

## THE ISLAMIC DEVELOPMENT BANK AND ITS ROLE IN SOCIO-ECONOMIC REFORMS IN THE CENTRAL ASIAN COUNTRIES

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### ABSTRACT

**T**he purpose of this article is to analyze the activities of the Islamic Development Bank (IDB) in Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan, as well as the dynamics of cooperation with each country and the region as a whole. The Bank provides a number of financing operations to promote socio-economic development in its member countries, enhance regional integration, and foster cooperation among all IDB states. The main

focus of its operations is project financing. Since its inception, the Bank has approved many significant projects (already completed or still in progress) in the most important social and economic areas.

In this study, use was made of the historical comparative method, the historical chronological method, and a systems approach to analyzing socio-economic activity in the region, namely, the method of analysis and synthesis. The historical compara-

tive method was used to analyze data from annual IDB reports, particularly in identifying priority sectors of project implementation in the Central Asian countries for the entire period of cooperation, and the dynamics of project financing in the region over a period of five years. The historical chronological method was used to compile a timeline of the IDB's relations with countries in the region. The method of analysis and synthesis was used to study the Bank's socio-economic activities in each individual country and in the region as a whole. According to an analysis of project funding approvals, the main sectors in the Central Asia Region are transport, energy, and agriculture. Overall, despite the positive dynamics of IDB operations in the region, the amount of funding varies significantly from country to country. Kazakhstan, as a country with the most stable economic and political situation, is of particular interest to the Bank, just as Uz-

bekistan, which became an IDB member much later than other CA countries, but has already risen to top positions. In Turkmenistan, most of the funding goes to the transport and energy sectors, which are of interest to the country itself, whereas in other sectors the Bank's presence is minimal, because the country is a closed one. Tajikistan and Kyrgyzstan get much less funding than the top recipients listed above. This is primarily due to their weak economy and unstable political situation, because under the IDB Articles of Agreement the main criterion for approving any financing operations is the social importance of the project for the development of the recipient country, but it is also necessary to take into account the country's financial position and stability in order to avoid credit risks. On the whole, the IDB makes a significant contribution to the development of the region and promotes the adoption of Islamic finance in the CA countries.

**KEYWORDS:** *Islamic Development Bank, Central Asia, project financing, Special Program for Central Asia, Member Country Partnership Strategy, socio-economic development.*

## *Introduction*

Islamic financial institutions are increasingly influential throughout the world. In countries with a large Muslim population who are unwilling to entrust their savings to conventional banks, as well as a significant number of Muslim entrepreneurs who do not use the services of conventional banks, the creation of Islamic financial institutions can improve the efficiency of the financial market and accelerate its development.<sup>1</sup>

Unlike conventional finance, Islamic finance has four main categories of objectives designed to ensure successful and productive work: economic, Islamic, ethical, and social. These objectives should always be taken into account and achieved for the survival of an Islamic bank in the financial market. Two researchers from Saudi Arabia, Fayaz Ahmad Lone and Siraj Ahmad, have analyzed Islamic economics and have shown its numerous strengths and advantages in response to scholars who have criticized this system without an in-depth study.<sup>2</sup>

<sup>1</sup> See: V. Malyaev, "Opportunities for Adapting Islamic Banking Products to the Russian Legislative Framework," *BRICS Law Journal*, No. 4 (3), 2017, pp. 62-80.

<sup>2</sup> See: F.A. Lone, S. Ahmad, "Islamic finance: More Expectations and Less Disappointment," *Investment Management and Financial Innovations*, No. 14 (1), 2017, pp. 134-141.

Malaysian researchers have analyzed the differences in the number of Islamic bonds (*sukuk*) issued in ten selected member countries of the Organization of Islamic Cooperation (OIC) and have shown a direct relationship with the state's monetary policy. Their findings suggest that the financial system in each country has a significant impact on the development of the Islamic economy.<sup>3</sup>

One of the first multilateral development banks in Islamic finance was the Islamic Development Bank (IDB), established within the framework of the Organization of Islamic Cooperation (OIC). Its main purpose is to foster economic development and social progress in its member countries, promote bilateral and multilateral relations between them, advance regional cooperation, and facilitate access to global markets. As a development bank set up to meet the needs of most Muslim countries, the IDB offers several interest-free modes of financing.<sup>4</sup>

The authors see the Bank not only as a financial organization, but rather as a social institution. In funding projects or providing technical assistance, the Bank gives priority to socially significant projects in areas that are of importance to the recipient country, without focusing on profit. It has done a great deal for the development of countries in the young Central Asia Region (CAR), thus increasing the presence of Islamic banking capital in the region.

