



Member of Islamic
Development Bank Group

RUSSIA: BRIDGING NEW HORIZONS

FEBRUARY
2018

CONTENTS:

Foreword	02
Section 1:	04
Russia's Economic Landscape	
Section 2:	10
Islamic Finance in Russia	
- Overview of Islamic Finance	
- The Evolution of Islamic Finance	
- The Global Islamic Finance Industry: A Snapshot	
- Timeline: Islamic Finance Developments in Russia	
- Why Islamic Finance in Russia?	
- Key Challenges in Developing the Islamic Finance Industry in Russia	
Section 3:	46
Islamic Finance in the Commonwealth of Independent States (CIS) Region	
- Azerbaijan	
- Kazakhstan	
- Kyrgyzstan	
- Tajikistan	
- Turkmenistan	
- Uzbekistan	
Appendix: Glossary	80



FOREWORD

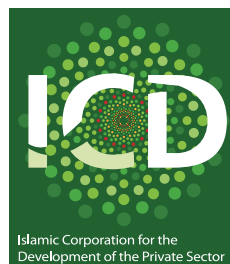
While Islamic finance is not new and has been practiced for centuries around the world, it is without doubt rising to greater prominence in the global financial system. Over the last decade or so, Islamic finance has rapidly expanded beyond predominantly Muslim emerging economies to major developed economies. This growing significance demonstrates the viability of Islamic finance as a basis for financial intermediation that supports sustainable economic growth and accelerates national development.

Representing only a small portion of global financial assets, there is clearly room for the industry to grow, especially given that the features of Islamic products can appeal to a much wider group. Currently, total global financial assets of the Islamic financial industry are estimated at USD2.2tn and are expected to surpass USD3.8tn by 2022. This practically represents a ten-fold increase from a decade ago, and outperforms the growth of conventional finance in many places.

With its emphasis on transparency and fairness, Islamic finance has much to offer any economy. The Sharia'a-based financial principles, if applied properly, prove to be more robust and sustainable to support systematic economic growth, for which speculation driven activities are largely curtailed.

Russia and her surrounding neighbours have witnessed an increase in Islamic finance activity in recent years, although it remains largely fragmented. As the private sector entity of the Islamic Development Bank Group, the world's largest Sharia'a compliant multilateral development bank, we at Islamic Corporation for the Development of the Private Sector (ICD) are committed to complement Islamic finance's role as a facilitator of growth. We are ready to assist Russia in ensuring the successful take off of Islamic finance in the country.

As such, to help readers understand the magnitude of opportunities, this report sets out to identify key factors that will support Islamic finance in Russia. It is our hope that this report will provide some constructive and valuable insights. Lastly, we would like to thank Mizuho Research Institute Ltd. for their valuable contribution to Section 1 of this report.



Islamic Corporation for the Development
of the Private Sector (ICD)

SECTION 1: RUSSIA'S ECONOMIC LANDSCAPE

The Russia is the 6th largest economy in the world, and the 9th most populous country in the world

GDP purchasing power parity, USD trillion



Russia has the highest GDP per capita among BRICS countries

GDP per capita, USD

In 2017, the Russian economy is forecasted to return to positive growth for the first time in three years, given the upturn in crude oil prices

Real GDP growth and changes in oil prices



Note: Oil prices are those for Urals crude oil.

Sources: MHRI (Mizuho Research Institute Ltd.) based on Rosstat and Datastream

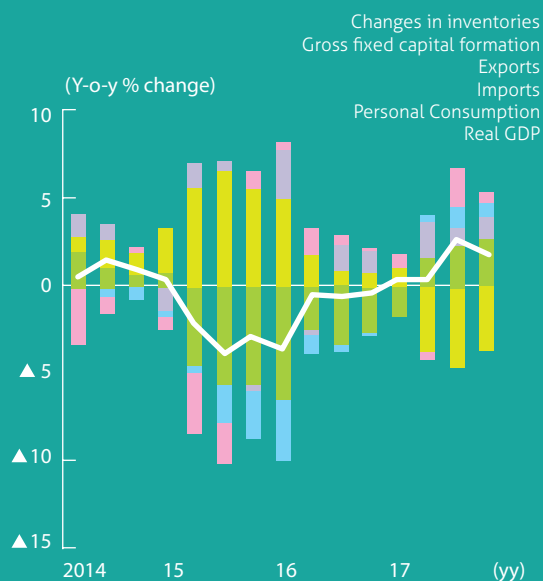
In 2018, the Russian economy will continue to register a positive but low growth rate, underpinned by the anticipated slowdown in oil prices coupled with ongoing sanctions and a relatively tight fiscal policy

Outlook on the Russian economy

	2015	2016	2017	2018
Real GDP growth (Y-o-y % change)				
Consensus forecasts (as of January 2018)			+1.8	+1.9
IMF (as of October 2017)			+1.8	+1.6
Russian government (as of October 2017)	▲2.5	▲0.2	+2.1	+2.1
MHRI (as of January 2018)			+1.5	+1.5
Oil prices (Urals: U.S. dollars per barrel)				
Russian government (as of October 2017)			50	44
MHRI (August 2017)	51	42	53	61

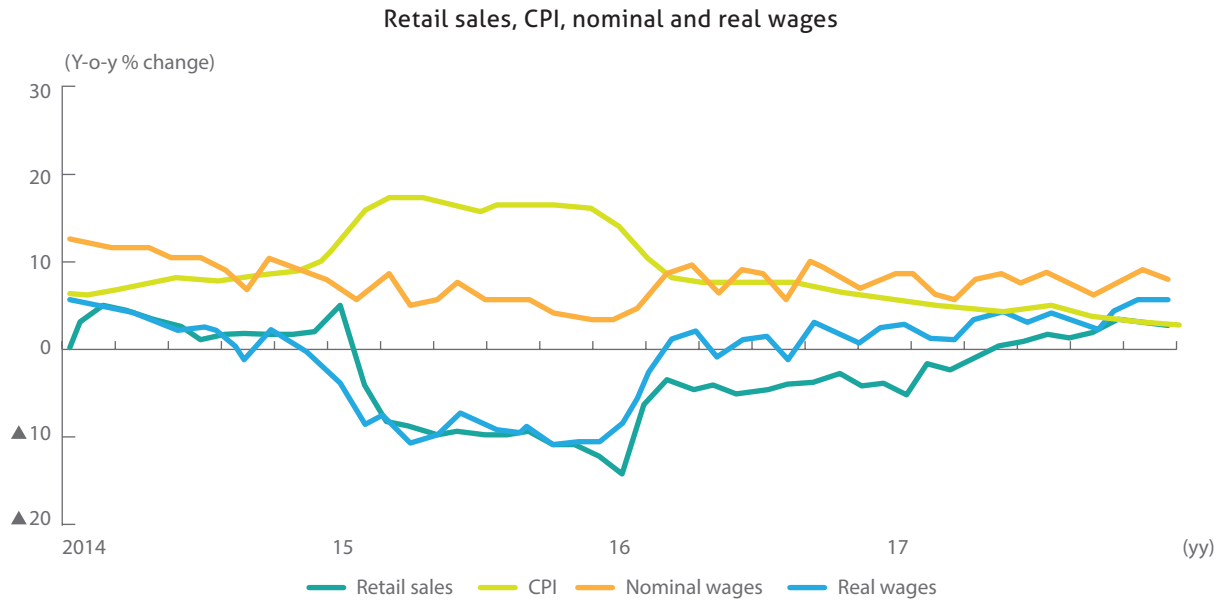
Sources: Consensus Economics Inc., IMF, Ministry of Economic Development of the Russian Federation, MHRI

Real GDP



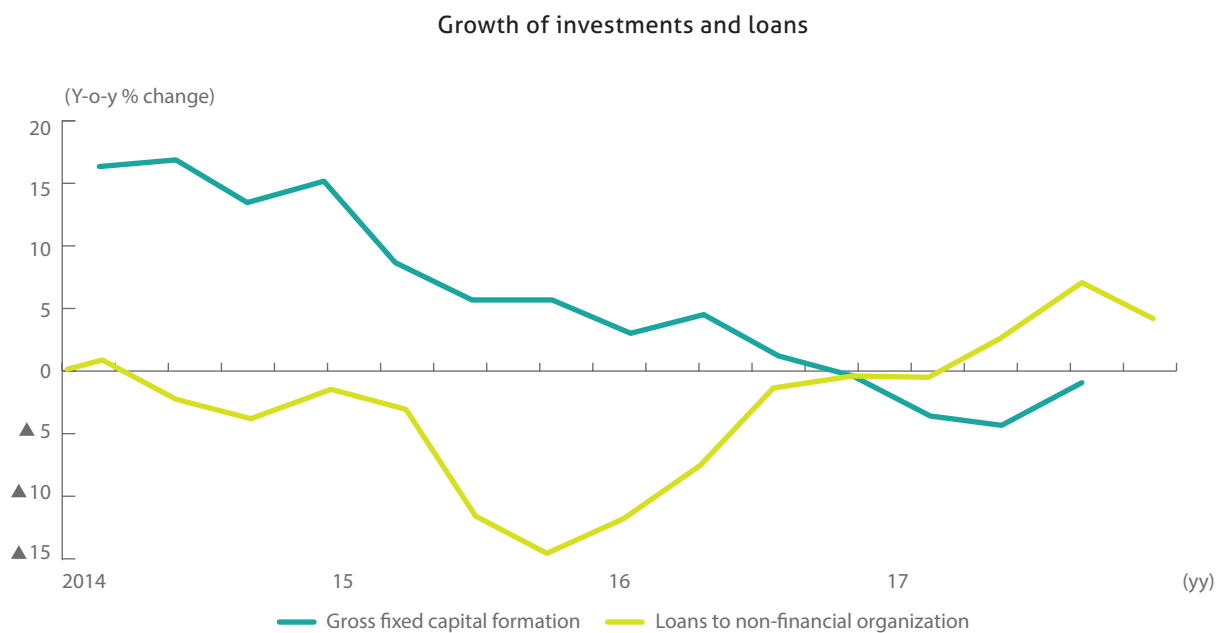
Sources: MHRI based on Rosstat

Domestic demand is slowly recovering



Source: MHRI based on Rosstat

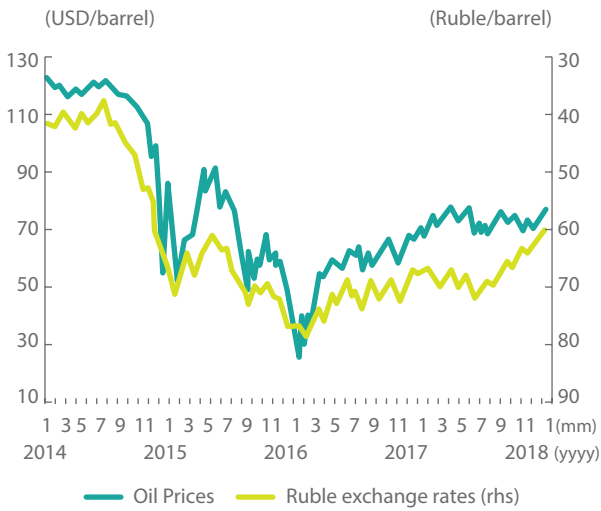
Investment growth accelerated rapidly in 2Q17, however it was due to the implementation of a number of major government-backed investment projects and is therefore temporary



Source: MHRI based on Rosstat and CBR (the Central Bank of the Russian Federation)

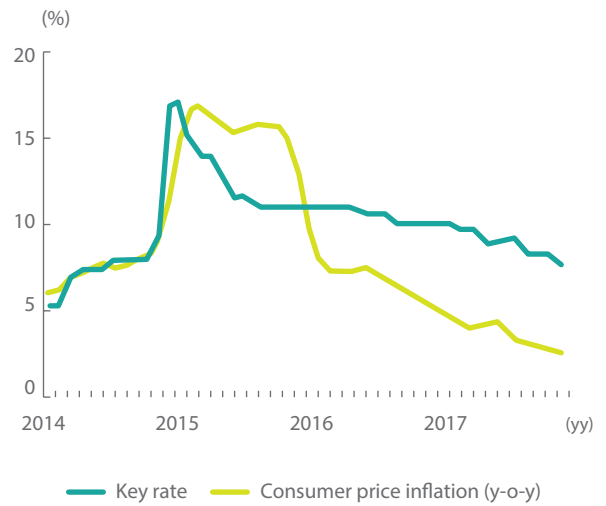
The monetary policy is aimed at inflation targeting with the goal of reaching a 4.0% inflation rate from the current 2.5% level

Ruble/USD exchange rates and oil prices



Source: MHRI based on Bloomberg

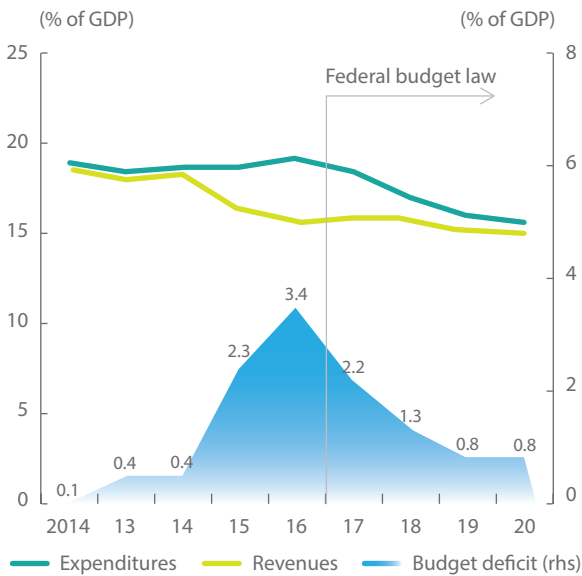
CBR's key rate and CPI



Note: Key rate is the main interest rate of CBR. Sources: Made by MHRI based on CBR and Rosstat

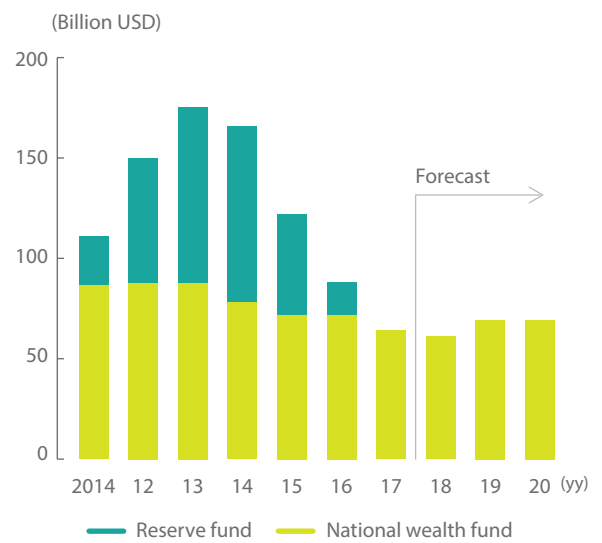
The projected federal budget deficit for 2017 is lower than 2016 mainly due to expenditure cuts, while the 2018-2020 budget framework anticipates further budget consolidation

Federal budget



Sources: MHRI based on Ministry of Finance and Federal Treasury of the Russian Federation

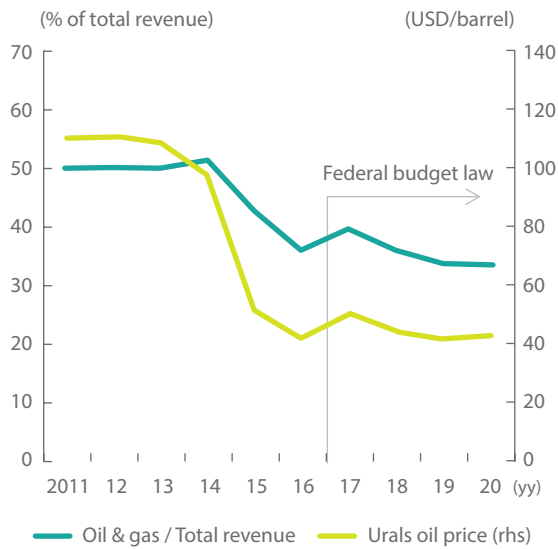
Fiscal reserve funds of Russia



Sources: MHRI based on Ministry of Finance and Federal Treasury of the Russian Federation.

