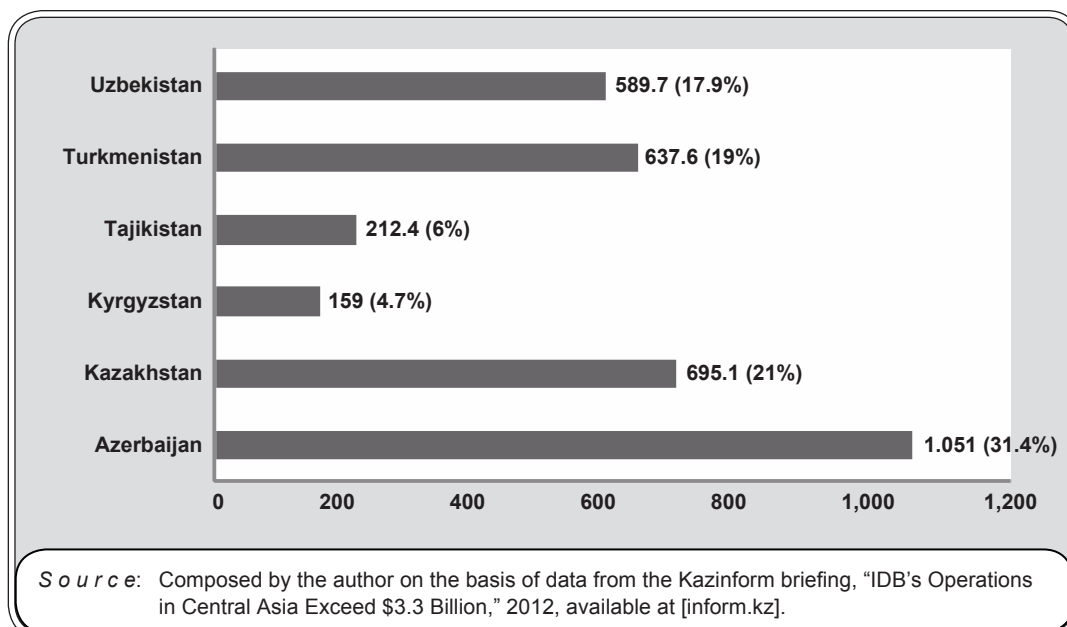
**The Capital Shareholders of the Islamic Development Bank
in 2011 and the Position of the Southern Eurasian
Member States therein**



Between the start of its activities in the region and mid-2012 the value of IDB's operations and investments in southern Eurasia officially amounted to \$3.34 billion. This comes at 4.28 percent of the group's total approved and implemented projects for the whole period between 1976 and 2011, which is almost equal to southern Eurasia's population share in the wider IDB and OIC sphere. This is not a small portion considering the fact that the bank has only been active in southern Eurasia for not more than one and a half decades as compared to over twice that long in certain other parts of the world. It also means that the southern Eurasian states, three of which are classified as middle income and two as low income economies, get considerably more out of the IDB than its joint 0.35 percent in capital shares. In terms of country-level project and investment distribution, Graphic 2 shows that about one third of IDB's activities and investments are concentrated in Azerbaijan alone.

This is, in a way, not surprising since Azerbaijan is the region's oldest IDB member. More importantly, together with Kazakhstan, which chaired the OIC in 2011, it is for IDB officially a "country of primary focus" whereas the other four are of secondary focus. Both Kazakhstan and Azerbaijan are emerging petro- and gas-states where important IDB economies have (or perceive to have) interests and opportunities in the energy sector and all sorts of economic activities connected to or derived from it. This also applies to Turkmenistan despite its different IDB focus ranking. As such, these three countries are well-served as compared to other southern Eurasia countries with

**Country-Level Distribution of Islamic Development Bank Investment
in Southern Eurasia until mid-2012
(\$m and % of total)**



similar or even considerably larger populations and lower income category.⁶ This is explainable though, for emerging petro states do not only have more investment opportunities but also theoretically a stronger capability to repay loans.

What is the significance of IDB activities as compared to other multilateral donor institutions and development banks that operate in southern Eurasia? Table 2 offers a concise comparative overview of the activities of a large donor institution from the OECD sphere (the European Bank for Reconstruction and Development), the IDB group and a donor structure that is dominated by several oil-exporting key members of the IDB but also funded by a number of non-Islamic oil exporting countries (the OPEC Fund for International Development). The general official aid landscape in southern Eurasia is dominated by OECD donors, yet even if the IDB is not among southern Eurasia's top development aid donors, one cannot say it is marginal either. It can be classified as a lower medium-sized donor. Its potential working space and scope, however, is likely larger yet politically stunted by several of the regions' regimes' active unease toward a perceived Arab-Islamic ideological design behind the IDB's activities, a factor that partly explains Uzbekistan's late adherence to the bank. Since the IDB's headquarters are based in Saudi Arabia, a state which is at once the bank's largest individual shareholder and donor, the bank is often perceived by officials and opinion makers to be a multilateral channel for Saudi aid and influence.