This article examines the IDB's activities in Central Asia, including the emergence and development of cooperation, the approval and implementation of projects in different sectors, and the overall dynamics of its relations with the CA countries. The purpose of the article is to analyze and compare the IDB's operations in Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan, taken separately and together.

## The Development of IDB Cooperation with Central Asia

The OIC, one of the world's largest organizations, has a number of specialized institutions, among which the IDB has a special place. The Bank was established to foster economic and social development in its member countries, enhance cooperation among them, and help them enter the global market through the development of Islamic economics, based on the principles of Shari'a. Cooperation with Central Asia began after the attainment of independence by countries in the region and their entry into the OIC, which is the basic condition for IDB membership. Kyrgyzstan was the first CA country to become a member of the IDB in November 1993, followed by Turkmenistan in November 1994; Kazakhstan joined the IDB as a full member in 1995, and Tajikistan in 1996. Uzbekistan, after having accepted and fulfilled all terms and conditions, officially joined only in September 2003.

From the very beginning, contacts between the CA republics and the IDB were established at different levels. The first few years were marked by meetings and visits of delegations that came to acquaint themselves with the political and economic situation in Central Asia and assess the overall level of the future partnership. At first, the Bank's huge potential remained largely untapped in the region, because it took some time to determine the main areas of future joint activity. It was necessary, in the first place, to develop oil and gas production and transportation, agriculture, food processing, construction, and the energy sector.

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<sup>3</sup> See: N. Ahmad, N. Hashim, F. Johari, "Measuring the Size of Output Gap in Sukuk Issuing OIC Member Countries," *Mediterranean Journal of Social Sciences*, No. 6 (2S5), 2015, pp. 249-254.

<sup>4</sup> See: R. Ray, R. Kamal, "Can South-South Cooperation Compete? The Development Bank of Latin America and the Islamic Development Bank," *Development and Change*, No. 50 (1), 2019, pp. 191-220.

In June 1996, the IDB and the Republic of Kazakhstan signed a memorandum of understanding regarding Kazakhstan's fulfillment of the conditions for IDB membership and an agreement on the provision of IDB technical assistance (grant) in the amount of \$298,000.

Special attention was paid to discussing the possibility of the Bank's participation in financing the development of infrastructure in the new capital, Astana, including the construction of a new thermal power plant for the city and the reconstruction of an existing thermal power unit, modernization of the airport and the railway line, construction of administrative and residential buildings in the city, development of civil engineering infrastructure, and reconstruction and development of communication systems.<sup>5</sup>

At the IDB's initiative, a delegation of OIC member countries visited Bishkek (Kyrgyzstan) in 1996 for acquaintance with the country's economic possibilities, and an investment conference was held the same year in Almaty (Kazakhstan) to study investment opportunities. The conference led to the establishment of the Central Asian Investment Company, which has implemented a number of projects in the region.

In 1997, the Bank opened a regional office (hub) in Almaty to coordinate its cooperation with the countries of Central Asia, Albania, and Azerbaijan. The agreement on its establishment was signed in 1996. The Almaty office helps to accelerate the solution of cooperation problems and facilitates the implementation of agreements related to economic and social development in these countries.

At the 23rd Annual Meeting of the IDB Board of Governors in Cotonou (Republic of Benin) in November 1998, it was decided to establish a new group consisting of CA countries (Kazakhstan, Kyrgyzstan, Tajikistan, and Turkmenistan), Azerbaijan, and Albania. The group was to be represented by an executive director elected by these countries for a period of three years. In 2003, when Uzbekistan joined the IDB, it also became a member of this group. The fact that the CA countries have a separate group within the IDB shows the importance attached by the Bank to the republics of Central Asia.<sup>6</sup>

Another important event was that on 2 and 3 September, 2003, Almaty hosted the 28th Annual Meeting of the IDB Board of Governors, the first meeting to be held in Central Asia. At that meeting, Uzbekistan was admitted to the IDB as its 55th member, so that cooperation with the region assumed a new character, with broad prospects for the implementation of large-scale projects. Uzbekistan's entry has made it possible to prioritize the financing of projects that are of interest to all five countries in the region and thus to boost integration processes.