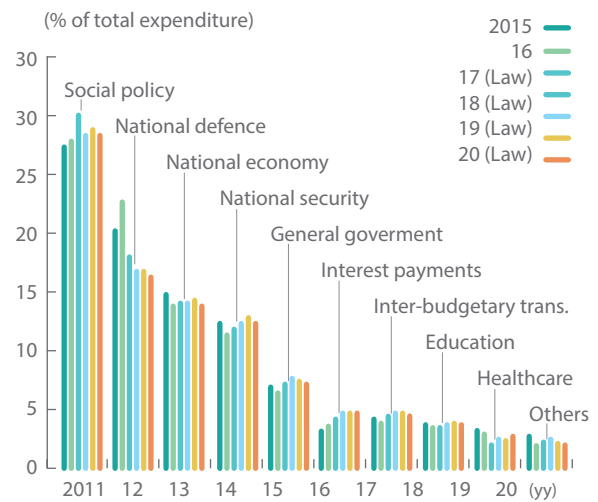
Dependency on oil and gas revenues is planned to be reduced in the 2018-2020 budget framework

Share of oil and gas revenues in total revenue



Sources: MHRI based on Ministry of Finance and Federal Treasury of the Russian Federation

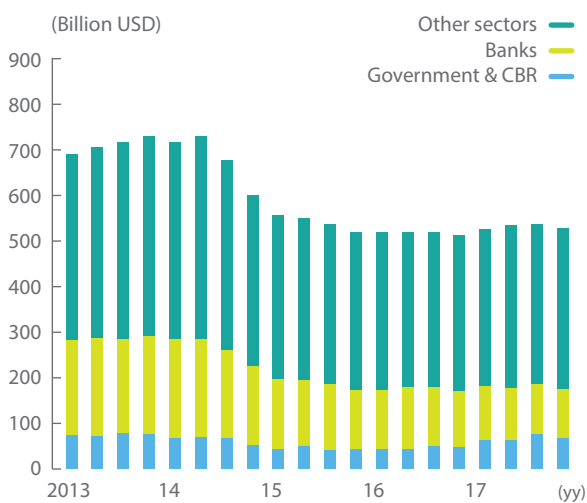
Structure of federal budget expenditure



Sources: MHRI based on Ministry of Finance and Federal Treasury of the Russian Federation

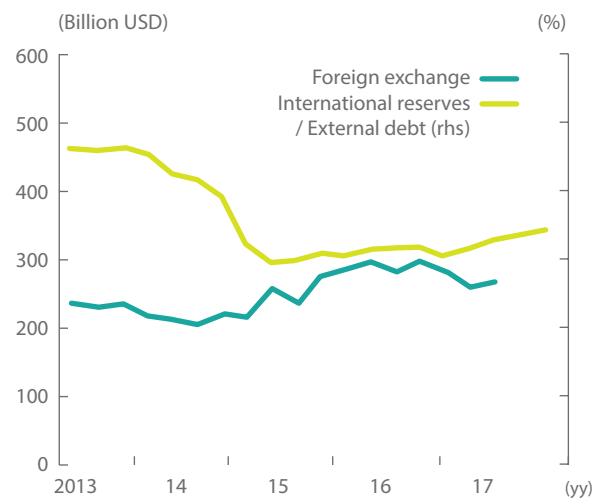
External accounts remain very strong—Russia’s gross external debt has decreased considerably after the imposition of sanctions in 2014 and the current account balance is continuously in surplus since 1999

Gross external debt



Source: MHRI based on CBR

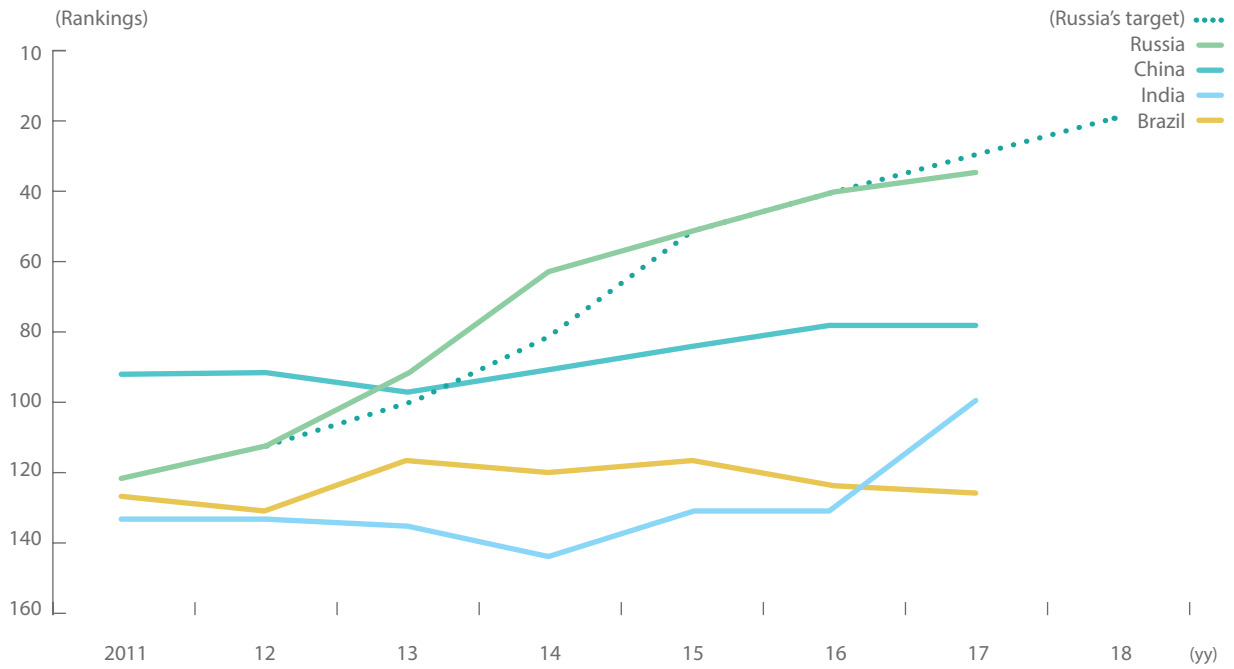
Share in Russia’s total trade



Note: International reserves include, foreign exchange, SDRs, reserve position in IMF, and gold.
Sources: MHRI based on CBR

In 2012, Vladimir Putin set a goal for Russia's position in the World Bank Doing Business rankings to move from the 120th place in 2011 to 20th in 2018. Since then, there has been significant improvement in Russia's overall business environment and it is now ranked 35th out of 190 countries

Doing Business Rankings



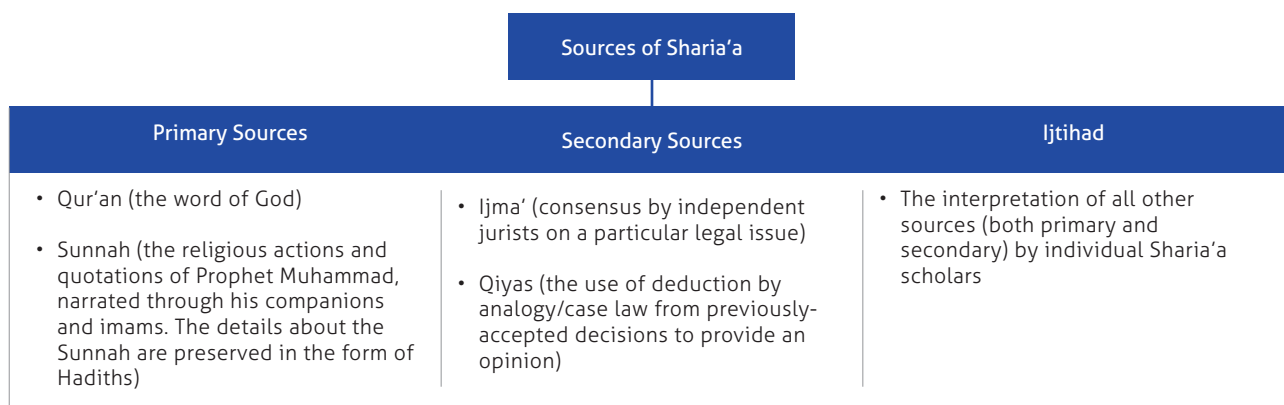
Source: MHRl based on World Bank, Doing Business (various years)

SECTION 2: ISLAMIC FINANCE IN RUSSIA



Overview of Islamic Finance

The overall value of the Islamic finance industry reached a total of approximately USD2.2tn in 2016¹, weathering a series of economic challenges ranging from prolonged low energy prices and downwardly revised economic growth outlook, to geopolitical conflicts and political developments, exchange rate depreciations and an assets sell-off spree in emerging markets².



Source: Ethica Institute

¹ ICD-Thomson Reuters Islamic Finance Development Report (2017)

² Islamic Financial Services Industry Stability Report 2017

To understand the value proposition of Islamic finance, one must first understand the foundation of Islamic finance. Broadly speaking, Islamic finance is a financial system that complies with Islamic law, or Sharia'a.

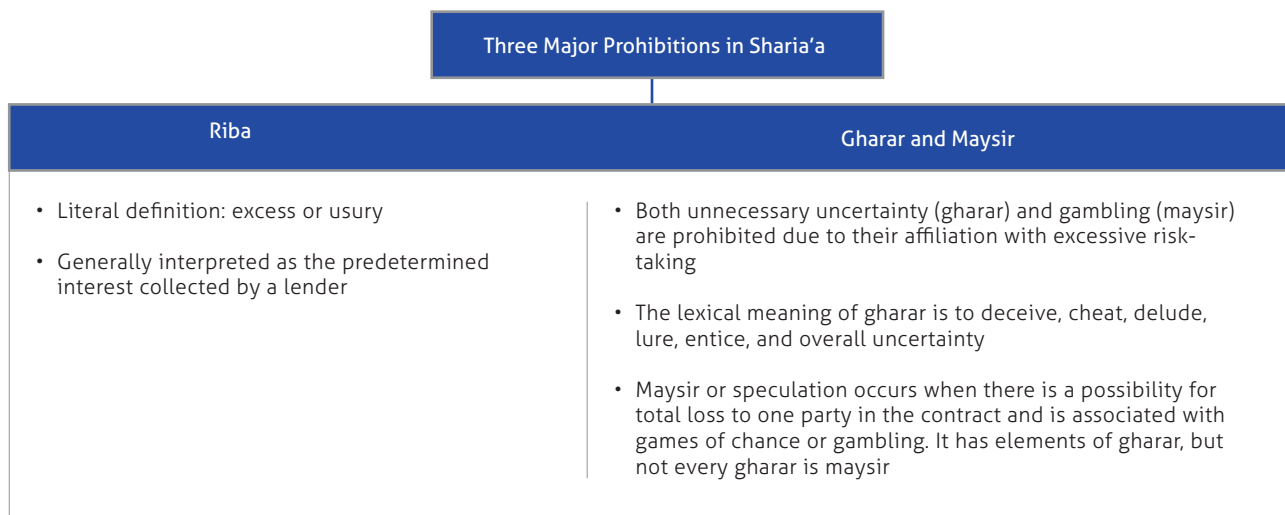
By definition, Sharia'a provides a set of ethical principles which is derived from the teachings of the Islamic faith. It also governs every aspect of a Muslim's life and the way one deals with one another³. Meanwhile, from a commerce point of view, Sharia'a is the ethical framework that delivers legal, moral, and spiritual guidance aimed at achieving the goals of Islam. These principles and values, many of which are universally applicable, equally apply to Islamic financial services, and are strongly associated with the business ethics often advocated by regulatory bodies. They also focus on generally accepted view of social responsibility and consumer protection encouraged by society as a whole.