Saudi Arabia, which holds two of the three holy cities of Islam—Mecca and Medina, the third, al-Quds or Jerusalem, being occupied by Israel—has never explicitly claimed the institutional leader-

⁶ Turkmenistan and Kyrgyzstan, for example, have comparable populations yet while development and rehabilitation needs in Kyrgyzstan are also strong, Turkmenistan received five times more IDB investment. A similar situation exists between Tajikistan and Azerbaijan.

Table 2

**The Total Value of the Islamic Development Bank's Activities
in Southern Eurasia since the Start of Operations as Compared
to Those of Other Development Banks and Funds (\$m)**

	European Bank for Reconstruction and Development (EBRD)	Islamic Development Bank (IDB)	OPEC Fund for International Development (OFID)
Azerbaijan	6,600	1,051	44
Kazakhstan	11,000	695.1	—
Kyrgyzstan	886.1	159	23.98
Tajikistan	355.4	212.4	53.75
Turkmenistan	616.4	637.6	15.2
Uzbekistan	1,500	589.7	44.73
Total committed and disbursed since the start of in-country operations	20,957.9	3,344.8	181.66

Source: Composed by the author on the basis of data from the Kazinform briefing, "IDB's Operations in Central Asia Exceed \$3.3 Billion" and the respective organizations' portal sites and country briefings.

ship of the Muslim Ummah, so as not to antagonize the Saudi monarchy's Western patrons who historically helped it into power. Since the late 1960s and early 1970s, however, Saudi Arabia has been playing a pioneering and leading role in different Islamic intergovernmental forums and institutions, like the OIC and the IDB, that act on behalf or for the sake of the Ummah.⁷ At the same time, stark social changes and the dysfunction of the classical secular ideologies confront the staunchly if not aggressively secular regimes and elites in southern Eurasia with an increasing identification with Islam and increasing religiosity in parts of their subject societies, a trend they either try to repress or accommodate it in a way they can still control. This translates in a strong distrust toward any real or perceived extraneous attempt to encourage or recuperate the new religiosity and, as such, undermine the rulers' legitimacy. Another reality that weighs on the cooperation at times is the sharp contrast between the policies of key IDB members and of the OIC toward Israel and the active diplomatic, economic and security ties that some of the regimes in southern Eurasia (especially Azerbaijan, Uzbekistan and Kazakhstan) have with that entity.

The Contours of South-South Trade

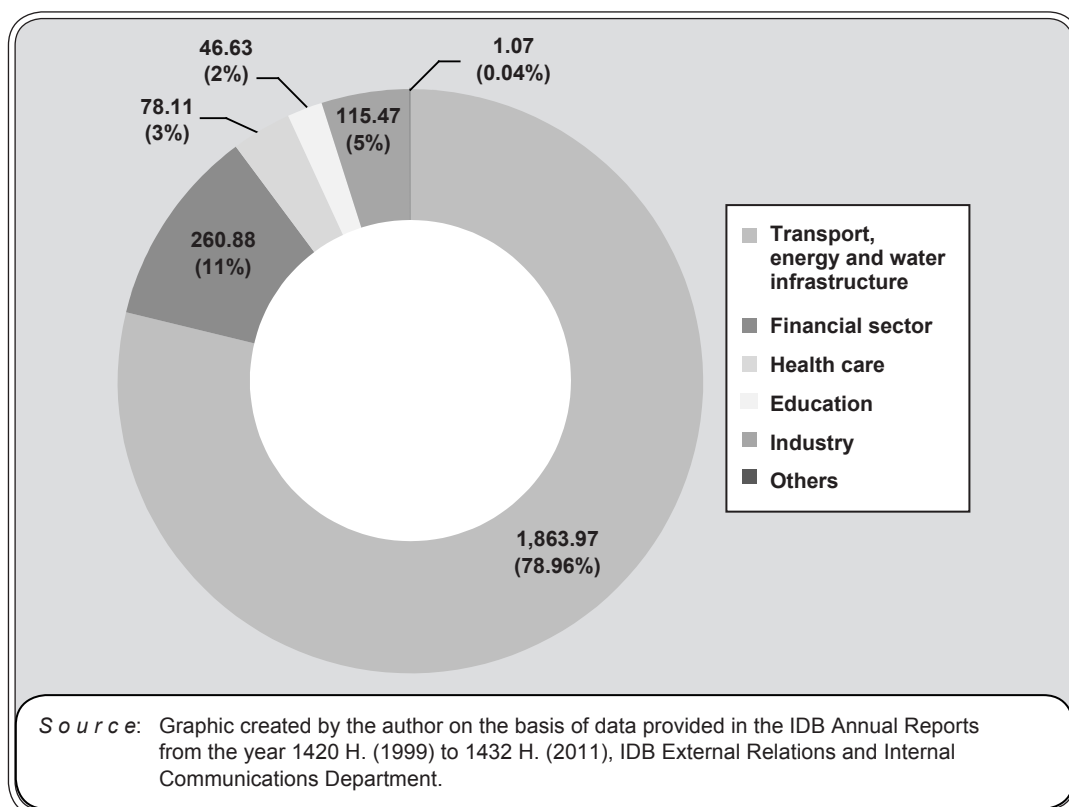
If we look at the sort of projects the IDB group funded or participated in in southern Eurasia between 1999 and 2011, we see that of the 90 implemented or approved IDB projects in the region