The creation of efficient production in the territory of CA countries will enhance their international competitiveness, IDB experts believe. It should be taken into account that the shortest routes connecting the countries of the Persian Gulf with China and the Southeast Asian countries, and Russia with India, Iran, and the Persian Gulf countries run through Central Asia. This is why, with a regional approach to enhancing the efficiency of CA transit corridors, active use of trade regimes in priority sectors of trade with member countries of the IDB, and concessional financing by this financial institution, projects in this area can be expected to yield maximum returns, thus promoting the development of all countries in the region.<sup>7</sup>

The IDB awards annual prizes (\$100,000, a trophy, and a certificate) for the successful development of science and technology in member countries. In 2004, one of the three annual prizes went to

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<sup>5</sup> See: K. Tokayev, *Diplomatiya Respubliki Kazakhstan*, Elorda, Astana, 2001, p. 327.

<sup>6</sup> See: N.Z. Abidin, "Osnovnye etapy sotrudnichestva mezhdru Kazahstanom i IBR," *Mezhdunarodnoe sotrudnichestvo Respubliki Kazakhstan: realii, zadachi i perspektivy*, International Workshop, Astana, 2007, p. 187.

<sup>7</sup> See: K. Kapparov, "Tsentralnaia Azia pod opekoi Islamskogo banka razvitiia," *Rossia i musulmanski mir: Byulleten referativno-analiticheskoi informatsii*, INION RAN, Moscow, Center of Scientific Information Study in Social Sciences, No. 12 (138), 2003, p. 153.

the Institute of Plant Physiology, Genetics, and Bioengineering in Kazakhstan for research in grain production, and in 2013 to the Tajik State Medical University.

In August 2005, the Bank organized a brainstorming session in Almaty as part of its regular events designed to achieve all the objectives of the so-called IDB Vision 2020 taking into account the opinion of the CA countries about future difficulties and problems. The holding of such an event in Central Asia shows the importance and significance of the region.

In May 2006, Kyrgyzstan and the IDB signed a memorandum of understanding and are currently developing a partnership strategy for the country to determine the main areas of cooperation. A memorandum of understanding was also signed between Turkmenistan and the IDB in 2016.

During the entire period of cooperation, the CA countries, along with Kazakhstan, have hosted a number of meetings of the IDB Board of Governors, including its 34th Meeting in Ashgabad (Turkmenistan) on 2 and 3 June, 2009, and its 38th Meeting in Dushanbe (Tajikistan) on 21 and 22 May, 2013.

Of unique importance to the region was the launch in September 2012 of one of Central Asia's first country-specific partnership strategies in Central Asia: The Member Country Partnership Strategy (MCPS) for the Republic of Kazakhstan (2012-2014), worth a total of more than \$1 billion. The Strategy is based on four "engagement pillars":

- (i) increasing the country's competitiveness through infrastructure modernization;
- (ii) supporting economic diversification through enhancement of non-extractive industrial capacity to ensure sustainable economic development and agricultural productivity by modernizing the irrigation system and increasing livestock production;
- (iii) deepening the financial sector through the advancement of Islamic finance; and
- (iv) supporting regional integration through cross-border cooperation between Kazakhstan and other IDB member countries.

The implementation of these four pillars will help to develop the private sector.<sup>8</sup>

In addition, a Partnership Framework Agreement (PFA) between the government of the Republic of Kazakhstan and the IDB Group was signed in May 2014. Under Art 4, it was to provide the basis for cooperation between the Kazakhstan government and the IDB Group, along with the existing MCPS for Kazakhstan (2012-2014) and its second stage. The investment portfolio was projected at \$2 billion.<sup>9</sup>

On 18 September, 2018, a Member Country Partnership Strategy for 2018-2021 was signed in Tashkent between the government of Uzbekistan and the IDB, which committed more than \$1 billion to the development of sectors such as transport, energy, and infrastructure. To support and expand interaction, Uzbekistan also approved an Action Plan (Roadmap) for further development of cooperation with the IDB Group (5 March, 2019).

The above document contains a list of promising investment projects proposed for joint implementation with the IDB for 2019-2021 at a total cost of \$2,042.2 million, including \$1,785.4 million worth of loans. It also presents an action plan to develop cooperation with the IDB, particularly in implementing the Partnership Strategy, grant agreements, and memoranda, in attracting financing, and in organizing an annual meeting of the IDB Board of Governors in Uzbekistan.<sup>10</sup>

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<sup>8</sup> See: Islamic Development Bank Group's Member Country Partnership Strategy for the Republic of Kazakhstan (2012-2014), September 2012, available at [<http://www.istisna.kz/rus/img/Final-MCPS-eng.pdf>], 25 June, 2019.