Overall, Islam does not restrict economic activity but instead directs it toward being responsible to other people, to the earth, and to God. In essence, Islam allows for a free-market economy where supply and demand are decided in the market, but it directs the function of the market mechanism by imposing specific laws and ethics. A primary purpose for imposing these laws and ethics is to promote social justice: a balance in which wealth is not accumulated only by a few while most others endure hardship. In summary, Sharia'a provides an ethical business framework and include the following precepts:

- ✔ **Honesty and fair trade.** Trades have to be conducted in a fair and honest way and traders should not engage in practices such as manipulative tactics or cheating
- ✔ **Disclosure and transparency.** All characteristics including any potential faults, quality, and other relevant specifics need to be disclosed by the seller. All components of the transaction have to be completely transparent to all parties. Although the emphasis here is on the seller, the buyer has some responsibility and needs to ensure that he is aware of what is being sold to him
- ✔ **Misrepresentation.** False declarations regarding the goods, the trader's own standing, or ownership of the asset should not occur
- ✔ **Selling over and above the sale of another.** Although bargaining is permitted, once a transaction is concluded, another party should not attempt to interfere in the transaction by offering his own goods at a better price
- ✔ **Forbidden items are not allowed to be traded.** Only goods and assets that are deemed to have a value in the eyes of Sharia'a are allowed to be traded. Any unlawful (haram) goods such as alcohol, weaponry, and other haram investments are prohibited
- ✔ **Hoarding is not allowed.** Notwithstanding that trade is encouraged, hoarding as well as excessive love of wealth is condemned. The emphasis is on balance, reasonableness and fairness
- ✔ **Sale of goods and assets in the open market.** Competition is encouraged and transactions should take place in the open and fair market. All parties have to ensure that they are aware of general market conditions and pricing prior to concluding a transaction. Neither the buyer nor the seller should take advantage of the fact that the other party is unaware of market price and conditions
- ✔ **Avoid taking advantage of a seller's vulnerability.** Taking advantage of an individual who, under pressure, is forced to sell an item must at all times be avoided. Instead of taking undue advantage, the buyer should offer assistance to the seller during his plight. Writing off debt, revising repayment structures, or exploring other ways to assist a debtor suffering hardship is encouraged

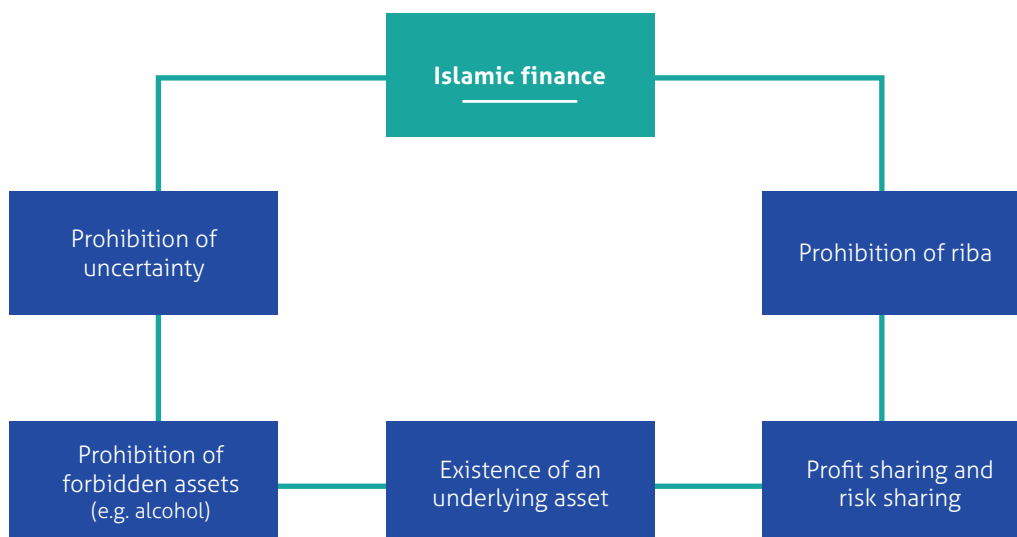
Sharia'a promotes balance and justice and discourages behaviours of excess

In addition to the guiding principles outlined above, Sharia'a defines three major prohibitions: Riba (usury), gharar (unnecessary uncertainty), and maysir (speculation).



Source: Ethica Institute, INCEIF, IFSB

Key Principles Underlying Islamic Finance



The Evolution of Islamic Finance

The modern revival of Islamic finance emerged in the 1960s in response to the unmet need for a form of finance that Muslims could trust, and which was in accordance with their ethical and moral principles. It was marked with the establishment of the first Islamic bank in Egypt in 1963 by Ahmad El Najjar called the Mit Ghamr Savings Bank, followed by the set-up of the Hajj Pilgrims Fund Board, also known as Tabung Haji (TH) in Malaysia. In 1975, the Islamic Development Bank, a Sharia'a compliant multilateral development institution, was established in Saudi Arabia and furnished the Islamic finance industry an international presence. Meanwhile, in 1979, the first Islamic insurance (or takaful) company called the Islamic Insurance Company of Sudan was founded.

In the early stages of development of the 1980s and 1990s, the Islamic finance industry was mainly present in the Middle East and South-East Asia in predominantly Muslim-majority countries with traditional retail and commercial banking activity (including trade finance) gradually being re-cast in Sharia'a compliant forms. Since then, Islamic financial products have grown in range and sophistication to include capital market, asset management and takaful products, thus fulfilling the diverse needs of retail and corporate customers. Islamic finance has also evolved in sophistication beyond its traditional boundaries, spanning across more than 85 countries in regions including Asia, Middle East, Europe, the Americas and more recently sub-Saharan Africa. To date, at least 1,291 financial institutions offer some type of Sharia'a compliant financial products.



Timeline: Islamic Finance Milestones

1963:

The Hajj Pilgrims Fund Board (Tabung Haji) was established in Malaysia

1975:

The Islamic Development Bank (IDB), the largest Sharia'a compliant multilateral bank was established in Saudi Arabia

1986:

The Amana Income Fund, the world's first Islamic mutual fund, was created in Indiana

1990:

The first tradable sukuk was issued by Shell MDS in Malaysia

2002:

Islamic Financial Services Board (IFSB) was established in Malaysia as an international standard-setting body for Islamic financial institutions

1963:

Mit Ghamr Savings Bank in Egypt was opened.

1979:

The first Islamic insurance (takaful) company, the Islamic Insurance Company of Sudan, was founded

1990:

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) was created to establish industry accounting and auditing standards

1999:

The Dow Jones Islamic Market Index (DJIMI) was established, becoming the first successful benchmark for the performance of Islamic investment funds

2004:

The Islamic Bank of Britain became the first Islamic commercial bank established outside the Muslim world

An Overview: Islamic Finance Innovations and Developments

↑
2010s

- Islamic finance as an ethical financial system bridging the gap with the real sector and potentially contributing towards global financial stability
- Islamic finance new growth opportunities in:
 - Environment-friendly projects
 - Sharia'a compliant risk management
 - Addressing liquidity and capitalisation of IFIs
 - Infrastructure projects

2000s

- Introduction of Islamic banks offering basic deposit and financing services including wealth management, trade financing structured products, investment banking, hedging instruments and corporate financial solutions
- A full-array of Islamic capital market instruments in place including equities, Islamic bonds and asset management
- Takaful sector increasingly becoming focus of regulators to spur growth and innovation in the segment

1990s

- Improvements in banking services to expand into newer retail and corporate banking segments
- Introduction of Islamic capital markets with listing of Islamic equity indices, introduction of Islamic funds and the issuance of the first corporate sukuk in Malaysia by Shell

1970/1980s

- Introduction of Islamic banks offering basic deposit and financing services

Source: "Innovations Drive Expansion of Global Islamic Finance Industry" by MIFC



In the wake of the 2008-2009 financial crisis, there has been a renewed debate on the role that Islamic finance can play in the stabilization of the global financial system, given its strong ethical principles and religious foundations. The conventional banking sector was estimated by the International Monetary Fund (IMF) to have experienced losses in the tune of USD3.0tn to USD4.0tn as a direct consequence of the crisis. In contrast, no Islamic bank required government bail-outs at a magnitude which was witnessed by some of the world's largest banking institutions in advanced economies.

The resilience of Islamic banks during the crisis demonstrates the intrinsic strengths rooted in Islamic finance that are underpinned by the forces of the Sharia'a principles. Islamic finance requires returns to be sourced from ethical investments which avoid highly risky and speculative investments that are deemed to be one of the primary triggers of financial upheavals. Additionally, all financial transactions must undergo proper due diligence and be accompanied by an underlying productive economic activity. In summary, the Islamic finance model

can only be extended to activities in the real sector that have economic values, thus establishing the close link between financial transactions and productive flows.

The cohort of institutions offering Islamic finance is not confined to new full-fledged Islamic finance entities. Major players of the global conventional finance industry are venturing into Islamic finance either through new subsidiary entities or window operations. As Islamic finance continues to reach new heights, recent trends indicate that the industry is evolving into a deeper and more sustainable ecosystem. Currently, many non-traditional markets are working on measures to enable the introduction of Islamic finance in their financial territories. Positively, rigorous efforts have been made to harmonise Islamic financial practices, ranging from the creation of accounting standards for Islamic financial products (through the Accounting and Auditing Organisation for Islamic Financial Institutions, (AAOIFI), to integration of those standards with global corporate and risk management standards (such as Basel Accords I, II and III) through the Islamic Financial Services Board (IFSB).

Factors Contributing to the Robust Growth of Global Islamic Financial Assets

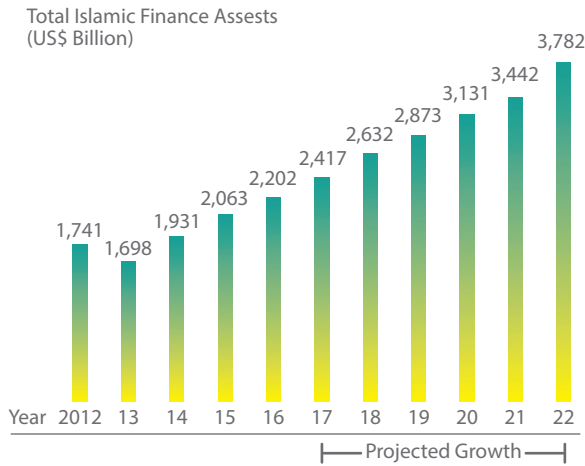
Value propositions	The breadth of contractual modes in Islamic finance are able to cater for the wide spectrum of risk profiles, ranging from the low risk sales and lease-based modes to the higher risk equity-based modes of financing
Increasing demand	Growing demand from Muslim population for Sharia'a compliant financial solutions amid increasing acceptance by non-Muslims due to ethical reasons and availability of a wide range of products
Regulatory support	Governments and regulatory bodies have taken steps to ensure that the regulatory framework is supportive. Incentives are also introduced to jumpstart the growth of the Islamic finance industry
Financing gap	Sharia'a compliant financial instruments can act as potential tools to reduce the financing gaps and act as alternative fund raising mechanisms to boost economic activity
Tap wider wealth base	Abundant liquidity flows from the recycling of petrodollars generated by high oil prices over the years

The future outlook of the Islamic finance industry remains promising. Several significant new players from diverse regions such as Africa, East Asia and the Americas have entered the market in recent years, and the trend is expected to continue. In view of the buoyant prospects for the industry in these new markets, it is likely that Islamic finance will continue its positive growth trajectory, and the pool of investors interested in Sharia'a compliant securities is expected to rise along with it. This is evidenced by the fact that many major international conventional players continue to develop their Islamic finance capabilities.

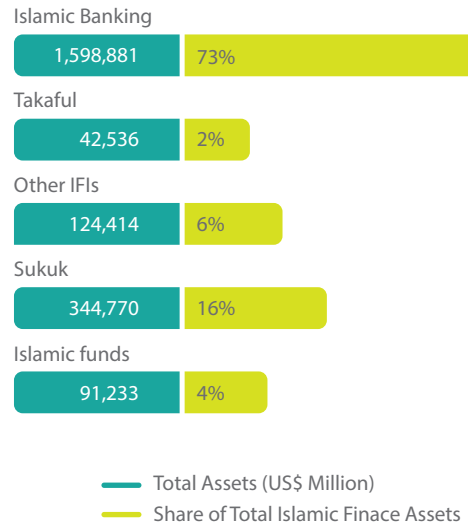
The Global Islamic Finance Industry: A Snapshot

Islamic finance continues to be concentrated, with the GCC countries, Malaysia and Iran accounting for more than 80.0% of the industry's assets. In view of several headwinds including the significant drop in oil price, the overall slowdown in economic growth in core markets, and tightening policy responses, the industry faces an uphill battle in the near term. With a rapidly changing global landscape, maintaining sustainable growth is becoming one of many challenges. Currently, total global financial assets of the Islamic financial industry are estimated at USD2.2tn and are expected to surpass USD3.8tn by 2022.

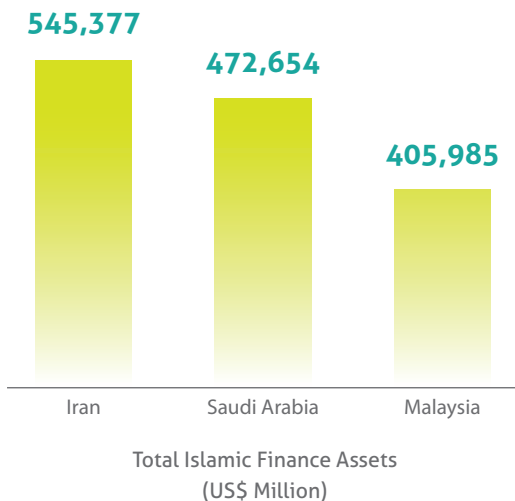
Global Islamic Finance Assets (2012-2022)



Islamic Finance Assets Distribution (2016)



Top Countries in Islamic Finance Assets (2016)



Source: ICD-Thomson Reuters Islamic Finance Development Report (2017)

Islamic Banking Sector

- The Islamic banking sector continues to be the dominant segment, accounting for almost 80% of the global Islamic finance industry. To date, total Islamic banking assets have reached USD1.6tn and will remain the biggest driver of growth.
- By 2022, Islamic banking assets is projected to surpass the USD2.4tn mark.
- There remains substantial asset concentration in the GCC and Asian countries. The top three Islamic banking jurisdictions by assets account for 63% of the global Islamic banking industry.
- Hence, the stability of the global Islamic banking system critically hinges upon the smooth functioning and viability of the Islamic banks in these jurisdictions alone.