⁷ See: R. Upadhyay, "The Saudi Monarchy: Against the Revival of the Caliphate?," *South Asia Analysis Group*, Paper No. 3935, 2010; Kh. al-Yahya, N. Fustier, "Saudi Arabia as a Humanitarian Donor: High Potential, Little Institutionalization," *GPPI Research Paper* No. 14, 2011.

during that period, 45 were projects in the field of transport, energy and irrigation infrastructure, 23 were in the development of the financial sector, 13 in social infrastructure of which half are in health care and half in education, 3 in industrial development and more specifically the textile and natural gas sectors, 4 in institutional development and finally 2 of various or overlapping category.⁸ This came at a total investment or commitment of \$2.36 billion for this documented period during which about two-thirds of total IDB investment in southern Eurasia took place. Sector-wise, it was distributed as in Graphic 3. The IDB's emphasis in southern Eurasia is thus clearly set on, first, transport, energy and irrigation infrastructure and, second, on the financial sector. Both seem to be in line with the IDB's priority to boost intra-OIC and South-South trade and, in that respect, improve transport links between the Gulf, Iran and the Chinese oil and gas market through southern Eurasia. The IDB's participation with soft loans and a number of Sharia-compliant financing instruments in the construction of the Caspian railroad between the Kazakh region of Mangistau and Iran, and in the construction

Graphic 3

**The Sector-Wide Distribution of IDB Investments and Activities
in Southern Eurasia for the Period 1999-2011
(\$m and % of total)**



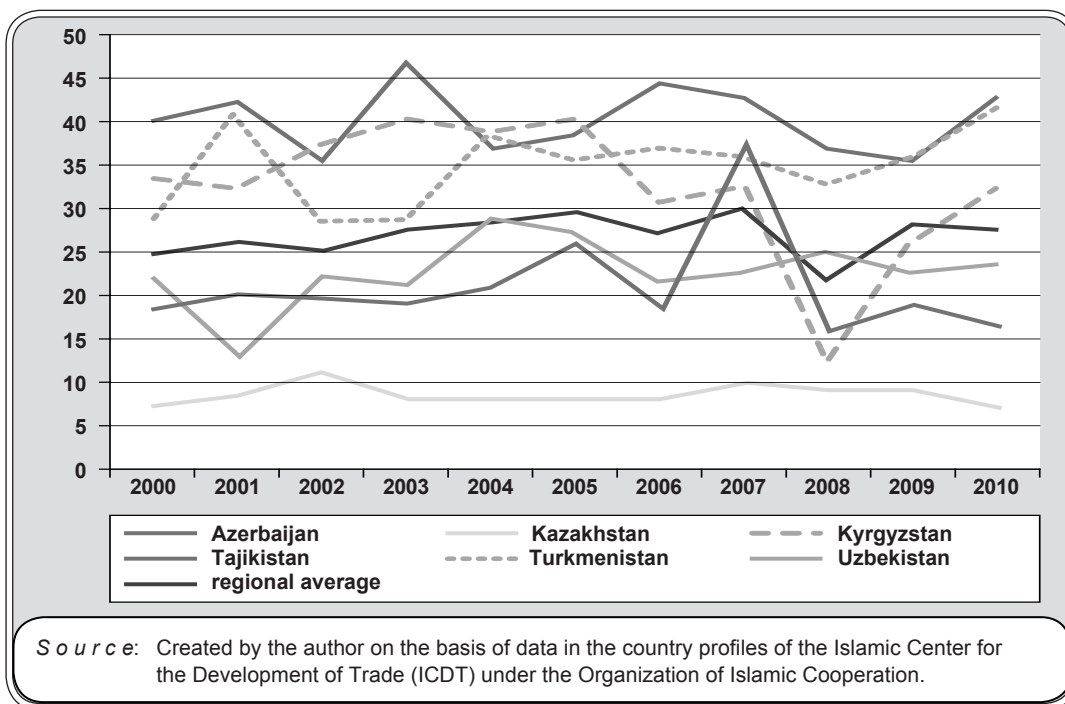
of a motorway between Murgab and the Kulma pass on the Tajik-Chinese border, to name but two examples, fit into this design.