<sup>9</sup> See: *Resolution of the Government of the Republic of Kazakhstan on the Signing of a Partnership Framework Agreement between the Government of the Republic of Kazakhstan and the Islamic Development Bank Group*, No. 535 of 22 May, 2014, available in Russian at [<http://adilet.zan.kz/rus/docs/P1400000535>], 26 June, 2019.

<sup>10</sup> See: *Resolution of the Cabinet of Ministers of the Republic of Uzbekistan on Measures to Further Develop Cooperation with the Islamic Development Bank Group and the Funds of the Arab Coordination Group*, No. 428 of 23 May, 2019, available in Russian at [<http://lex.uz/pdfs/4351728>], 26 June, 2019.

One of the key events in the entire history of cooperation between the IDB and the CA countries was the development of a Special Program for Central Asia (SPCA).

The SPCA is a regional program of the IDB Group aimed at supporting cooperation among its member countries in Central Asia. The Program is anchored on the OIC Plan of Action for Cooperation with Central Asia (PACCA) and the IDB's 10-Year Strategy. It covers six member countries: Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan.

For the implementation of the SPCA in the period from 2016 to 2020, total financing was projected at \$6 billion, including \$2.5 billion of ordinary financing, \$375 million of concessional financing, \$1.25 billion for trade financing, and \$500 million for private sector financing. Additionally, conventional and innovative resource mobilization efforts and co-financing with development partners were estimated to exceed \$1 billion.

In the event of its effective implementation, the SPCA was expected to contribute to increased production, competitiveness, and trade in the Central Asia Region and, through these, to enhance inclusive economic growth.<sup>11</sup>

Thus, we now have a general idea of the development of the IDB's relations with the region. Tables 1 and 2 contain data for 2018. More recent data are unavailable, but observations show that since then the trends and proportions have remained basically unchanged and that the data given in these tables are an adequate reflection of the overall picture. Table 1 shows the total number of IDB-financed projects in the key sectors of the CA countries for the entire period of cooperation.

As we see from Table 1, over the years of cooperation with the Islamic Development Bank the CA countries have received funding for projects in all sectors, but the number of projects and the amount of funding vary significantly from country to country.

In agriculture, most of the funding has gone to Kazakhstan (16 projects worth a total of \$824.9m), followed by Uzbekistan (5 projects worth \$332.6m), Tajikistan (12 projects worth \$116.4m), and Kyrgyzstan (11 projects worth \$43.8m); Tajikistan has received the least amount of funding in this sector (1 project worth \$0.3m). As we see, agriculture is actively developing in Kazakhstan and Uzbekistan; IDB funding is at a medium level in Tajikistan and Kyrgyzstan, while the Bank's contribution to the development of agriculture in Turkmenistan is only marginal.

In education, the biggest recipient of IDB funding among the CA countries is Uzbekistan, despite its later entry into the IDB (11 projects worth \$78.6m); it is followed by Tajikistan (10 projects worth \$48.2m), Turkmenistan (2 projects worth 5.6m), Kazakhstan (2 projects worth \$2.1m), and finally Kyrgyzstan (2 projects worth \$0.3m). One can say that in the latter three countries, compared to Uzbekistan and Tajikistan, there is virtually no IDB funding of education.

Energy, as one of the key sectors, is financed in four of the five CA countries. Turkmenistan tops the list with one \$350m project, Uzbekistan is second with 5 projects worth \$203.1m, Tajikistan is third with 15 projects worth \$133m, and Kyrgyzstan in fourth with 8 projects worth \$111.4m. The energy sector is actively developing with the use of IDB funds, but one should note that Kazakhstan is not on the list.

In finance, projects are also being implemented in four countries (except Turkmenistan). Kazakhstan is in the lead with 24 projects worth \$394.5m, followed by Uzbekistan with 22 projects worth \$313.8m, Kyrgyzstan with 18 projects worth \$42.7m, and Tajikistan with 16 projects worth \$41.5m.

Healthcare projects are poorly financed in all countries of the region except Uzbekistan, which has 12 projects worth a total of \$418.5m, an amount that is dozens of times larger than that received by the other four countries. Tajikistan gets only a small fraction of this funding (9 projects worth

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<sup>11</sup> See: Special Program for Central Asia (2016-2020), Part I, The Program, March 2016, available at [<https://idbgbf.org/assets/2016/3/7/pdf/8165ddd7-b84c-473c-acdc-9325e0b82a21.pdf>], 26 June, 2019.