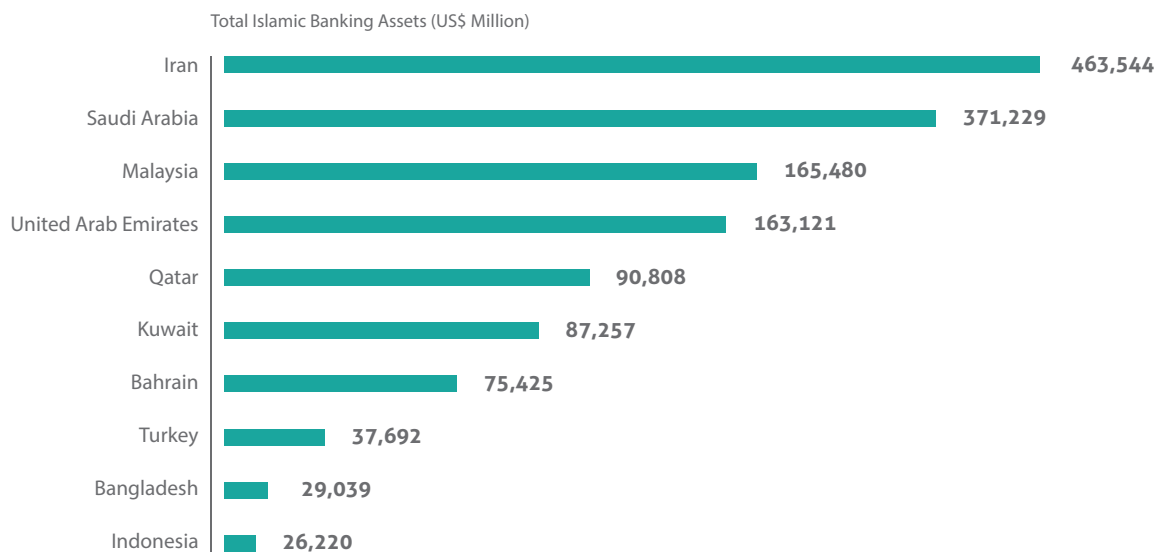
Islamic Banking Performance by Region (2016)

Region	Total Islamic Banking Assets (Us\$ Million)	Number Of Islamic Banks / Windows	Share Of Total Banking Assets
GCC	795,673	101	37%
Other MENA	511,254	153	30%
Southeast Asia	200,242	81	11%
South Asia	46,963	65	13%
Europe	42,630	34	1%
Sub - Saharan Africa	1,694	44	0.30%
Americas	324	6	0%
Other Asia	101	10	0.10%

**in countries that reported Islamic banking assets*

Source: ICD-Thomson Reuters Islamic Finance Development Report (2017)

Top Countries in Islamic Banking Assets (2016)



Source: ICD-Thomson Reuters Islamic Finance Development Report (2017)

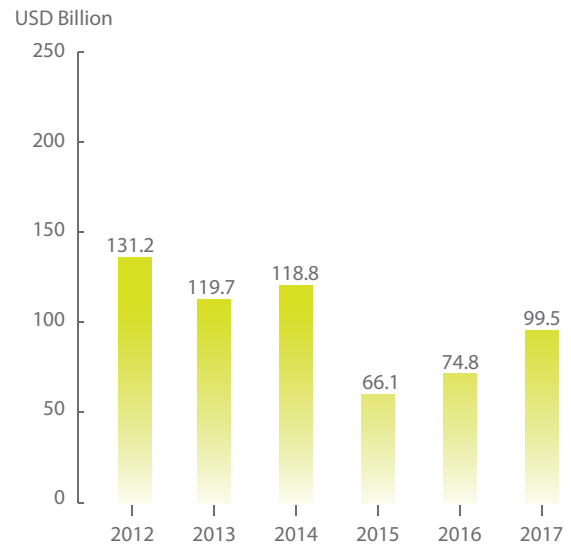
2017

Global sukuk issuance reached USD99.5bln (growth of 24.8% y-o-y)

Sukuk Sector

- After three consecutive years of decline following its peak in 2012, the global sukuk market witnessed a strong performance in 2017.
- Global sukuk issuance posted a solid growth of 24.8% from the previous year to reach USD99.5bln.
- The growth was underpinned by the jumbo local and foreign currency issuances of some GCC countries (the USD9.0bln sukuk issued by Saudi Arabia was the largest issued globally to date) and supported by strong liquidity conditions in the GCC and initiatives by various countries to develop its Islamic finance industry. The market also continued to attract non-traditional Islamic finance jurisdictions, with Hong Kong tapping the market for the third time and the first issuance of a sukuk in Nigeria.

Global Sukuk Issuance (2012-2017)



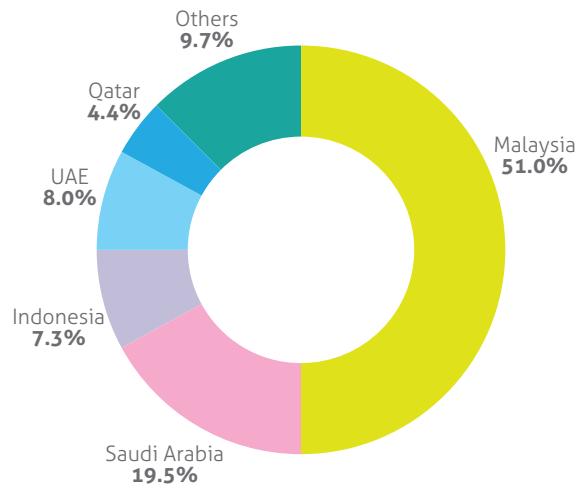
Source: Thomson Reuters, MIFC estimates

2016: Leading Sukuk Markets

Jurisdiction	Malaysia	Gulf Cooperation Council	Indonesia	Turkey
Issued amount & global market share	USD34.7 Billion, 46.4%	USD19.6 Billion, 26.2%	USD7.4 Billion, 9.9%	USD4.1 Billion, 5.5%
Top Sectors	<ol style="list-style-type: none"> 1. Financial Services 2. Government 3. Power & Utilities 4. Transportation 	<ol style="list-style-type: none"> 1. Financial Services 2. Government 3. Oil & Gas 	<ol style="list-style-type: none"> 1. Government 2. Financial Services 3. Industrial Manufacturing 	<ol style="list-style-type: none"> 1. Financial Services 2. Government

Source: Thomson Reuters, MIFC estimates

Global Sukuk Outstanding by Domicile (2017)



Source: Thomson Reuters, MIFC estimates

- In 2018, the primary sukuk market is expected to gain momentum, with issuances coming from corporate Malaysia as well as GCC and MENA sovereigns.
- Market expectations of recovery in oil prices and austerity measures adopted by the GCC countries will provide opportunities for this region to tap the sukuk market to finance budget deficits.

Islamic Funds Sector

- In 1Q17, total of global Islamic assets under management (AuM) was USD70.8bln, and the number of Islamic funds stood at 1,535.⁴ This is a stark comparison to 2008's figures, where total AuM stood at only USD47.0bln, with Islamic funds totalling 802.
- Malaysia and Saudi Arabia remain as the key domiciles contributing to the largest market share of

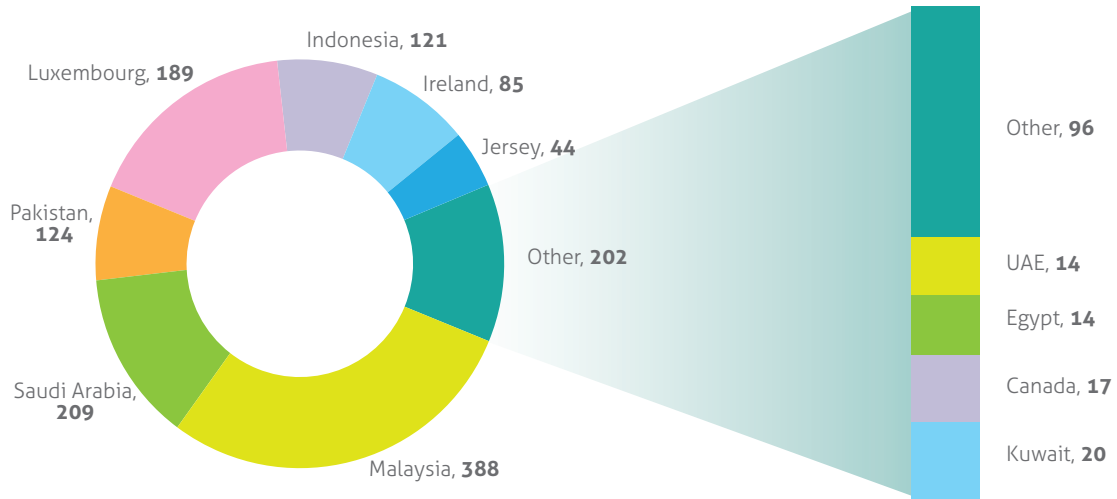
the global Islamic funds industry. Together they hold a 67.5% share of Sharia'a compliant AuM.

- Saudi Arabia alone represents a 35.6% share of global AuM with 209 Islamic funds comprising of largely money market funds with a 76% share of total AuM.
- Malaysia has the most number of Islamic funds globally with 388 funds managing a total AuM of USD22.6bln. The composition of funds are mixed, with equity funds contributing to 45% of total AuM, money market funds at 32%, while the remaining 23% are real estate, sukuk and mixed funds.
- It is projected that Islamic funds will grow by 5.05% per annum to reach USD77bln by 2019.⁵

⁴ Thomson Reuters, MIFC estimates

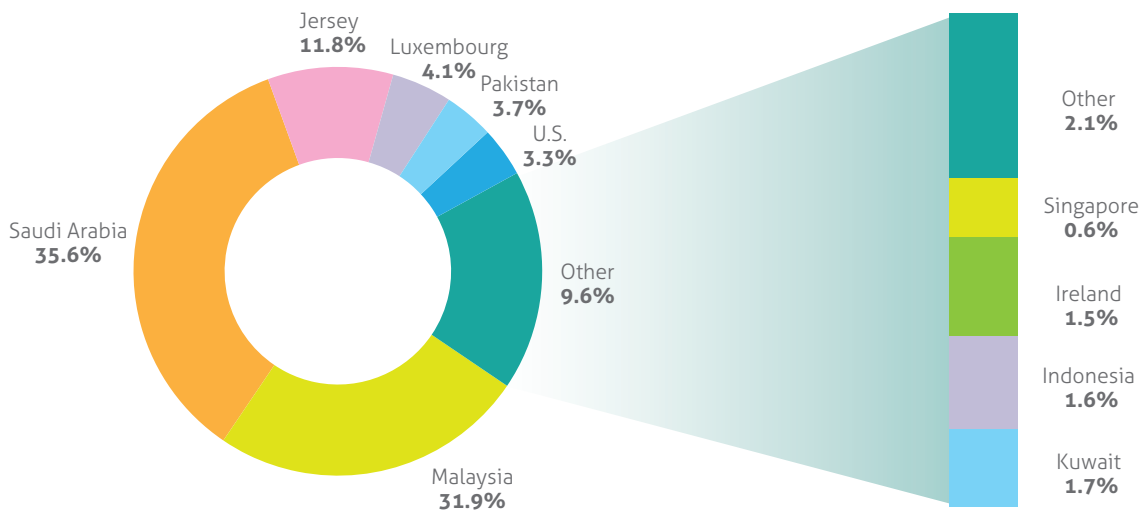
⁵ Thomson Reuters Projection

Number of Islamic Funds Domiciled by Country as at end 1Q17



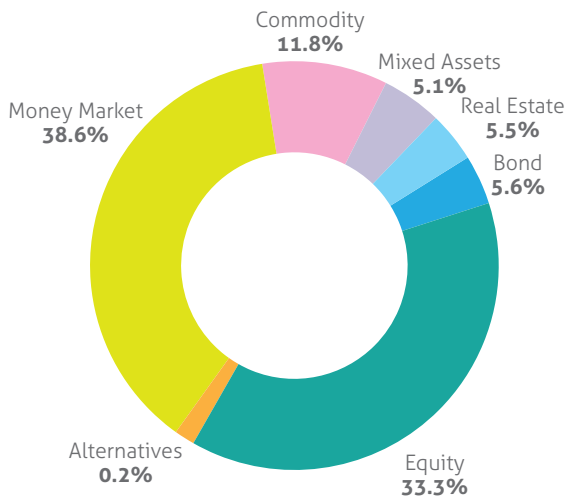
Source: Thomson Reuters, MIFC estimates

Global Islamic Assets under Management (AuM) by Domicile as at end 1Q17



Source: Thomson Reuters, MIFC estimates

Types of Islamic Funds as at end 1Q17

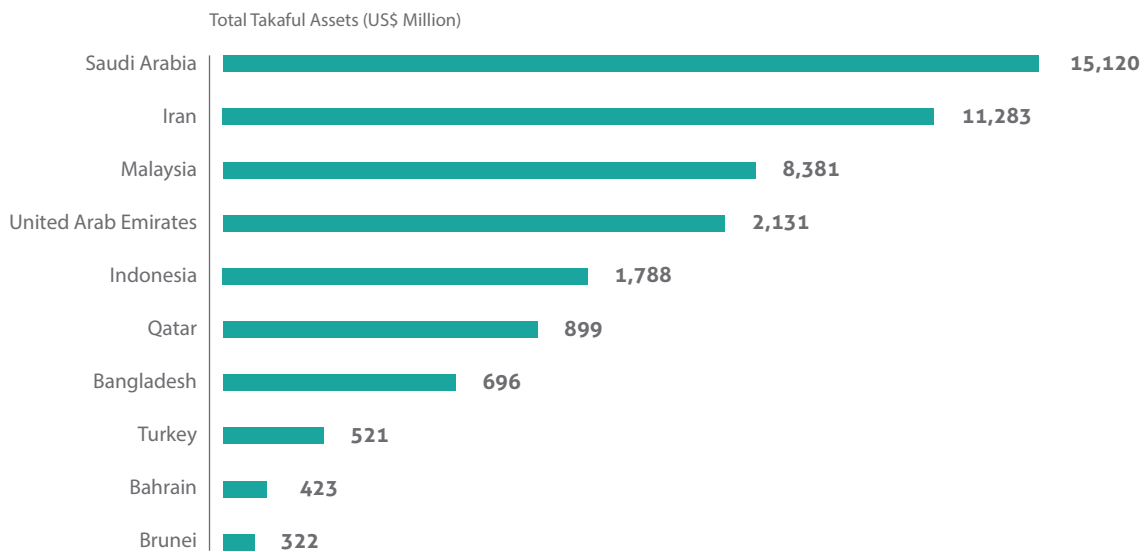


Source: Thomson Reuters, MIFC Estimates

Takaful Sector

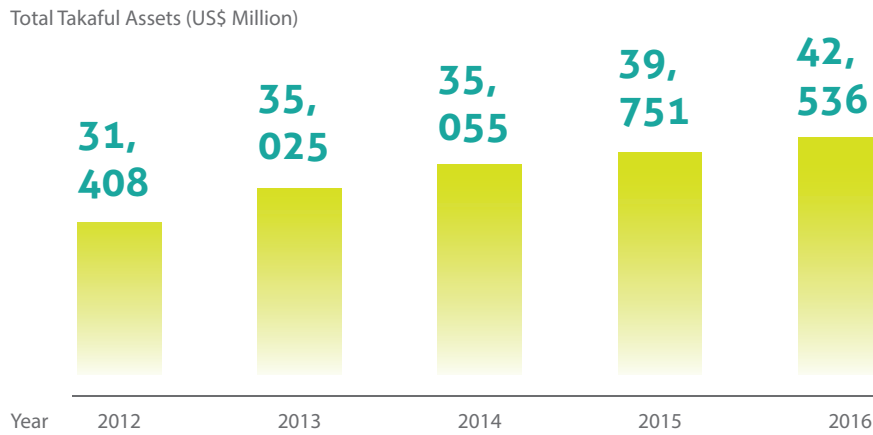
- Total takaful assets recorded a 7.0% growth in 2016 to reach USD43bln.
- By 2022, takaful assets are projected to grow to USD86bln.
- Collectively, Saudi Arabia, Iran and Malaysia hold an 82% share of global takaful assets in 2016.
- Takaful operators are broadening their distribution channels, improving their products offerings to accelerate growth of takaful.
- The MENA and Asian regions continue to be key takaful markets and this trend is likely to continue in the upcoming years.
- Regions offering huge untapped potential include emerging takaful markets such as Africa (Sudan, Kenya, Nigeria, Tunisia) and Europe (Luxembourg, UK, France and Germany, home of the highest concentration of Muslims in the region).