⁸ Detailed project lists can be found in all annual reports of the Islamic Development Bank from the year 1420 to 1432 H. (1999 to 2011). These were used by the author to make this summary.

Likewise, not a few transport projects funded or co-funded by the IDB group are aimed at the rehabilitation of road connections inside the southern Eurasian region itself. This line of activity and investment focus is determined by the nature of intra-IDB trade in the region. As Graphic 4 shows, the respective economies' share of trade with other IDB and OIC member states ranges from an average of 8.7 to 40.1 percent over the said period and is, as such, considerable. One immediately has to keep in mind though that the bulk of this is trade with the other IDB member countries in southern Eurasia itself and with Turkey. This being said, emerging Eurasian petro-states like Azerbaijan and

Graphic 4

The Evolution of the Share of Trade between Southern Eurasia and the IDB Region between 2000 and 2010 (% of total foreign trade)



Kazakhstan increasingly trade with the Gulf countries too in the spheres of energy and banking, yet this trade segment does not as yet characterizes or modifies the dominant regional foreign trade patterns. An important economic and psychological tie between a number of core and peripheral IDB countries is labor migration as is the case, for instance, with Egypt, Pakistan and the Gulf. The southern Eurasian economies and societies are characterized by extensive labor migration and a remittance economy too. In 2009, it involved an average of 12.7 percent of the region's population and brought in an estimated one-tenth to one-third of the gross national product of the economies concerned.⁹ The large majority of this economic migration, however, is not oriented toward the Gulf but is headed

⁹ For a more detailed overview, see: J. Kuddusov, *Vlianie mirovogo finansovogo krizisa na trudovykh migrantov iz Tadzhiqistana: mnenie migrantov*, International Labor Organization Office for Eastern Europe and Central Asia, Moscow, and Ministry of Labor of Tajikistan, Dushanbe, 2009, Table 2, p. 5.

toward Russia or happens within the southern Eurasian region itself, more specifically between the provinces and urban growth areas.¹⁰

Along with the integration of the southern Eurasian energy sector in the world economy, labor migration and the formation of a remittance economy did create widespread demand for stable financial services. This set the framework for the IDB's second emphasis: the development and improvement of the banking sector. Besides the delivery of classical "technical assistance," the bank and its subsidiaries have been promoting Islamic banking methods since 2003 yet increasingly do so since the outbreak of the financial crisis in 2008. The latter historical turning point is seen as an opportunity to promote alternatives to banking practices considered to be at the cause of the crisis and, as such, expand the market for services and expertise from core IDB economies. This activity clearly fits into the priority to enhance intra-OIC trade too. While transport and energy infrastructure does not have an immediate confessional connotation, activities like support to Islamic banking and the construction and equipment of a laboratory for halal food certification, for example, do, at least if one defines faith-related development activities as something wider than building mosques, paying the salaries of clerics and sending copies of the Quran and Islamic literature in the regional languages. Such projects are both compatible with the IDB's ideological basis and goals and respond to a growing niche demand in southern Eurasia's majority Muslim societies or Muslim communities.

