



ROLE OF ISLAMIC DEVELOPMENT BANK GROUP IN THE DEVELOPMENT OF ISLAMIC BANKING IN UZBEKISTAN

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Abstract

The article focuses on the importance of the Islamic Development Bank Group in the development of Islamic financing in Uzbekistan, the membership of the countries, allocated funds, and conclusions on existing problems.

Keywords: Islamic Development Bank Group, Organization of Turkic States, Islamic Corporation for the Development of the Private Sector, International Islamic Trade Finance Corporation, funds allocated.

"Islamic Development Bank officially started its activities as a multilateral development bank in 1975, its headquarters are located in Jeddah, Kingdom of Saudi Arabia, and it has 10 regional centers around the world. ¹" Today, Islamic Development Bank has 57 member countries from different regions.

The Islamic Development Bank aspires to become a world-class development bank inspired by Islamic principles, helping to significantly change the landscape of human development and restore its dignity in the Muslim world.

The Islamic Development Bank provides Sharia-compliant capital funds to member countries to finance projects for the construction of social infrastructure facilities such as schools, hospitals, housing, roads, canals, and dams. "Such projects of social importance have a significant impact on the socio-economic development of countries that are members of the Islamic Development Bank.

The Islamic Development Bank uses various Islamic financial instruments such as Murobaha, Istisna, Muzoraba, Ijara (leasing), preferential loans, Murobaha-based financing lines and technical assistance to support the financing of socio-economic development projects in member countries ².

"Islamic Development Bank Group includes the following organizations:

- ✓ ISDB - Islamic Development Bank;

¹ <https://www.isdb.org/who-we-are/about-isdb>

² <https://www.isdb.org/who-we-are/about-isdb>



- ✓ ICD – Islamic Corporation for the Development of the Private Sector;
- ✓ ITFC – International Islamic Trade Finance Corporation;
- ✓ ICIEC – Islamic Corporation for Insurance of Investments and Export Credits;
- ✓ IRTI - Islamic Research and Training Institute"³, the Institute was renamed in April 2021 as the IsDB Institute.

Uzbekistan, which was a member of the Organization of the Islamic Conference in the 1990s (the Organization of Islamic Cooperation since 2011), joined the Islamic Development Bank in 2003, along with other countries of Central Asia where the majority of the population is Muslim.

The activities of the organizations of the Islamic Development Bank Group in Uzbekistan are carried out based on the following legal documents:

- Resolution #371 of August 27, 2003 of the Cabinet of Ministers of the Republic of Uzbekistan "On Membership of the Islamic Development Bank of the Republic of Uzbekistan" ⁴;
- Resolution #596 of December 21, 2004 of the Cabinet of Ministers of the Republic of Uzbekistan "On Membership of the Islamic Corporation of the Republic of Uzbekistan for the Development of the Private Sector" ⁵;
- Resolution of the President of the Republic of Uzbekistan dated February 1, 2019 №PQ-4147 "On Membership of the International Islamic Trade and Finance Corporation of the Republic of Uzbekistan and the Investment and Export Credit Insurance Islamic Corporation" ⁶;
- Resolution of the President of the Republic of Uzbekistan dated March 5, 2019 №PQ-4224 "On Measures for Further Expanding and Deepening Partnership with Islamic Development Bank Group and Arab Coordination Group Funds"⁷;
- Resolution #428 of May 23, 2019 of the Cabinet of Ministers of the Republic of Uzbekistan "On Measures for Further Development of Cooperation with Islamic Development Bank Group and Arab Coordination Group Funds"⁸.

In accordance with these decisions, Uzbekistan adopted articles of agreement on the establishment of the Islamic Development Bank and other organizations belonging to its Group.

³ <https://www.isdb.org/isdb-group>

⁴ <https://lex.uz/docs/245949>

⁵ <https://lex.uz/docs/2263347>

⁶ <https://lex.uz/docs/4274853>

⁷ <https://lex.uz/docs/4281729>

⁸ <https://lex.uz/docs/4351726>

It owns 1344 shares of Islamic Development Bank of Uzbekistan worth 13.4 million Islamic dinars. "The share in the authorized capital of the Islamic Development Bank of the country is 0.03 percent"⁹.