Top Countries in Takaful Assets (2016)



Source: ICD-Thomson Reuters Islamic Finance Development Report (2017)

Growth in Takaful Assets (2012-2016)

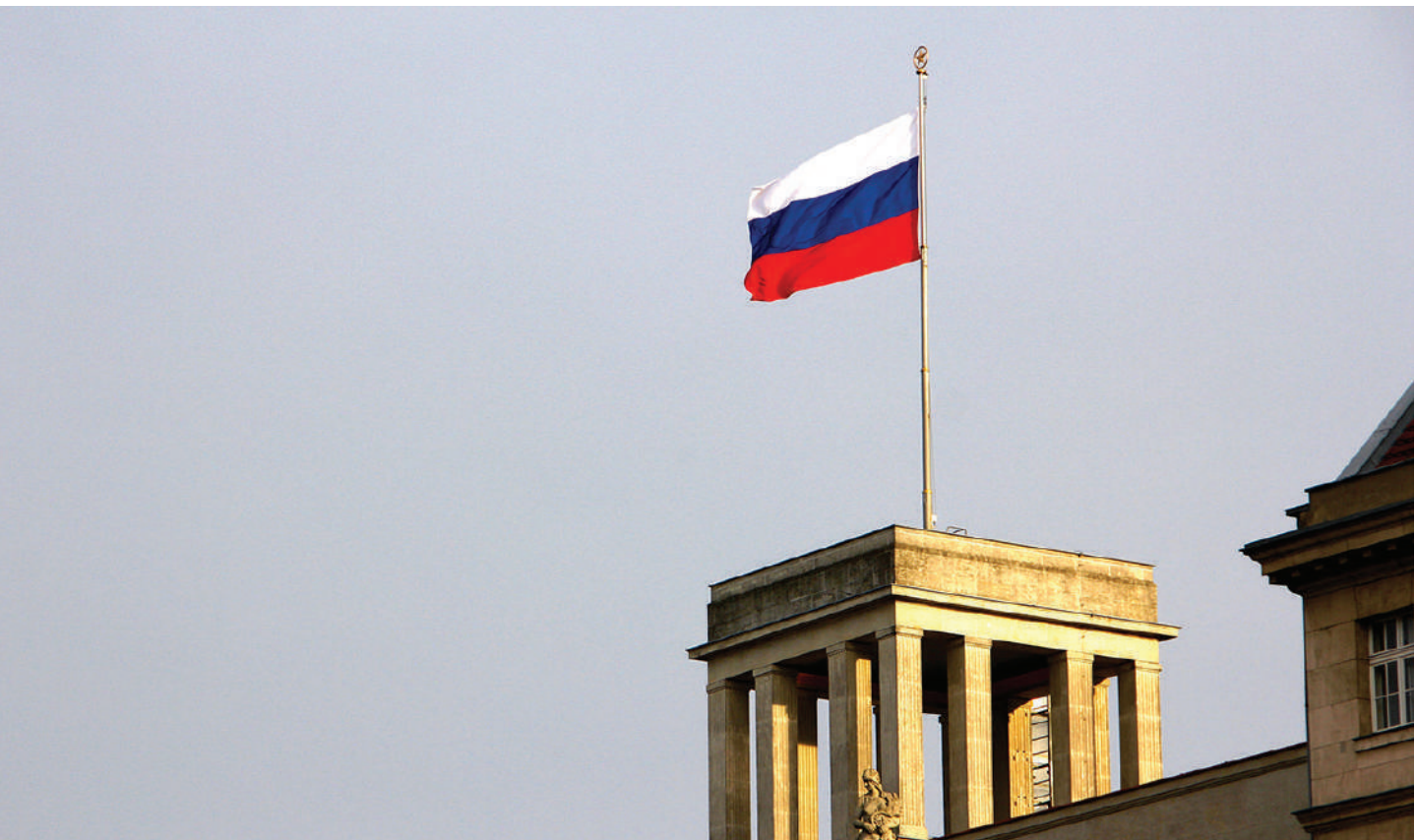


Source: ICD-Thomson Reuters Islamic Finance Development Report (2017)

Takaful Performance by Region (2016)

Region	Total Takaful Assets (US\$ Million)	Number Of Takaful Operators / Windows
GCC	18,902	94
Other MENA	11,591	75
Southeast Asia	10,491	88
South Asia	1,020	44
Europe	521	16
Sub - Saharan Africa	8	17
Americas	3	3
Other Asia	-	2

Source: ICD-Thomson Reuters Islamic Finance Development Report (2017)



Timeline: Islamic Finance Developments in Russia

• 1991

- Badr-Forte Bank was established in Moscow
- The bank operated according to the legislation of the Russian Federation using Islamic banking principles which did not contradict the banking law of Russia. The bank was de-licensed by the Central bank of Russia and closed in 2006

• 1992

- There was a plan to set up the United Islamic Stock Commercial Bank in Kemerovo (Western Siberia), although the project remained on paper

• 2004

- There were plans to establish a takaful company based on an existing insurance company named Itil
- The management of the company started the negotiations with the Dubai Islamic Insurance & Reinsurance Company (Aman) but was unable to

reach an agreement. The project was closed at the beginning of 2005

• 2006

- Bank Express (in the republic of Dagestan) started issuing debit cards where interest is channelled to donation funds. The product was considered to be Sharia'a compliant even though deposited money was used in interest-based transactions
- Mutual Investment Fund "Halal" was established by BrokerCreditService. The fund uses the Dow Jones Islamic Shariah screening methodology
- IFC Linova (Investment Finance Consulting Linova), started offering corporate consulting and corporate finance services in Sharia'a finance

• May 2007

- The Republic of Tatarstan and Islamic Development Bank (IDB) Group signed an agreement to host an international investment conference in Kazan, Republic of Tatarstan

- **June 2008**

- Following the agreement, on 9-12 June, an investment conference was held in Kazan, supported by IDB. The aim was to showcase the Republic of Tatarstan as one of the most attractive regions in Russia. Potential areas of cooperation in key investment projects were highlighted

- **January 2009**

- On 29-30 January, an international seminar on Islamic banking and finance was held in Kazan

- **March 2009**

- The International Conference themed "Islamic Banking: Specifics and Prospects" was organised in Moscow by Russia's Mufti Council

- **June 2009**

- The prime minister of the Republic of Tatarstan and the CEO of ICD signed a protocol of intention to establish an investment company

- The International Summit of Islamic Business and Finance (Kazan Summit) was held in Kazan

- **March 2010**

- The president of the Republic of Tatarstan and IDB signed an agreement to establish Tatarstan International Investment Company (CJSC "TIIC") to provide the Russian market with Sharia'a compliant financial products. The shareholders of the company are the Republic of Tatarstan, IDB Group, and investors from Kuwait, Saudi Arabia and Yemen

- The priority areas of investment are telecommunications, infrastructure, agriculture, finance, real estate, mining and processing industry, electricity and services



- **June 2010**

- Yumart Finance was established in Kazan, providing financing to SMEs and individuals.

- On 26-29 June, the 2nd Kazan Summit was held

- **February 2011**

- Amal Financial House began offering Sharia'a compliant financial products and services for corporate clients and VIP-clients among individuals

- The 3rd Kazan Summit took place

- **April 2011**

- LaRiba Finance began offering Islamic banking products and services to consumers and businesses in Makhachkala, Russia

- **June 2012**

- Euro-Policy Insurance Company began offering Islamic insurance products through its branches in Moscow, Saint Petersburg, Kazan, Ufa and Nizhny Novgorod

- **February 2013**

- Ellips Bank opened another Islamic window, Vostok-Kapital (East Capital) in Saratov, Russia

- **June 2014**

- Russian banks petitioned for Moscow's central bank to enable Sharia'a compliant financial institutions to enter the Russian market

- **December 2014**

- International Bank of Azerbaijan (IBA) started offering Sharia'a compliant products and services to Russian customers via its Russian units, IBA-Moscow

- Russia's National Rating and the Islamic International Rating Agency signed an agreement to jointly rate Sharia'a compliant products

- **January 2015**

- AK Bars Bank, following its USD60mln Sharia'a compliant deal in 2011, launched a USD100mln syndicated Murabahah financing facility. Citi, Commerzbank and Emirates (NBD) Capital acted as mandated lead arrangers and book runners

- **March 2015**

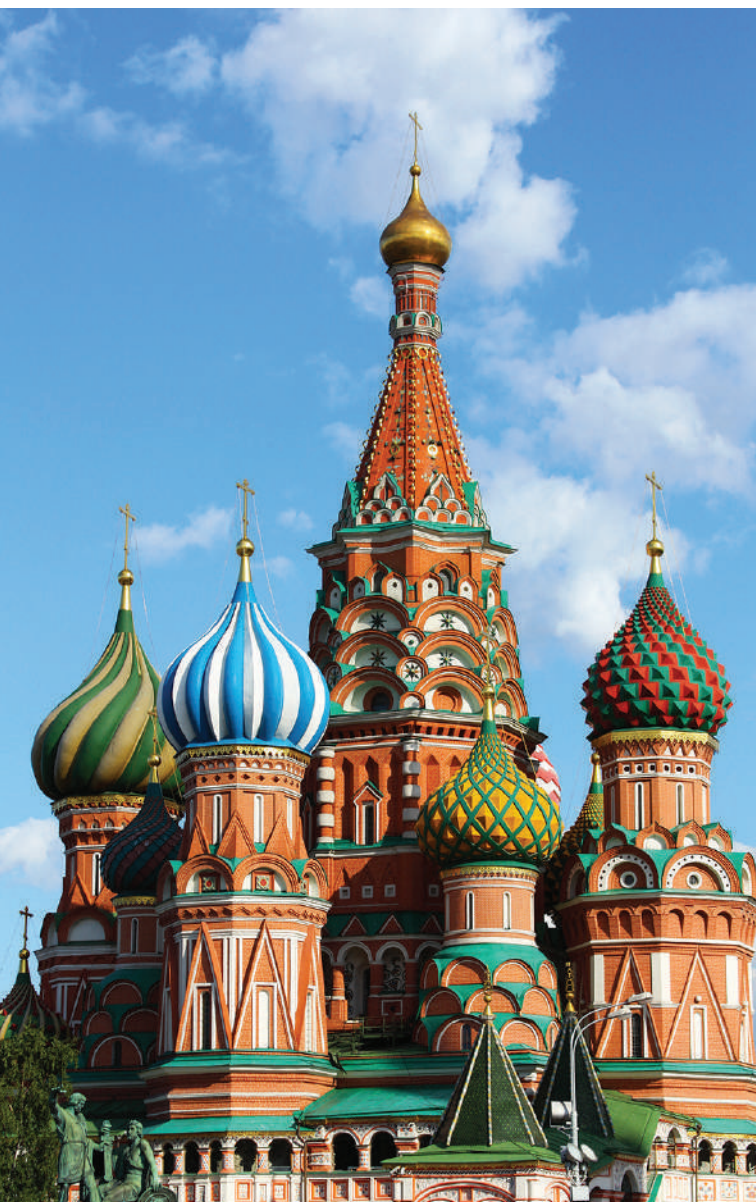
- Russian lawmakers introduced a draft bill to parliament to support Islamic finance, aiming to attract capital inflows at a time when an economic slowdown is intensifying and Western sanctions show no sign of being lifted

- **June 2015**

- After the failed attempt to create the legislation necessary to support Sharia'a compliant banking in Russia, the Orthodox Church has asked that the дума find a means to pass the bill

- **May 2015**

- At a shareholder's meeting on 29 May, Sberbank's CEO, Herman Gref, unveiled plans to introduce Islamic banking in Muslim-dominated regions in Russia. With a large Muslim population, the Republic of Tatarstan is considered as a key strategy



- **June 2015**

- The first sukuk to be issued in Tatarstan's capital of Kazan went to the financing of a major business center in the city which cost USD200mln

- **October 2015**

- The Central Bank of Russia established an Islamic finance working group to study proposals to remove existing impediments to the introduction of Islamic finance in Russia's banking sector
 - Saada Trust Partnership started offering Islamic banking products and services in Makhachkala

- **November 2015**

- The International Bureau of Fiscal Documentation (IBFD) collaborated with the Russian Center of Islamic Economics and Finance, Kazan Federal University, Russian Islamic University and Allianz Life to conduct a five-day training course on takaful

- **December 2015**

- The Tatar government and a Malaysian-Russian consortium consisting of the Islamic Banking and Finance Institute Malaysia and the Russian IBFD completed a feasibility study which identified the Republic as a pilot ground to establish an Islamic banking window

- **February 2016**

- Anatoliy Aksakov, the chairman of the State Duma (Parliament) of the Russian Federation Financial Market Committee initiated the preparation of a legal base for Islamic finance development in Russia



- **March 2016**

- The Republic of Tatarstan opened its first Islamic bank, the Partnership Banking Center, in Kazan. It is a subsidiary of LLC Tatagroprombank
 - IFN Forum Russia was held in Moscow

- **May 2016**

- IDB signed agreements with the Bank of Russia, Vnesheconombank, Skerbank, and Tatfondbank in order to launch Islamic finance products
 - Vnesheconombank, Russia's largest development financier, has already funded some halal industry projects in Russia's Muslim-dominated Republic of Ingushetia and aims to raise more funds via Sharia'a compliant financing instruments. The bank is also developing initiatives to support projects that promote exports to Muslim countries, according to Vnesheconombank CEO Sergei Gorkov

- **June 2016**

- The Islamic Business and Finance Development Fund (IBFD) and TAWUN, a Pakistani Sharia'a consulting firm signed an agreement with the support of the Trade Development Authority of Pakistan. Under the agreement, both parties will jointly support Russian and CIS financial institutions to launch Sharia'a compliant products and services, expand their clientele and penetrate new markets as well as secure additional funding and investments from OIC countries

- **November 2016**

- An Islamic finance education program began in Russia and the central bank working group called for Russia's Ministry of Education to include Islamic finance in education programs for economists and legal advisors in all of Russia's universities

- **December 2016**

- An inter-university conference on 'Partnership Banking: Issues of Legal Regulation and Protection of Participants' rights, Implementation Prospects' was held in Kutafin Moscow State Law University
- Winter course on Islamic economics and law took place in Kazan Federal University

- **January 2017**

- At the VIII Gaidar Forum, 70 leading academicians gathered to discuss the application of the Islamic financial model in the modern world. The discussion was based on a report titled 'Islamic Finance Model in the Modern World' by Dr. Magomet Yandiev of the Moscow State University

- At the same forum, Alexander Torshin, the deputy chairman of the Bank of Russia, confirmed the intention of the Russian regulator to develop Islamic finance following the Road Map of Partnership Banking Development and Related Financial Services in the Russian Federation from 2016-2017

- **February 2017**

- ICD and the International Association of Islamic Business (IAIB) entered into an agreement to explore possible avenues for collaboration in enhancing business relations between entrepreneurs from Muslim countries and Russia

- **April 2017**

- VTB Capital helped arrange a USD500mln sukuk for UAE-based property developer Damac

- **June 2017**

- Sberbank executed a pilot Islamic finance deal in the Republic of Tatarstan in January 2017 and is planning to do the same for other regions with Muslim majorities such as Chechnya and the Republic of Bashkortostan. The bank also received Sharia'a certification in June 2017 for its first Mudarabah finance transaction

Why Islamic Finance in Russia?