Table 1

## Sectoral Distribution of IDB Project Financing in the Central Asian Countries as of 2018

Sector	Kazakhstan		Kyrgyzstan		Tajikistan		Turkmenistan		Uzbekistan		CA total	
	Projects	\$m	Projects	\$m	Projects	\$m	Projects	\$m	Projects	\$m	Projects	\$m
Agriculture	16	824.9	11	43.8	12	116.4	1	0.3	5	332.6	45	1 318
Education	6	2.1	2	0.3	10	48.2	2	5.6	11	78.6	31	134.8
Energy	—	—	8	111.4	15	133	1	350	5	203.1	29	797.5
Finance	24	394.5	18	42.7	16	41.5	—	—	22	313.8	80	792.5
Health	3	11.7	4	6.2	9	37.5	4	25.9	12	418.5	32	499.8
Industry and mining	2	8.3	2	22.4	—	—	—	—	10	70.1	14	100.8
Transport	10	760	10	111.8	8	91.6	5	414.5	2	10.8	35	1 388.7
Information and communications	2	10.8	—	—	—	—	1	0.3	28	10.8	31	21.9
Real estate	—	—	—	—	1	10	—	—	—	—	1	10
Water, sanitation, and urban development	1	9.5	—	—	2	11.3	1	17.4	2	92.9	6	131.1
Other social services <sup>1</sup>	1	0.1	5	2	4	0.8	2	10.8	—	—	12	13.7
Others <sup>2</sup>	1	3	1	0.2	3	0.6	—	—	4	1	9	4.8

Source: Islamic Development Bank in Brief 1975-2019, available at [https://www.isdb.org/sites/default/files/media/documents/2019-02/IsDB%20in%20Brief%201.5.pdf], 28 May, 2019.

<sup>1</sup>"Other social services" include relief, conferences, community services, and community centers.

<sup>2</sup>"Others" include public administration and trade-related projects.

\$37.5m), Turkmenistan has 4 projects worth \$25.9m, Kazakhstan follows with 3 projects worth \$11.7m, and Kyrgyzstan comes last with 4 projects worth \$6.2m.

In industry and mining, Uzbekistan is also far ahead of other countries with 10 projects worth \$70.1m; it is followed by Kyrgyzstan with 2 projects worth \$22.4m; and Kazakhstan comes third with 2 projects worth \$8.3m. Tajikistan and Turkmenistan have not had any IDB projects in this sector.

If we look at the transport sector, we will see that it is financed in all five countries. The table shows, however, that most of the funding goes to Kazakhstan (10 projects worth \$760m) and Turkmenistan (5 projects worth \$414.5m). In Kyrgyzstan (10 projects worth \$111.8m) and Tajikistan (8 projects worth \$91.6m), IDB funding in this sector is at a medium level, while Uzbekistan brings up the rear with 2 projects worth \$10.8m. One should note that the transport sector is actively developing throughout the region, with the exception of Uzbekistan.

In information and communications, Kazakhstan (2 projects) and Uzbekistan (28 projects) have each received \$10.8m. In Turkmenistan, there is only one project worth \$0.3m, which is significantly less than in the above countries. In Kyrgyzstan and Tajikistan, projects in this sector have never been financed by the IDB.

In real estate, there is only one project in the entire region, which is being implemented in Tajikistan (worth \$10m). In the other countries, this sector has not been financed since they joined the IDB.

The main recipient of IDB funding in water, sanitation, and urban development is Uzbekistan (2 projects worth \$92.9m), followed by Turkmenistan (1 project worth \$17.4m), Tajikistan (2 projects worth \$11.3m), and Kazakhstan (1 project worth \$9.5m), while Kyrgyzstan has not had any projects in this sector.

Other projects (which include social services such as relief, conferences, community services, and community centers) are also financed in Central Asia, with the exception of Uzbekistan. The Bank has approved \$10.8m worth of funding for 2 projects in Turkmenistan, \$2m for 5 projects in Kyrgyzstan, \$0.8m for 4 projects in Tajikistan, and only \$0.1m for 1 project in Kazakhstan. Small amounts are also allocated for public administration and trade-related projects. As we see, the IDB has approved funding for 1 project worth \$3m in Kazakhstan, 4 projects worth \$1m in Uzbekistan, and 3 projects worth \$0.6m in Tajikistan. As for Turkmenistan, it has not had any IDB-financed projects of this kind.