From Table 1 below, it can be seen that among the countries of the Organization of Turkic States, Turkey¹⁰ is one of the countries that owns the smallest number of shares participating in the share capital of "Islamic Development Bank of Uzbekistan, less than 0.05%".

Table 1. Participation of the countries of the Organization of Turkic States in the authorized capital of IsDB¹¹

Countries	Number of shares , pcs	Amount , million Islam dinar	the bank's capital share , in %
Turkey	326 384	3 263.8	6.45
Azerbaijan	5 092	50.9	0.10
Kazakhstan	5 400	54.0	0.11
Kyrgyzstan	2 584	25.8	0.05
Tajikistan	1 816	18.2	0.04
Uzbekistan	1 344	13.4	0.03
Turmanistan	496	5.0	0.01

At the same time, it should be said that at the same time, among the countries of the Organization of Turkic States, Uzbekistan is the second country after Turkey that attracted the largest amount of capital from the IDB (Figure 1).



Figure 1. Capital resources and their shares allocated by IsDB to the countries of the Organization of Turkic States in 1975-2020¹²

⁹ IsDB 2020 Annual Report: Respond, Restore, Restart: Post- Covid Resilience and Prosperity for All.

¹⁰ IsDB 2020 Annual Report: Respond, Restore, Restart: Post- Covid Resilience and Prosperity for All.

¹¹ IsDB 2020 Annual Report: Respond, Restore, Restart: Post- Covid Resilience and Prosperity for All.

¹² IsDB 2020 Annual Report: Respond, Restore, Restart: Post- Covid Resilience and Prosperity for All.

Therefore, it would be appropriate for Uzbekistan to consider proportionally increasing the participation of the country in the authorized capital of the Bank in order to expand the attraction of Sharia-compliant capital funds from IsDB. In this case, it is recommended to increase the share of the country in the authorized capital of the Bank to 0.1%.

The figure below shows the funds allocated to Uzbekistan by Islamic Development Bank Group organizations in 2015-2020.