1. Russia has a large Muslim population

Home to the largest concentration of Muslim population in Europe, Russia holds a compelling Islamic finance proposition, especially in the Republic of Tatarstan, where more than half of the population identify as Muslim.

According to Pew Research, Russia will continue to have the largest Muslim population (in absolute numbers) in Europe in 2030. Given forthcoming demographic changes, the country's Muslim population is expected to rise from 16.4 million in 2010 to 18.6 million in 2030. In terms of growth rate, the Muslim population in Russia is projected to increase 0.6% annually over the next two decades.

Historically Muslim regions of Russia include the Volga-Ural region and the Northern Caucasus, although other parts of Russia in cities such as

Moscow and St. Petersburg have significant Muslim populations. Ethnic Muslims are predominant in seven republics of the Russian Federation which include the Republics of Bashkortostan and Tatarstan in the Volga- Urals region, and the Republics of Chechnya, Ingushetia, Dagestan, Kabardino-Balkaria and Karachay-Cherkessia in the Northern Caucasus.

While the share of Muslim population remains low at 11.7% of Russia's total population (as at 2010)⁶, the sheer number of Muslims in the country (2010: 16.3 million) can encourage the further development of Islamic finance. Indeed, studies have shown that people generally do not reject conventional finance solely due to religious reasons, and that other structural factors are in force. Nonetheless, in an environment of homogeneous pricing (between conventional and Islamic banking products), Muslims can develop a natural bias towards Islamic banking products given its ability to help them fulfil their religious duties simultaneously.

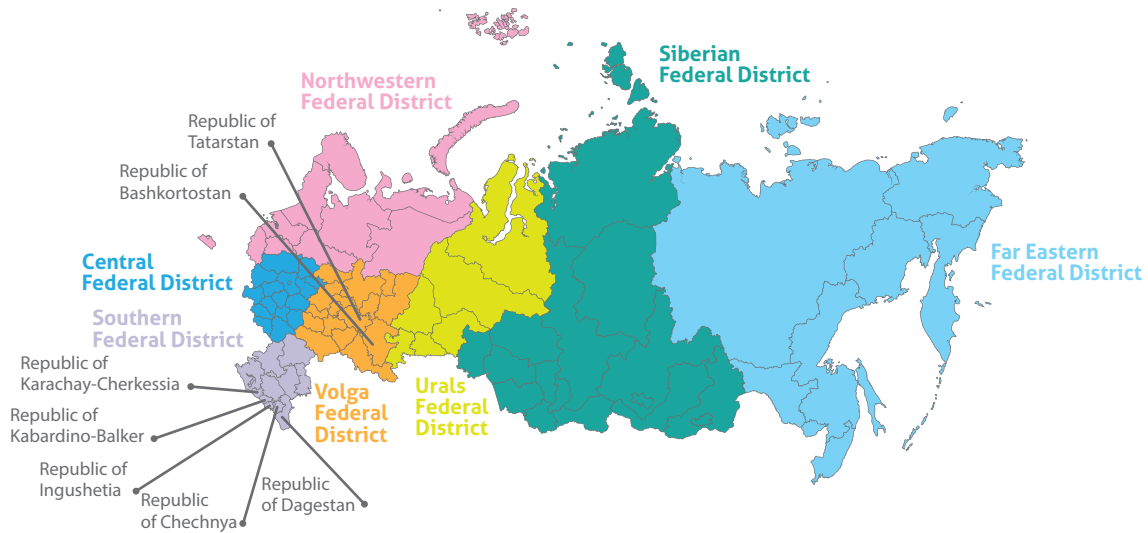
CIS Countries vs. Russia's Muslim Population

Country	Estimated 2010 Muslim Population	%	Estimated 2030 Muslim Population	%
Azerbaijan	8,795,000	98.4%	10,162,000	98.4%
Kazakhstan	8,887,000	56.4%	9,728,000	56.4%
Kyrgyzstan	4,927,000	88.8%	6,140,000	93.8%
Russia	16,379,000	11.7%	18,556,000	14.4%
Tajikistan	7,006,000	99.0%	9,525,000	99.0%
Turkmenistan	4,830,000	93.3%	5,855,000	93.3%

Source: Pew Research

⁶ Pew Research

The Russian Federation



It is important to highlight that Sharia'a compliant financing is no longer a niche market catering to Muslims only. Islamic finance may be based upon Islamic principles, but its application in Russia is not limited to Muslims alone. Islamic finance structures and products are often described as being-asset based (and derived from ethical and social values), but they do still share very similar economic objectives to conventional financing products and can therefore appeal to Muslims and non-Muslims.

Hence, although the main market for retail and wholesale Sharia'a compliant financial services in any country is the domestic and international Muslim community, Islamic finance can also provide an alternative source of liquidity and/or means of investment to all consumers and investors notably for a country with a huge population such as Russia.

2. Islamic finance can help Russia improve access to financial services

The outreach of financial services among the Russian population has been growing in recent years, however according to the Alliance for Financial Inclusion (AFI), uneven access to financial services and low levels of financial literacy have left approximately one-third (46 million) of Russians either unbanked or underbanked. Along basic metrics, the overall state of financial inclusion in Russia has improved remarkably and is relatively advanced, with the number of adults with accounts at a financial institution standing at 67.4%, higher than the Europe and Central Asia (ECA) regional average of 51.4%.

% Adults with Access to Finance

Country	Account at a Financial Institution (% age 15+)
Azerbaijan	29.2%
Kazakhstan	53.9%
Kyrgyzstan	18.5%
Tajikistan	11.5%
Turkmenistan	1.8%
Uzbekistan	40.7%
Russia	67.4%
Europe and Central Asia (average)	51.4%

Source: Global Findex, 2014

However, despite progress, several gaps in financial inclusion remain. Russia is still behind the majority of BRICS countries in a number of indicators, and a considerable share of the Russian population live below the national poverty line (13.3% as of 2015).⁷

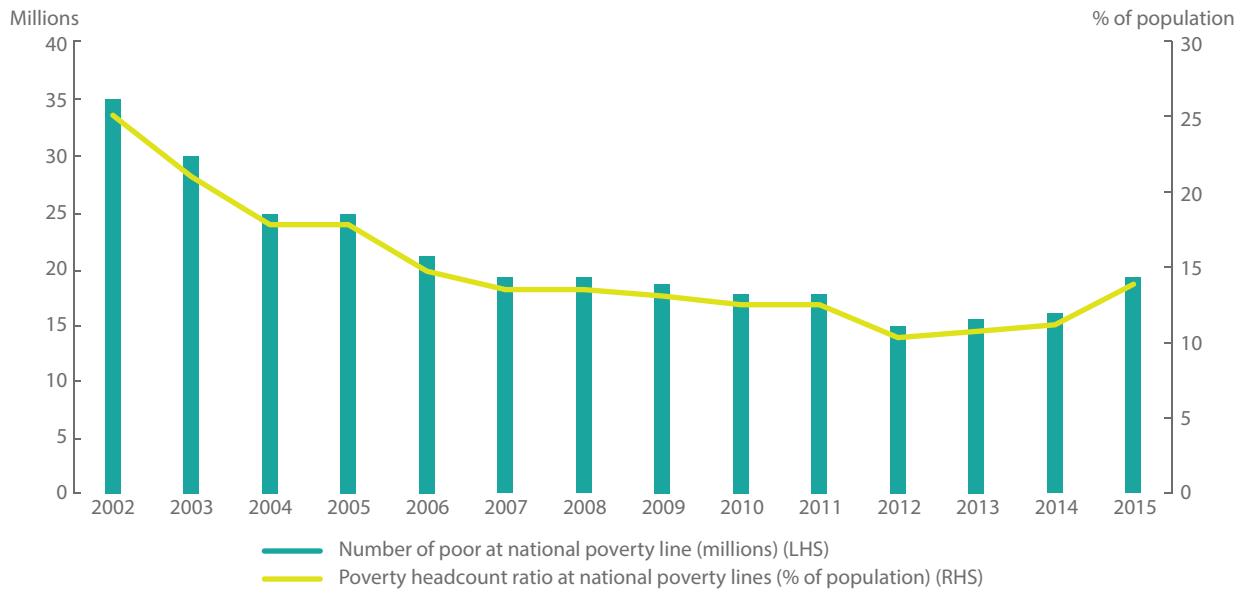
Russia vs BRICS Countries: Financial Inclusion

Countries	Account (% age 15+)	Borrowed from a financial institution in the past year (% age 15+)	Received wages or government transfers into an account (% age 15+)
Brazil	68.1%	11.9%	35.2%
Russia	67.4%	10.3%	48.0%
India	53.1%	6.4%	7.5%
China	78.9%	9.6%	25.9%
South Africa	70.3%	12.1%	47.5%

Source: Global Findex, 2014

⁷ World Bank's Poverty and Equity Databank

Russia: Poverty Trends (by National Standards)



Source: World Bank's Poverty and Equity Databank

Unsurprisingly, Russia's geography and extremely uneven population distribution and density (for example, the population density in the Republic of Yakutia is 0.33 per square km) has a role to play. Residents of remote regions are particularly underserved seeing that physical access to financial services remains centred in major urban areas. This is so because banks find it costly and unprofitable to set up and operate branches elsewhere, among other factors.

Russia: Key Financial Inclusion Indicators

67.4%

Account
(% age 15 +)
(Global Findex, 2014)

10.3%

Borrowed from a financial institution in the past year
(% age 15 +)
(Global Findex, 2014)

10.9%

Saved at a financial institution
(% age 15 +)
(Global Findex, 2014)

48%

Received wages or government transfers into an account
(% age 15 +)
(Global Findex, 2014)

19.2%

SMEs with an outstanding loan or line of credit
(%) (World Bank, Enterprise Survey, 2012)

57.7%

Made or received digital payments
(% age 15 +)
(Global Findex, 2014)

Source: World Bank


In general, the most financially excluded Russians tend to be those living outside of large cities, who are less educated and older, have lower income and are less technologically savvy.⁸ It is important to remember that the cumulative effect of a sizeable share of a country's population being effectively excluded from access to formal financial services carries both private and social costs, and ultimately undermines economic growth and development.

Access to Financial Services in Russia


Financial Service	% of Population with Access (Approximate)
Micropayments	80% (70% through non-banking agents)
Settlements	50% (20% through Russian Post)
Bank savings accounts	20%-25%
Consumer loans	25%
Mortgage loans	Less than 2%
Micro-lending	Less than 2%

Source: National Agency of Financial Research


Why Financial Inclusion is Important




Reduces financial transaction costs at the household level, which can contribute to greater investment in family health and education.



Stimulates the growth of small and medium enterprises, which accounts for 90% of job creation.



Increases financial sector integrity and economic stability.



Promotes greater social stability, reducing the poor's vulnerability to personal and large-scale catastrophes.

Source: Alliance for Financial Inclusion

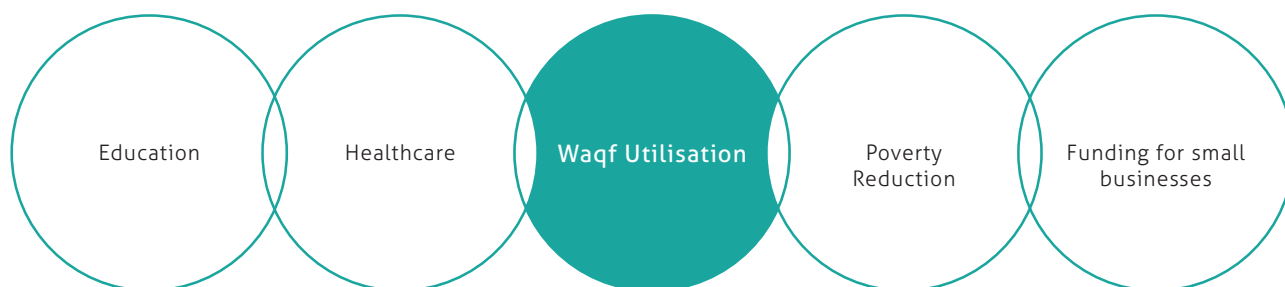
In regions where the challenge of providing affordable and accessible financial services to low-income or “unbankable” populations is an increasingly urgent one, Russian policymakers may consider the meaningful role that Islamic finance can play as part of a national financial inclusion and deepening agenda. For example, Islamic microfinance is a valuable tool for poverty alleviation as it steers poor populations into formal financial activity. It also has the potential to tap into fragmented Sharia’a compliant donor streams such as zakat, sadaqat and waqf, and streamline them toward strategic, impact-oriented goals.

Financial Inclusion through Islamic Microfinance

In recent studies, it is evident that the impact of Islamic microfinance in poverty alleviation is far more than general microfinance. This is because:

- ✓ Islamic microfinance focuses on investing on assets to boost up the income level and business opportunities that can be very impactful in elevating the living standards of the poor via improving business capacity, jobs availability, education and health opportunities
- ✓ Islamic microfinance can be used to bring marginal people under the banking umbrella as its interest-free concept would appeal to the segment. Contrary to conventional financial theories regarding loans made under such conditions, borrowers will fulfil their repayment obligations, with multiple surveys in countries such as Pakistan, Bangladesh and Indonesia showing that the recovery rate of Islamic microfinance loans is above 99%
- ✓ Islamic microfinance is available to all the levels of the poor. For example, for the poorest of the poor, the options of zakat, ushr, donation are offered and for the chronic poor, Qard Hassan can be utilized

Selected Examples of Waqf Utilisation Globally



Source: ISRA

According to a survey conducted by GGAP⁹, survey respondents in Russia stated that the main factors for customers affecting their choice of financial service providers and decision to use financial services include provider reliability, as well as simplicity, clarity, and transparency of products and product conditions. Another survey of 25 countries¹⁰ showed that Russia was rated last in terms of the level of trust in financial services, with only 34% of respondents trusting them. In 2013, this figure was higher at 40%, which is still lower than the global average of 47%.

In this respect, because Islamic finance requires transparency (Sharia'a forbids deception by, for example, exaggerating a product's worth or concealing), promotes social justice, and provides a far more equitable and sustainable economic model, it will be a perfect fit for Russia's population, especially in addressing the concerns that they have with the current financial system.

A description by UK-based Islamic Relief Worldwide (IRW) sums it up nicely:

"The core belief in Islamic finance is that money is not an earning asset in and of itself. Importantly, risk must be present in the commercial or productive venture, and transactions should be directly or indirectly linked to tangible economic activity and not financial speculation and excessive uncertainty. Furthermore, the product bought or sold must be clear to both parties and only socially productive activities that are not exploitative and socially or morally harmful should be funded. Selling what one does not own is impermissible, and financial risk must lie solely with the lenders of capital and not with the manager or agents who work with the capital."