Thus, we can draw the conclusion that the top recipients of IDB Group funding in the Central Asia Region are the transport sector (35 projects worth \$1,388m) and agriculture (45 projects worth \$1,318m), followed by energy (29 projects worth \$797.5m), finance (80 projects worth \$792.5m), healthcare (32 projects worth \$499.8m), education (31 projects worth \$134.8m), water, sanitation, and urban development (6 projects worth \$131.1m), and industry and mining (14 projects worth \$100.8m). A relatively small amount is allocated to projects in information and communications (31 projects worth \$21.9m) and real estate (1 project worth \$10m in only one of the five countries). Along with these key sectors, some funding has also been provided for social services (12 projects worth \$13.7m) and for public administration and trade-related projects (9 projects worth \$4.8m, which is the smallest amount of all IDB project approvals in the region).

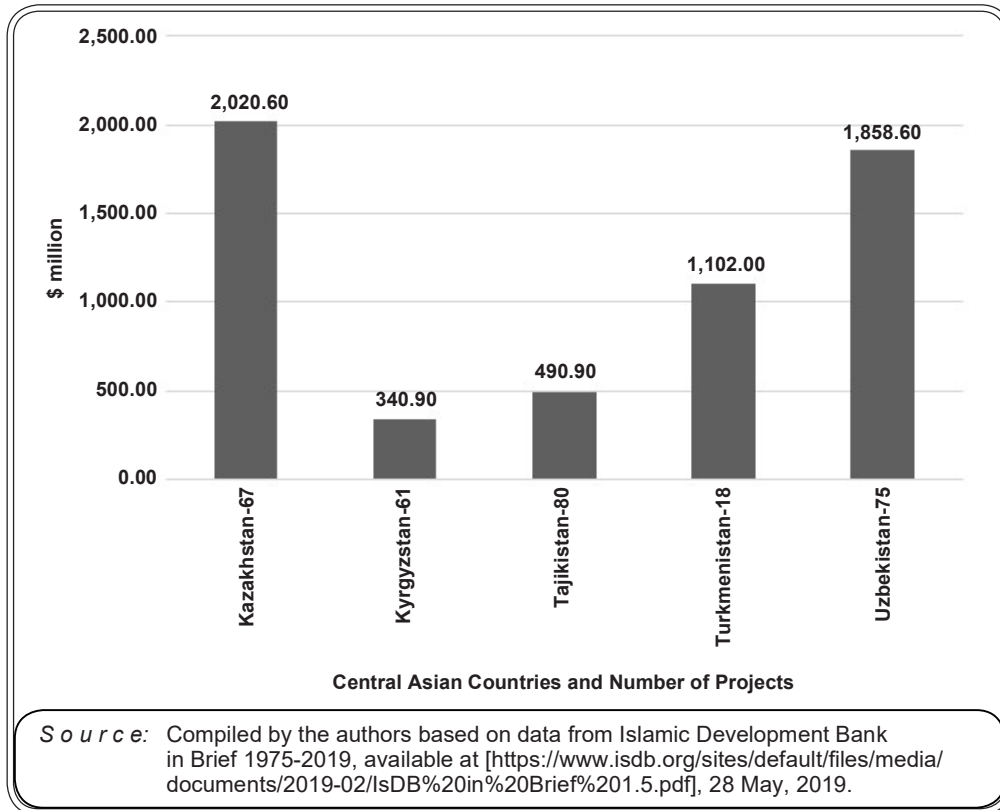
Figure 1 shows the total amount of IDB project financing in the CA republics for the entire period of cooperation.

As we see from Fig. 1, Kazakhstan is in the lead with 67 projects worth a total of \$2,020.6m, including 49 completed and 18 ongoing projects. Although Uzbekistan joined the IDB later than other CA countries, the Bank's total financing for that country is just short of that approved for Kazakhstan and amounts to \$1,858.6m. During the 15 years of cooperation with Uzbekistan, it has approved 75 projects, 38 of which have already been completed and 37 are still in progress. In Turkmenistan, there are only 18 IDB-financed projects (13 completed and 5 ongoing), but the total amount of funding for these projects is \$1,102m, which makes the country the third-largest recipient among the five countries. It is followed by Tajikistan, where the Bank has approved the largest number of



Figure 1

IDB Project Financing in the Central Asian Countries as of 2018



projects (80 projects, including 57 completed and 23 ongoing), but they are worth a total of only \$490.9m. As for Kyrgyzstan, it gets the least amount of funding among the CA countries. Over the entire period, the IDB has approved \$340.9m worth of funding for 61 projects in Kyrgyzstan, including 37 completed and 24 still in progress.

Table 2 shows IDB project financing by sector in the CA countries from 2014 to 2018. Sectors where there were no approved projects in that period were not included in the table.