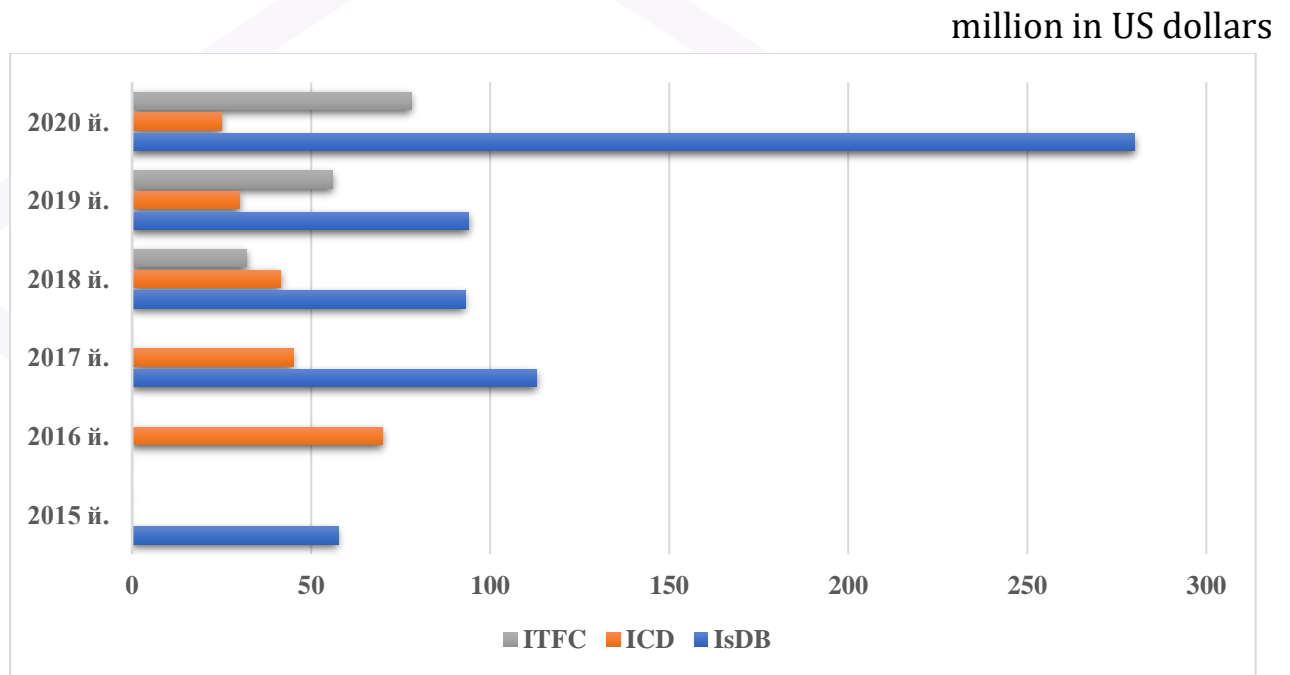


Figure 2. Funds allocated to Uzbekistan in 2015-2020 by organizations belonging to the IsDB Group¹³

It can be seen that in recent years, the largest amount of funds allocated to Uzbekistan by organizations belonging to the Islamic Development Bank Group is provided by IsDB. At the same time, despite the recent membership, "for the last three years, the amount of funds allocated to Uzbekistan by the International Islamic Trade Finance Corporation has been increasing significantly"¹⁴. However, we can see that the funds allocated by the Islamic Corporation for the development of the private sector have been decreasing year by year for the last five years.

The figure below shows the composition of the funds allocated by the Islamic Development Bank Group by means of financing.

¹³Prepared by the author on the basis of information from the annual reports of IsDB.

¹⁴Based on IsDB data for 2018-2020.

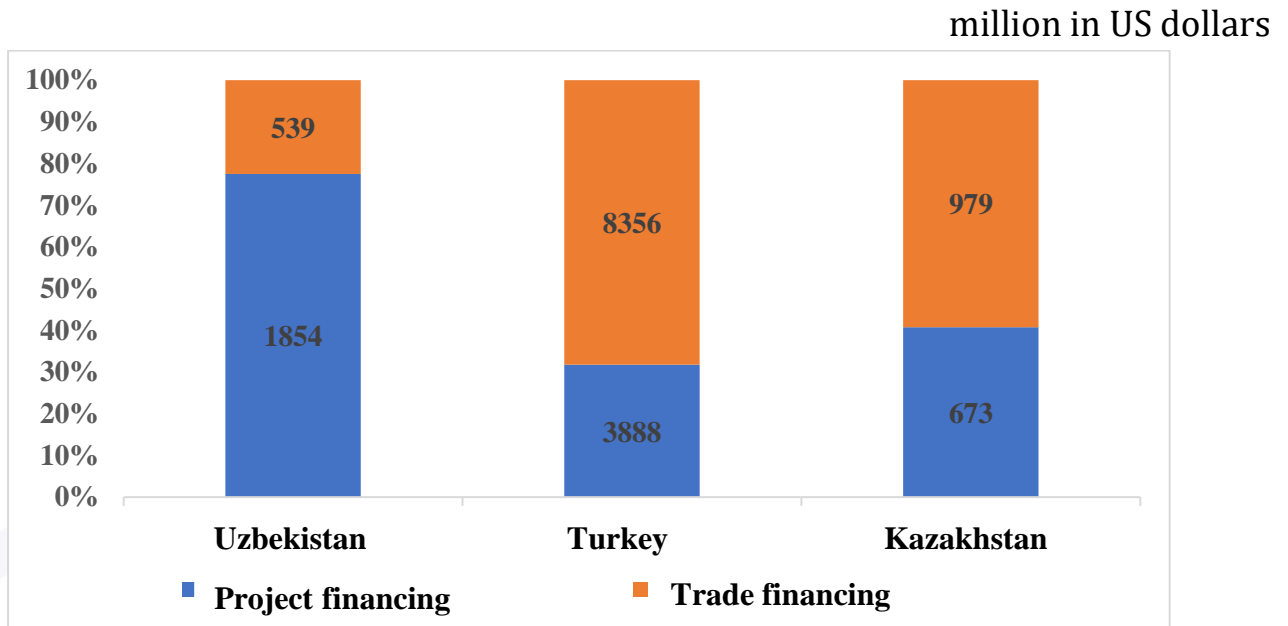


Figure 3. The composition of the funds allocated by the Islamic Development Bank Group in 1975-2020 by means of financing ¹⁵.