Overall, financial inclusion efforts seek to ensure that all households and businesses, regardless of income level, have access to and can effectively use the appropriate financial services they need to improve their lives. And if Islamic finance can effectively be part of the solution, it should not be overlooked.

3. Russia's infrastructure sector is facing a critical funding issue

Being the largest country in the world by land area (17,092,246 sq.km) with a population of 143 million, Russia requires robust infrastructure and transport links. It inherited important elements of its industrial infrastructure from the Soviet Union, including an adequate power network and a widespread railway system. However, it was typically inefficient with significant shortfalls in areas such as transport and telecommunications.

Coupled with insufficient investment and incomplete structural reforms, Russia is currently facing major challenges in modernising and upgrading its infrastructure. According to a World Bank report, Russia's public expenditure on infrastructure amounted to less than 1% of GDP a year in 2012-2014 although actual investment needs are estimated to be about USD1tn (roughly equivalent to Russia's 2015 GDP). Meanwhile, in the World Economic Forum's 2016-2017 Global Competitiveness Index, Russia ranked 74th out of 139 countries for the quality of its overall infrastructure.¹¹ Some sectors require considerable attention: for example, Russia ranked 123rd for the quality of its roads and 72nd for its port infrastructure.

9 In 2012, CGAP conducted a Financial Inclusion Landscaping study in Russia that highlighted the need for comprehensive and detailed data on the picture of financial inclusion — and exclusion — in Russia, to better understand specific profiles and needs of the unbanked and underbanked, as well as barriers p people from accessing and using financial services.

10 2013 Edelman's Trust Barometer

11 World Economic Forum, Global Competitiveness Report 2016-2017

2016-2017 Global Competitiveness Index: Russia's Infrastructure Position

Item	Rank out of 139 countries
Quality of overall infrastructure	74
Quality of roads	123
Quality of railroad infrastructure	25
Quality of port infrastructure	72
Quality of air transport infrastructure	65
Available airline seat kilometres (millions/week)	13
Quality of electric supply	62
Mobile-cellular telephone subscriptions/100 pop.	13
Fixed-telephone lines/ 100 pop.	39

Source: World Economic Forum's 2016-2017 Global Competitiveness Index

According to PwC, some of the financing for infrastructure in Russia comes from state lenders such as Vnesheconombank and from multilateral agencies such as the European Bank for Reconstruction and Development. However, Morgan Stanley states that more than half of Russia's infrastructure investment is currently executed and largely financed by just eight state-owned companies, led by Gazprom, Transneft, Russian Railways and the Federal Grid.¹² Given the scale of Russia's infrastructure needs, the challenge ahead is to attract more private investment.



¹² Morgan Stanley's "Russia: A Low-Profile Infrastructure Boom"

Some Major Infrastructure Projects in Russia

Samarga Port

In late 2016, the company "Samarga Holding" announced their intention to build a port at the mouth of the Samarga river in Russia's far east by 2025. A rail line will connect the port to Kharabovsk, cutting more than 500 kilometers off the journey to the coast

M-11 Moscow – St. Petersburg

This motorway between Moscow and Saint Petersburg is designed to relieve the heavy traffic on the existing M-10. The road is expected to finish in time for the 2018 FIFA World Cup in Russia but has encountered delays

Lakhta Center, St. Petersburg

As well as its 428 meter superstructure, this USD2.5bln complex will play host to the headquarters of state energy company Gazprom, plus restaurants, shops, apartments and other ancillary facilities

Power of Siberia-China Pipeline

Gazprom and the China National Petroleum Company (CNPC) signed a contract in September 2016 to build a cross-border section of the Power of Siberia pipeline, which will pass under the Amur River. Gazprom's Western Siberian fields will be the source for its Chinese supplies

Taman Commercial Port

Announced in March 2017, the port of Taman is due to enjoy a USD258mln upgrade regime. Slated for inclusion at Taman are a new bulk cargo terminal, a grain terminal and a mooring complex for LNG carriers. It is hoped the port's freight capacity will reach 35 million tons

Nord Stream 2

A brand new natural gas pipeline is being built to boost supplies to Europe while bypassing Ukraine. Gazprom's USD11bln project will pump liquid natural gas from Vyborg in Russia to a terminal in Greifswald on Germany's northern coast – an undersea journey of some 1,200 kilometres. At peak production, Nord Stream 2 will deliver an annual total of 55 billion cubic metres of gas to Europe

LNG Hub in St. Petersburg

Comprised of a plant assembled on three non-self-propelled barges, gas pipeline, loading rack, jetty and three bunkering barges, LNG- Gorskaya's proposed plan is ambitious. The company hopes to begin production, which would amount to 1.26 million tons of gas annually, in 2018

Kazan-Moscow High Speed Rail

The 770 kilometre line is expected to cost in the region of USD22bln. When the route starts operations in 2020, it is expected to become a major freight and passenger line as it passes through the cities of Vladimir, Nizhny Novgorod and Cheboksary. The Kazan- Moscow route will also form the first section of an ambitious, continent- straddling high-speed route linking Beijing in China with Moscow – a distance in excess of 7,000 kilometres

Sakhalin-2 Gas Hub

Russia is planning to add a third production facility at the existing Sakhalin-2 plant, which currently produces 10 million tons of gas annually. Gazprom will be spearheading the project, in collaboration with Shell, plus Japan's Mitsui and Mitsubishi. Mitsui's CIS Managing Officer, Hiroshi Meguro, expects the site's planned third LNG liquefaction train will add an additional 5.4 million tons of gas to the supply each year



Why Infrastructure is Important for Russia from a Trade Perspective

The competitiveness of Russia's trade depends on efficient, fast, reliable and seamless infrastructure connections. Seeing that Russia's topography means inland and remote areas are isolated economically as well as geographically, much of the country's potential remains untapped. Indeed, welfare gains can be met through increased market access, reduced trade costs and more efficient energy production and use, to which infrastructure development is the answer.

Railway upgrades are needed

One of Russia's trade-orientated rail projects is linked to the ongoing North-South Transport Corridor development. This multi-modal route will connect St. Petersburg to India via Azerbaijan and Iran. The corridor ignores the Suez Canal, trimming transit times considerably. So far, Russia's national rail operator, Russian Railways (RZA) has invested over USD50mIn in the project, resulting in over 200km of fresh track in Russia's Caspian Sea region.

Russia's Unique Geographic Location

- ✓ Links Europe with Asia
- ✓ Worldwide sea routes – direct access to three out of four oceans (53 sea ports in Russia)
- ✓ Major airport hubs
- ✓ Railway transit routes- leads the world in length of electrified railroads – 43,000km
- ✓ Pipelines – to Germany, Poland, Turkey, Czech Republic, the Baltic countries and CIS

Russian ports play an important role seeing that Russia is surrounded by seas

Russia relies on maritime trade for much of its grain and crude oil exports, as well as imports of key consumer goods. It is therefore important that new facilities, maritime logistics centers and port expansion activity continues to grow.



Road construction is also a priority to increase connectivity

Due to Russia's sheer size, it needs highways and roads to keep people and goods flowing freely. Currently, over 1,000km of new roads are planned for 2020. As host for FIFA World Cup in June 2018, there is a dire need for the Moscow-St. Petersburg motorway to be completed on time. A mega-motorway in the Rostov region which plans to connect Rostov-on-Don to Moscow, Voronezh, Krasnodar and the port city of Novorossiysk is also an important addition to Russia's road network. The route, which will improve road freight from the Black Sea to Russia's capital and beyond, is expected to be completed by 2020.

The New Economic Growth Business Partnership has calculated that infrastructure investments need an annual growth of about 1.7% of Russia's GDP (by ca. RUB 1.5tn a year), which is 1.5 times as much as the current level of expenditure (about 3.5% of the GDP). By contrast, McKinsey Global Institute estimates that China spends 8.6% of its GDP on infrastructure, India – 4.9%, Oceania and the developed nations of Asia – 4.6%, and Eastern Europe – 4.1%.

Given the long payback period of infrastructure projects, the search for investment in this area is becoming a crucial task especially against the backdrop of the budget deficit and Western sanctions. In summary, Russia's infrastructure sector faces numerous challenges:

- In nominal terms, the 2017–2019 budget allocations for infrastructure are lower than those in 2016. According to analysts from the Russian Presidential Academy of National Economy and Public Administration and the Gaidar Institute for Economic Policy, the share of such expenditures in the GDP is to drop by more than a quarter by 2019, while their share in the overall budget spending is to go down by 9%.
- The role of the Russian National Wealth Fund as a provider of long-term funding for infrastructure projects is being revised now, as the Fund is going to be used to close the budget deficit as of the end of 2017. Indeed, fiscal pressures have reduced the contribution of traditional, public sources of investments, creating the need for Russia to explore private sources more vigorously.
- Bank loans are hardly an option for infrastructure projects due to a long payback period, the central bank's high interest rate, and restrictions on foreign funding.

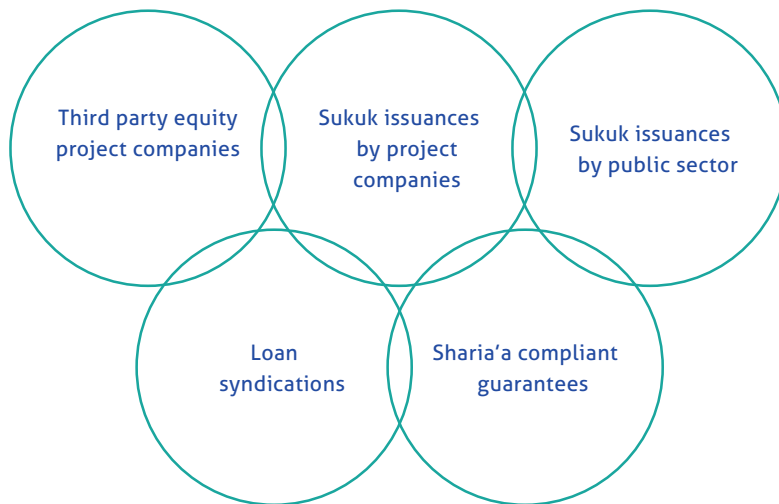
In order to address this issue, the Russian government plans to harness public-private partnerships and concessions and raise capital from non-state pension funds (NPFs), insurance companies and investment funds, in addition to the engagement of foreign partners in infrastructure development projects. In this respect, developing Islamic finance capabilities in Russia would allow the country to tap offshore pools of Islamic funds. The country will be able to network with the world's main centers of Islamic finance, the Middle East and Southeast Asia, and attract investors who are hungry for Sharia'a compliant investments outside of their traditional geographic markets.

Islamic financial instruments have certain features which have the potential to effectively support long-term financing, and economic growth and development



Scores of infrastructure projects globally have been powered by Islamic finance solutions in recent years. European examples would be London’s iconic Shard building and the athletes’ village for the 2012 Olympic Games, which were made possible by Sharia’a compliant syndicated loans. Indeed, Islamic investment continues to play a vital role in rebuilding UK infrastructure—from the GBP400mln Malaysian investment in Battersea Power Station, which will regenerate the Nine Elms area of London after decades of decay, to the GBP1.5bln Dubai investment in the London Gateway, the UK’s first deep-sea container port, as well as the GBP1bln redevelopment of the Chelsea Barracks.

Various Forms of Islamic Infrastructure Investment



Islamic finance is increasingly being used in deals involving foreign lenders, including large Chinese banks keen to revive ancient Silk Road trade links with Pakistan through the China-Pakistan Economic Corridor (CPEC) projects. The first CPEC transaction, a USD1.95bln loan syndication signed off in January 2016 to finance a coal mining project and associated power plant in Sindh province, was financed mostly by large Chinese banks. However, the deal featured two Sharia’a compliant tranches worth a combined PKR16bln extended by Faysal Bank, Meezan Bank and Habib Bank.

This is proof that Islamic finance has been instrumental in meeting global infrastructure financing requirements, and can only benefit Russia.

4. Due to the country's geopolitical climate and current international sanctions, local banks must find new ways to attract investment and help Russia's SME sector.

Islamic finance has become a mainstream funding source for many governments and corporates in the past decade, with even non-Muslim majority countries such as Nigeria, Ivory Coast, Hong Kong and the UK issuing sukuk and utilizing Sharia'a compliant structured products according to their needs. Due to current international sanctions which threaten to cut overseas funding to Russian firms, new types of finance such as Islamic finance are increasingly attracting the backing of the country's banks in order to gain access to credit markets in the Muslim world. In the past, the state development bank, Vnesheconombank, has set up trade delegations to the Middle East to develop understanding of Islamic finance, as have Moscow Industrial Bank, SME Bank and the Russian Direct Investment Fund.

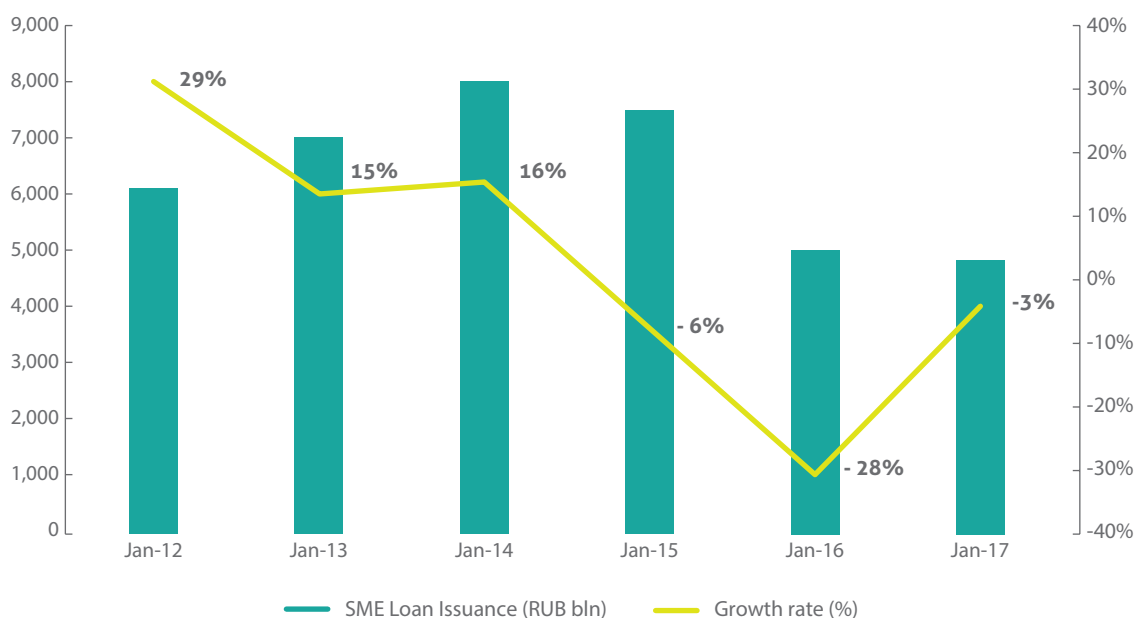


Islamic finance can help the SME sector

The development of the SME sector is a priority for the Russian government, which adopted an SME Development Strategy through 2030 and launched a three-year priority project to support individual entrepreneurs and small businesses¹³.