We find that in 2014 the IDB did not approve any projects in Tajikistan or Turkmenistan; the smallest amount of funding was allocated to Kazakhstan (\$0.3m for finance, trade, and public administration); then comes Kyrgyzstan with \$0.05m for projects in finance, trade, and public administration, \$0.3m for agriculture, and \$21.3m for transport; and the largest amount in 2014 went to Uzbekistan for projects in three sectors, including \$17.4m for healthcare, \$44.5m for education, and \$189.6m for agriculture (the maximum for the year).

In 2015, Kazakhstan topped the list of CA countries with \$70m for public-private partnership (PPP) projects. Uzbekistan was in second place with \$57.5m for urban development and services, followed by Kyrgyzstan with a total of \$37.8m for energy / information and communications, transport, and water resources and environment. Tajikistan in 2015 received the smallest amount of funding: \$17.5m for energy / information and communications. Turkmenistan had no approved projects for the second year running.

Table 2

**Sectoral Distribution of IDB Project Financing  
in the Central Asian Countries from 2014 to 2018 (\$m)**

Country	Sector	2014	2015	2016	2017	2018
Kazakhstan	Public-private partnership (PPP)		70			
	Transport			273	328.5	
	Agriculture			249.9		
	Education			0.2		
	Finance, trade, and public administration	0.3				
Kyrgyzstan	Energy / Information and communications		12.5		12.5	12.5
	Transport	21.3	12			
	Agriculture	0.3		20		
	Water, sanitation, and urban development	0.2	13.3			
	Finance, trade, and public administration	0.05				
Tajikistan	Energy / Information and communications		17.5		17.5	17.5
	Transport			20		
	Healthcare					23
Turkmenistan	Energy / Information and communications			700	623	
Uzbekistan	Urban development and services		57.5			
	Agriculture	189.6				
	Rural development				113	
	Education	44.5				
	Healthcare	17.4				93
<b>Central Asia total</b>		<b>273.45</b>	<b>182.8</b>	<b>1,263.1</b>	<b>1,094.5</b>	<b>146</b>
<p><i>Sources:</i> <i>Islamic Development Bank Annual Report 2014</i>, available at [<a href="https://www.isdb.org/sites/default/files/media/documents/2018-12/IsDB-Annual%20Report-1435H%282014%29.pdf">https://www.isdb.org/sites/default/files/media/documents/2018-12/IsDB-Annual%20Report-1435H%282014%29.pdf</a>], 17 February, 2019; <i>Islamic Development Bank Annual Report 2015</i>, available at [<a href="https://www.isdb.org/sites/default/files/media/documents/2018-12/IsDB-Annual%20Report-1436H%282015%29.pdf">https://www.isdb.org/sites/default/files/media/documents/2018-12/IsDB-Annual%20Report-1436H%282015%29.pdf</a>], 17 February, 2019; <i>Islamic Development Bank Annual Report 2016</i>, available at [<a href="https://www.isdb.org/sites/default/files/media/documents/2018-12/IsDB-Annual%20Report-1437H%282016%29.pdf">https://www.isdb.org/sites/default/files/media/documents/2018-12/IsDB-Annual%20Report-1437H%282016%29.pdf</a>], 17 February, 2019; <i>Islamic Development Bank Annual Report 2017</i>, available at [<a href="https://www.isdb.org/sites/default/files/media/documents/2018-12/IsDB-Annual%20Report-1438H%282017%29.pdf">https://www.isdb.org/sites/default/files/media/documents/2018-12/IsDB-Annual%20Report-1438H%282017%29.pdf</a>], 17 February, 2019; "Islamic Development Bank Annual Report 2018," available at [<a href="https://www.isdb.org/sites/default/files/media/documents/2019-04/usb%20Annual%20report%20English%202018_softproof.pdf">https://www.isdb.org/sites/default/files/media/documents/2019-04/usb%20Annual%20report%20English%202018_softproof.pdf</a>], 28 May, 2019.</p>						

The amounts of IDB project funding approved in 2016 for Kazakhstan and Turkmenistan were sufficiently large, namely, \$700m for energy / information and communications in Turkmenistan and

\$523.1m for transport, agriculture, and education in Kazakhstan. Kyrgyzstan and Tajikistan received \$20m each for projects in agriculture and transport, respectively. In Uzbekistan, there was no financing that year.