It can be seen that since Uzbekistan became a member of the Islamic Development Bank and its Group organizations, more than 75% of the funds provided to the country have been directed to the financing of projects. It is the opposite in Turkey and Kazakhstan, member countries of the Organization of Turkic States. In these countries, we can see that the main part (60-70%) of the funds allocated by the Islamic Development Bank Group is directed to trade financing.

The amount of capital allocated to Uzbekistan by the Islamic Development Bank until 2021 is 1.8 billion. amounted to more than US dollars. The amount of investments allocated from other organizations of the Islamic Development Bank Group is not included in this volume.

The figure below shows the distribution of funds allocated by the Islamic Development Bank until 2021 by sector.

¹⁵ IsDB 2020 Annual Report: Respond, Restore, Restart: Post- Covid Resilience and Prosperity for All.

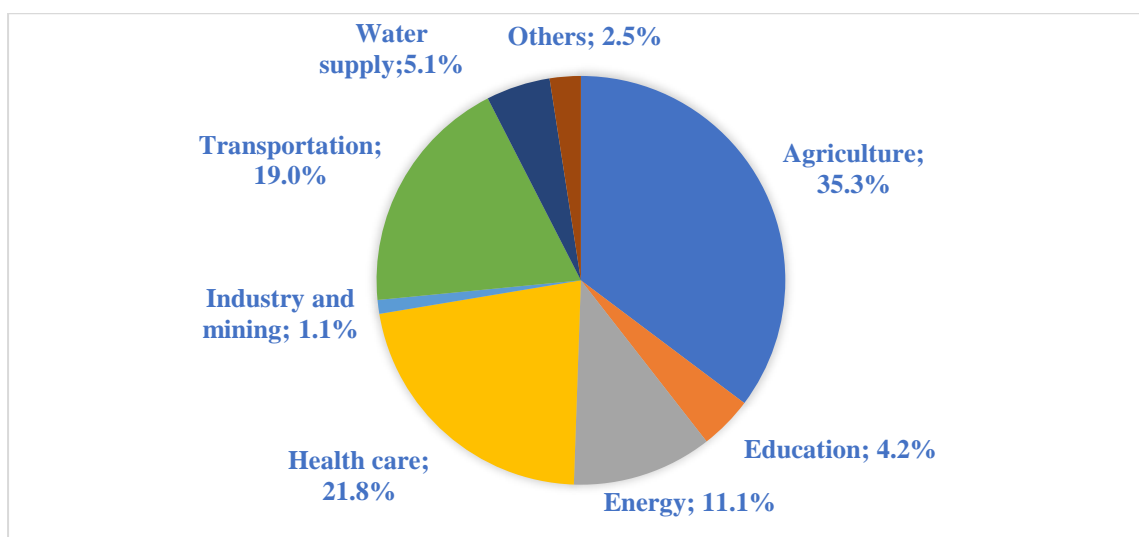


Figure 4. Distribution of funds allocated to Uzbekistan by the Islamic Development Bank ¹⁶.

It can be seen that the main part of the funds allocated to Uzbekistan by the Islamic Development Bank was directed to the fields of agriculture (35%), health care (22%), transport (19%) and energy (11%). In addition, the Islamic Development Bank participated in financial support for the development of water supply, education and other sectors in our republic ¹⁷.

It should be noted that a significant part of the funds allocated to the agricultural sector by the Islamic Development Bank was directed to participate in the implementation of the project "Development of housing construction in rural areas". Funds allocated to finance this program total 400 million. amounted to US dollars. For this, the Istisna Agreement between the Republic of Uzbekistan and the Islamic Development Bank and 100 mln. An agency agreement on the provision of financial resources in the amount of US dollars was concluded ¹⁸. Also, within the framework of the project "Development of Housing Construction in Rural Areas" in 2017-2019, the Islamic Development Bank allocated another 300 mln. Multi-tranche financing in the amount of US dollars is provided ¹⁹.

¹⁶ IsDB 2020 Annual Report: Respond, Restore, Restart: Post-Covid Resilience and Prosperity for All.

¹⁷ Based on information from the Islamic Development Bank's annual report for 2020.

¹⁸ Resolution No. 60 of the Cabinet of Ministers of the Republic of Uzbekistan dated March 13, 2015 "On additional measures to ensure the effective implementation of the individual housing construction program on model projects in rural areas in 2015 and the main parameters of construction in 2016."