In terms of humanitarian aid from either the IDB group itself or from the IDB region, the IDB funded a number of education and health care facilities in settlements of internally displaced persons from Nagorno-Karabakh during the said period. But humanitarian aid is not part of the group's core business. During and after the conflict in Nagorno-Karabakh (1988-1994) and the Tajik civil war (1992-1997), which are the largest complex political emergencies that southern Eurasia had so far, IDB member states like Saudi Arabia, Kuwait and Iran delivered certain quantities of bilateral humanitarian aid, yet this was not done under any IDB mandate. Both conflicts were less on the mental map in the wider IDB sphere than what happened, at about the same time, with the Muslims in the former Yugoslavia or Darfur today, for instance. They did result, however, in the presence up to this day of semi-governmental relief organizations like the Saudi al-Igata—better known as the International Islamic Relief Organization—and the Iranian Imdad in Azerbaijan and Tajikistan. In Azerbaijan, the activities of both al-Igata and the Imdad remain rather tuned-down due to official unease with their real and perceived political activities, whereas in Tajikistan, Iran's Imdad is discreetly yet actively involved in a whole range of charitable and social activities.

Conclusion:

The Twist of Aid Conditionality?

The IDB's approach has its merits in the sense that it focuses on specific projects in vital sectors. In terms of *modus operandi* and impact of the IDB, critics in the region with whom the author spoke stressed the bank's weak monitoring mechanisms and the fact that most project identification and implementation is done on the basis of partnerships with government ministries, state agencies and with companies controlled by members of local power elites. There is regionally much less cooperation through Islamic civil society which, in southern Eurasia, is still in a

¹⁰ Niche business migration and financial interaction between southern Eurasia and the UAE and especially Dubai has put the latter on the region's mental and economic map though.

process of formation, little institutionalized or ideologically not inclined to cooperate with international structures that are seen by part of local opinion to be supportive or co-opted by the regimes. As the case with other multilateral donor structures, the emphasis on activity implementation through official structures is not only a consequence of the IDB group's intergovernmental character. It also sets the stage for a permanent negotiation process on the space for the donors' presence in the country. This unavoidably involves elite favors. The IDB's move to grant \$25.67 million in soft loans between 2005 and 2009 for the rehabilitation of the hospital and the irrigation network in the Tajik district of Dangara, for instance, was, shall we say, "likely" as much driven by the infrastructural needs in that area as by its peculiarity of being the place of origin and power base of the country's president.

Such compromises are a necessity for a structure like IDB to ensure continuity in its presence given the suspicions and perceptions that exist in official circles as well as wider secular opinion about an underlying ideological agenda. As mentioned earlier, the six GCC economies hold 40 percent of the IDB's capital. If we add the shares of Libya, Egypt and the minor Arab IDB shareholders the total share of capital from Arab economies in the IDB group amounts to more than 60 percent, while their population represents 16.8 percent of that of the IDB's and OIC's total. As such, the IDB is primarily a channel and a way-opener for Arab and in particular Arab Gulf investment in southern Eurasia, more so than it serves as an ideological vehicle.¹¹ This does not mean however that a number of activities do not come within a clear confessional ideological framework, in the first place the promotion of Islamic banking and halal food production. The latter certainly fit into a regional market niche as a growing part of the population or, at least, certain sectors of society, increasingly identify or re-identify with Islam.

Other spheres in which different economic actors from the Arab Gulf manifested themselves include support infrastructure for the oil and gas sector and also solar and other renewable energy. And finally, and not in the least if we recall the sharp increase in food commodity prices during the food crisis of 2007 and 2008, there are the opportunities for land and agro-commodity acquisition by investment holdings and agro-industrial companies from the Arab Gulf, especially but not exclusively in Kazakhstan which has become a grain exporter again.¹² Contrary to part of the aid from the predominantly Western OECD sphere, IDB aid and investments come with little to no conditionality in terms of democratic reforms. In that respect, for the southern Eurasian regimes, adherence to and cooperation with the IDB is still less a matter of pan-Islamic solidarity than it is part of a move to diversify sources of aid and investment, not with the purpose to replace those from the OECD sphere but to be more able to challenge the latter's conditionality.

¹¹ The IDB's de facto capacity as a channel for Arab investment becomes clearer when one takes into account the reality that large non-Arab IDB states like Turkey and Iran have a substantive economic presence in southern Eurasia outside of the IDB structures. Turkey and Iran also play a central role in another, regionally defined development bank: the Economic Cooperation Organization Trade and Development Bank (ECOTDB).

¹² See: E. Woertz, S. Pradhan, N. Biberovic, Ch. Jingzhong, *Potential for GCC Agro-investments in Africa and Central Asia*, Gulf Research Centre: GRC Report, 2008, pp. 6-7. In spring 2014, the IDB pledged \$2 billion of multisectoral support to Kazakhstan for the 2015-2017 period, including to Kazakhstan's initiative to create the Islamic Organization for Food Security (IOFS) under the OIC. The IOFS is to be headquartered in Astana.