The year 2017 was an active one for all countries in the region, because projects in different areas were approved in all of them. However, the amounts of funding differed significantly. For example, Turkmenistan received \$623m for the development of energy / information and communications, while Tajikistan received \$17.5m, and Kyrgyzstan only \$12.5m, which is dozens of times less. Kazakhstan obtained \$328.5m for transport projects, and Uzbekistan \$113m for rural development.

In 2018, there was no IDB financing in Kazakhstan or Turkmenistan, although the Bank approved a number of projects in the other three countries. As in the previous year, it allocated \$12.5m to Kyrgyzstan and \$17.5m to Tajikistan for the development of energy / information and communications. Tajikistan received \$23m, and Uzbekistan \$93m for healthcare.

The 14th Islamic Summit Conference, held in Saudi Arabia on 31 May, 2019, by the OIC member states, commended the important role of the IDB Group in promoting the development of the OIC countries, strengthening their cooperation, enhancing Islamic finance, developing infrastructure, and promoting the private sector, and also noted the IDB's new development model. Amid the fragile conditions experienced by some member countries, the Bank should have more financial resources to meet their social development needs. In this regard, the Conference called upon the member countries to significantly increase the IDB's capital in order to resolve these problems.<sup>12</sup> Consequently, in the near future one can expect a significant increase in IDB financing in member countries, including Central Asia.

## *Conclusion*

Over the years of cooperation, the activities of the IDB Group in Central Asia have expanded significantly, which shows that the CA countries and the Bank itself are interested in them. The IDB has filled an important niche in the region and has been working to promote successful socio-economic development in the CA republics to strengthen integration processes and develop their relations among themselves and with other member countries.

In the course of research, we have come to the following conclusions:

1. The Central Asia Region is an important area in the IDB strategy. For example, annual meetings of the IDB Board of Governors are held in countries of the region; memoranda of understanding have been signed; member country partnership strategies have been prepared for Kazakhstan and Uzbekistan; a separate group of CA countries has been established within the IDB; a Special Program for Central Asia has been developed; and a regional office has been opened in the region. All of this helps to optimize, improve, and accelerate the partnership.
2. The main type of operations is project financing, primarily in sectors such as transport, energy, and agriculture. The construction of roads has allowed the virtually landlocked CA countries to reach out to other regions and member countries. Oil and gas transportation corridors help to develop regional cooperation and to transfer excess energy to energy-deficient countries. Agricultural projects have a positive impact on socio-economic develop-

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<sup>12</sup> See: *Draft Final Communiqué of the 14th Islamic Summit Conference (Session of Hand in Hand Toward the Future)*, Makkah Al-Mukarramah, Kingdom of Saudi Arabia, 31 May, 2019, available at [<https://www.isdb.org/sites/default/files/media/documents/2019-06/Draft%20Final%20Communique%20English.pdf>], 5 September, 2019.

ment in the CA countries, helping to boost agricultural production, improve living standards, and create new jobs.

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3. Project funding approvals differ significantly from one CA country to another. The largest amount in the region goes to Kazakhstan and Uzbekistan, although the latter joined the IDB later than the rest. These two countries are more developed economically and thus more attractive to the IDB. For example, owing to its large population, Uzbekistan needs more investment in the social sector, which has led to the rapid development of its cooperation with the IDB and brought it to the top of the list. Turkmenistan ranks third with projects in energy and transport, while in other sectors there are virtually no projects being implemented. Tajikistan and Kyrgyzstan have received the least amount of funding because of the unstable political situation in these countries and their weak economy. When approving projects, the IDB considers not only their social and economic importance, but also the member country's ability to pay back the money allocated to their implementation. Under the Bank's Articles of Agreement, profit from investment is not its primary purpose and most of its funding is virtually interest-free, which is why it is necessary to avoid risk in approving any financial operation.
4. In the period from 2014 to 2018, the IDB approved projects in the CA countries, but in 2014 and 2015 there were no major projects, which is probably connected with the economic crisis of those years and the suspension of the Bank's operations to avoid risks. The amount of funding increased sharply in 2016 and 2017, when the economic situation stabilized and major projects were proposed and approved in the energy sector, transport, and agriculture. Thus, we see that the decline and increase in IDB funding is directly related to economic and political stability in the member countries, because these factors are the main guarantee of timely implementation of projects, punctual payments, and use of results for their intended purpose.

The IDB seeks to help the CA countries implement their national strategies, and its overall activity has been of great benefit to them. At present, work is underway to implement existing agreements with the IDB, strategies and programs, while projects that have been completed or are at various stages of completion will certainly make a significant contribution to socio-economic progress in the CA countries and provide them with new opportunities.