¹⁹ Resolution of the President of the Republic of Uzbekistan dated March 30, 2017 No. PQ-2859 "On measures to implement the program of construction of affordable housing in rural areas according to updated model projects in 2017-2021 with the participation of the Islamic Development Bank".



To sum up, today Uzbekistan's cooperation with the Islamic Development Bank Group is mainly aimed at expanding the possibilities of financing priority projects included in the country's socio-economic development programs.

"However, if we look at the experience of Turkey and Kazakhstan, we can see that their cooperation with the Islamic Development Bank Group is mainly focused on trade financing. This will serve to support the development of the private sector. Therefore, it would be appropriate for Uzbekistan to focus on the prospects of cooperation with the Islamic Development Bank Group not only on the financing of socio-economic development projects of the country, but also on the projects of private sector enterprises, as well as on the possibility of increasing trade financing agreements that contribute significantly to the development of the private sector. In this regard, it is important to support and further expand the cooperation of commercial banks and private sector enterprises of our country with other members of the Islamic Development Bank Group, including the Islamic Corporation for the Development of the Private Sector and the International Islamic Trade Finance Corporation in further increasing the scope of Islamic financial services"²⁰.

Islamic Development Bank and its Group play an important role in the development of Islamic financing practice in Uzbekistan. Currently, the main source of attracting Islamic finance is the investments of the Islamic Development Bank and its member organizations - ICD and ITFC. It should be said that the government of Uzbekistan has achieved great success in the implementation of priority investment projects of socio-economic development of the country with the Islamic Development Bank, in the direction of project financing, and is currently conducting effective cooperation in this direction.

At the same time, the existing potential and opportunities for expanding cooperation in financing private sector investment projects and trade financing with other organizations of the Islamic Development Bank Group, in particular ICD and ITFC, are not yet fully utilized.

Also, if we take into account that Sharia-compliant financial support services provided by Islamic Development Bank Group organizations are intended only for enterprises and organizations with the status of a legal entity, there are currently almost no opportunities for the population to use Islamic financial products and services in Uzbekistan.

²⁰ Based on information from the Islamic Development Bank's annual report for 2020.



Despite the increasing foreign investments of the Islamic Development Bank Group, there is a need to develop Islamic financing for the population and the private sector in the country itself. In this regard, the plans and efforts of conventional commercial banks to launch Islamic windows with the help of ICD Advisory Group have not yet shown their results.

The agreement reached with the Islamic Development Bank to support the creation of legal frameworks for the development of Sharia-compliant financial services and product market infrastructure in Uzbekistan can be considered as a first positive step.

To conclude, the Islamic Development Bank Group plays an important role in the development of Islamic financing practice in Uzbekistan.

For now, the main source of attracting Islamic finance is the investments of the Islamic Development Bank Group.

The existing potential and opportunities to expand cooperation with other organizations of the Islamic Development Bank Group, particularly ICD and ITFC in the field of private sector projects and trade financing, are not yet fully utilized.

Taking into account that Sharia-compliant financial support services provided by Islamic Development Bank Group organizations are intended only for enterprises and organizations with the status of legal entities, there are currently almost no opportunities for the population to use Islamic financial products and services in Uzbekistan.

Despite the increasing foreign investments of the Islamic Development Bank Group, there is a need to develop Islamic financing for the population and the private sector in the country itself.

In this regard, the plans and efforts of conventional commercial banks to launch Islamic windows with the help of ICD's Advisory Group have not yet shown their results.

Therefore, in order to introduce Islamic banking and develop Islamic financing in Uzbekistan, the following is proposed:

- The prospects of cooperation with the Islamic Development Bank Group should be focused not only on the financing of socio-economic development projects of the country, but also on the financing of projects of private sector enterprises, as well as on the possibility of increasing trade financing agreements that will significantly contribute to the development of the private sector. In this regard, it is important to support and expand the cooperation of commercial banks and



private sector enterprises with other members of the Islamic Development Bank Group, including ICD and ITFC.

- To support the establishment of several Islamic banks in the country by the state and to establish separate structural divisions of traditional commercial banks specializing in providing Islamic financial products and services (in particular, Islamic windows) with the help of the Islamic Corporation for the Development of the Private Sector.

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