Taking into account the limited access to bank loans in Russia (the SME segment was hit the hardest by the recession, with SME loans experiencing the sharpest decline compared to other market segments), it is therefore not surprising that Russian enterprises are more likely to cite access to credit as the most important constraint on their operations and growth. As the asset-backed finance and risk-sharing nature of Islamic financial products aim to promote social and economic development through encouraging entrepreneurship, SME financing is a natural fit for Islamic finance. SME loans also have a high growth potential in Russia, seeing that its penetration (measured as percentage of GDP) is still low by international standards at around 12%.

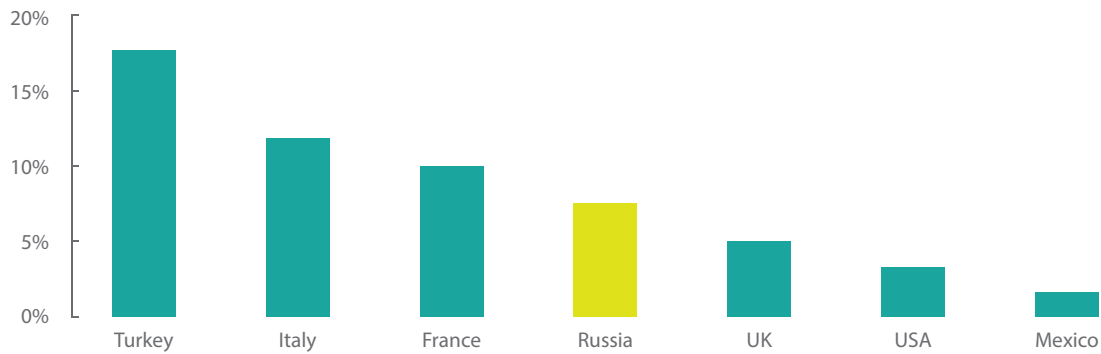
SME Loans Experiencing the Sharpest Decline



Source: World Bank's Poverty and Equity Databank

13 "From Recession to Recovery", World Bank, May 2017

Outstanding SME Loans (% of GDP)



Source: World Bank, OECD

5. Islamic finance can enhance trade relations and cross-border investment links with Muslim countries

Given the strong proliferation of Islamic finance in Muslim-dominated markets, it can be a tool of commercial diplomacy for countries seeking to enhance trade and cross-border investment links and advance their interests in the Middle East and Southeast Asia, and Russia is no exception.

Islamic finance can provide new opportunities in unimpeded trade and become the preferred mode of finance for emerging Muslim-majority markets such as Turkey, Indonesia, Malaysia, Qatar, Saudi Arabia and the UAE. Some of these markets are evolving into hot spots for global business and they promise to permanently alter the global trade scene over the next 10 years. They also already have strong trade links with other core Islamic finance markets, which offer new opportunities for growth for Islamic trade

finance. Having Islamic banking and finance facilities in Russia would surely assist trade and commerce between Russia and these countries. Russia would be at a loss to not ride on this wave of growth. In many cases, Islamic finance is driven by the needs of stakeholders and regulatory rules. For example, in Malaysia, it is a requirement for listed entities to have at least two-thirds of their financial transactions conducted through the Islamic system.

Key Challenges in Developing the Islamic Finance Industry in Russia

1. **Opposition from lawmakers.** Although efforts have been made by certain groups to advance Islamic finance in Russia, the fact remains that strong opposition from legislators pose as a major barrier to any meaningful expansion. Without the buy in from the country's bureaucrats and politicians, it will be unfeasible to expect progress on the Islamic finance



front. As a way to gain wider acceptance of Islamic finance and preserve the secular nature of Russia, it can be branded as “asset-based” or “participatory finance”. This suggestion is gaining more momentum to reduce the sensitivity associated with the religiosity aspect and to encourage a view based on the merits of responsible and ethical finance. For example, Turkey treats Islamic financial institutions as participatory financial institutions, which has had a positive impact.

2. The absence of a regulatory framework. This is an extension from the previous point. The introduction of amendments and special exemptions to be enacted are crucial for circumstances where the scope of the Islamic finance and service offerings exceed limitations of the Russia’s existing financial services laws, regulations and accounting regimes. For example, a range of taxation issues specific to the structure of Islamic financial contracts and products can facilitate or impede the rise of a country’s Islamic finance sector. Islamic mortgages, cross-border payments, the treatment of non-interest mark-up fees, and the applicability of value-added tax or goods and services tax to the assets anchoring transactions all require tax structures and provisions that differ from the conventional equivalents. Without a tax regime specifically suited to Islamic

finance, Islamic banking financial institutions can face some degree of double taxation and/or indirect tax¹⁴. It will be important, among other measures, that the Russian government adapts its regulatory and supervisory framework to support the development of the industry. Without the building blocks in place, expansion would be limited. An approach that can be adopted by Russian regulators would be to retain the existing conventional financial framework in their respective countries and take incremental steps to accommodate the specificities of Islamic finance, which leads to gradual extension and differentiation of the legal and regulatory system over time.

3. Risk management issues. Risks are part and parcel of financial intermediation. Although risk management in Islamic finance is not significantly different from its conventional counterpart, there are additional risks that are unique to Islamic finance. For example, in profit-loss sharing contracts such as *mudarabah* and *musharakah*, the lack of repercussions for defaulting borrowers can incentivize risky behaviour, but scholars remain inconclusive about enforcement mechanisms. Profit-loss sharing also creates a moral hazard for entrepreneurs to report lower profits and exaggerate losses —particularly in countries with endemic corruption and weak monitoring and enforcement mechanisms. Overall,

¹⁴ Amin et al 2013, PwC 2012

risk management is underdeveloped in the Islamic financial markets due to limited resources, high cost and lack of technological machinations to assess and monitor risk in time. There are still only few risk-hedging instruments and techniques in Islamic finance despite its rapid growth. A number of risk management techniques are not available due to requirements for Sharia'a compliance. In particular, these are credit derivatives, swaps, derivatives for market risk management and money market instruments. Hence, the development of prudential regulations and systems related to risk management, capital adequacy and corporate governance of Islamic banking is all the more pertinent.

4. Varying interpretations of Sharia'a, often fuelled by different Sharia'a regulatory frameworks. This is not applicable to Russia alone, but rather on a global scale. The nature of Islamic law allows for different interpretations, which results in different practices and use of concepts across jurisdictions. If Islamic finance is to move deeper into mainstream global finance, the industry needs to further prove its credibility by harmonizing Sharia'a standards and practices across the board. The progressive harmonization of Sharia'a, in this respect, needs to be viewed as a driver towards greater financial integration.

5. The limited public awareness about Islamic finance in Russia. The low penetration levels of Islamic finance can be attributed to the lack of public awareness among the general population regarding Islamic finance products and services and the perception that Islamic finance is for Muslims only. Since Islamic finance is relatively new and is not well understood, more needs to be done to improve financial literacy of stakeholders, including policy makers, investors and market participants about this type of asset-based and equity finance.

6. Lack of trained bank personnel in Sharia'a compliant instruments that impedes a more rapid outreach of services. Currently, there are shortages in skills and capabilities in the Islamic finance business, including among regulatory authorities—in Russia as well as globally. Often referred to as the industry's gatekeepers, the lack of qualified scholars is squeezing further growth in the industry. However, institutions such as International Center for Education in Islamic Finance (INCEIF) and Bahrain Institute of Banking and Finance (BIBF) are attempting to correct the problem with a variety of new courses and degrees. To move forward, it is necessary for Russia to create large pools of experts and highly-qualified professionals with in-depth expertise in Sharia'a and conventional financial practices to bridge the gap. Collaborations between mature and emerging regional centers in Islamic finance can serve as a catalyst for the development of talent and knowledge in the industry.

Although Islamic finance is still in its infancy stage in Russia, there is no doubt that there is room to grow if all challenges are addressed and appropriate measures are undertaken. Indeed, all of the above represent obstacles to success, but not complete barriers to growth. The benefits of Islamic finance are manifold: it has the potential to significantly contribute to higher and more inclusive growth while reducing economic disparity, and it promotes macroeconomic and financial stability. Choosing to accept it as a financial discipline will only reap in rewards and foster prosperity in Russia.

SECTION 3: ISLAMIC FINANCE IN THE COMMONWEALTH OF INDEPENDENT STATES (CIS) REGION

Being home to several countries with a high share of Muslim population, the Commonwealth of Independent States (CIS) region is emerging as a region of opportunity for the development of the Islamic finance industry, underpinned by low banking penetration and increased demand for financing. While progress has been slow for the most part, the region is now catching up and recognizing its vast potential. The region has witnessed an increase in Islamic finance activity in the past decade, although it remains largely fragmented. Nevertheless, the interest is there. Even in countries without formal Islamic finance regulations, there have been cases where Sharia'a compliant instruments and transactions were issued and executed while remaining applicable within the current legislative framework. In this respect, the Islamic Development Bank (IDB), along with its private sector arm, the Islamic Corporation for the Development of the Private Sector (ICD), has played an instrumental role in leading Islamic finance initiatives in the region. Since 2011, ICD heads its CIS countries' operations from the IDB Group Regional Office located in Almaty, Kazakhstan.

A Snapshot: Islamic Finance Activity in Selected CIS Countries

Country	Islamic Regulations	Issued Sukuk	Planning Sukuk	Islamic Banks	Banks with Islamic Windows	Foreign Islamic Banks	Islamic Microfinance	Other Sharia'a Compliant Products	Sharia'a Compliant Funds
Azerbaijan	●	●	●	●	●	●	●	●	●
Kazakhstan	●	●	●	●	●	●	●	●	●
Kyrgyzstan	●	●	●	●	●	●	●	●	●
Tajikistan	●	●	●	●	●	●	●	●	●
Turkmenistan	●	●	●	●	●	●	●	●	●
Uzbekistan	●	●	●	●	●	●	●	●	●

● Available
● Not Available

A hand holding a pushpin over a map, with a teal overlay. The pushpin is held between the thumb and index finger, and its sharp point is directed towards the map below. The map shows geographical features like rivers and roads. The entire image is covered with a semi-transparent teal color.

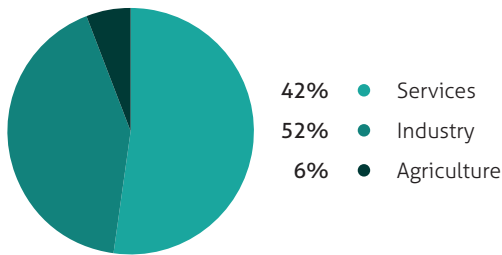
SELECTED COMMONWEALTH OF INDEPENDENT STATES (CIS) COUNTRY PROFILES

- Azerbaijan
- Kazakhstan
- Kyrgyzstan
- Tajikistan
- Turkmenistan
- Uzbekistan

AZERBAIJAN: AT A GLANCE

2016	IMF	World Bank
GDP growth (annual %)	-3.1%	-3.1%
GDP (\$)	\$37.56bln	\$37.85bln
GDP per capita (\$)	\$3,956	\$3,877
Inflation (annual %)	13.3%	4.2%

GDP Breakdown by Sectors (2016)



Currency Performance



72 years

Life expectancy at birth, total (years) (2015)



n/a

Poverty headcount ratio at national poverty lines (% of population) (2015)



99.7%

Adult literacy rate, population 15+ years, both sexes (2015)

Land area (sq.km)
86,600



32.6%

Account at a financial institution, male (% age 15) (2014)



100.0%

Access to electricity (% of population) (2014)



25.9%

Account at a financial institution, female (% age 15) (2014)



5.0%

Unemployment, total (% of total labour force) (2016)



57th (out of 190 countries)

Ease of Doing Business in Azerbaijan (2018)

Source: World Bank, IMF, UNESCO



AZERBAIJAN



Key Highlights and Recent Developments:

- In October 2007, Bahrain-based International Investment Bank (IIB) purchased a 49% stake in Amrahbank, a local bank in Baku. IIB, which is a shareholder of European Islamic Investment Bank (EIIB) in the U.K., is actively supporting the development of Islamic finance in both Muslim and non-Muslim majority countries.
- In 2008, the Caspian International Investment Corporation (CIIC), which operates according to Sharia'a principles was launched by ICD. It was established following an agreement signed at the International Investment Conference in Baku in 2006, a high-profile event organised by the IDB Group. ICD, IDB and the Azerbaijan State Investment Company (AIC) are the main founders. The main objective of the CIIC is to attract foreign investment from GCC countries to Azerbaijan and gain a strong foothold in the international market.
- In December 2008, ICD established the Azerbaijan Leasing Company Ltd (ANSAR Leasing) offering Sharia'a compliant leasing products.
- In 2014, the International Bank of Azerbaijan (IBA), the country's largest and the only state-owned bank, managed to raise USD252mln through a Sharia'a compliant syndicated loan from Al-Hilal Bank, Barwa

Current Population (2016)	9.762 million
Total Muslim Population (2010)	8.795 million
<i>% of Total</i>	98.4%
Total Muslim Population (2030E)	10.162 million
<i>% of Total</i>	98.4%

Bank, Citigroup, Dubai Islamic Bank, JP Morgan and Noor Bank. The purpose was to boost its Islamic financing capabilities.

- IBA also extended its Islamic financing facility to the Russian market via its subsidiary in IBA-Moscow.
- In February 2015, ICD signed a new agreement with leading Azerbaijani microfinance institution VisionFund AzerCredit (VF AzerCredit), which is part of the World Vision Azerbaijan program, a relief organization created to provide credit to underprivileged and disenfranchised people. The partnership is aimed at jointly developing Sharia'a microfinance-based products in the country.
- In October 2015, the IBA dissolved its Islamic banking operations, although it was reported that another commercial bank is working on launching Islamic banking products.

- In February 2016, it was reported that the country would see the launch of its first standalone Islamic bank as early as 2017.
- In December 2016, Baku International Sea Trade Port signed an agreement with ICD through which both entities will study the potential opportunities in the Port of Baku and Alat Free Trade Zone.
- In January 2017, the government of Azerbaijan signed a grant agreement with IDB for the provision of technical assistance in drafting an Islamic financing legislative base. The deal is aimed at analysing the banking legislation as well as introducing principles of Islamic banking in the country. IDB provided technical assistance worth USD200,000.
- In February 2017, the governor of the Central Bank of Iran (CBI) stated the country's plans to establish a bank in Azerbaijan with 100% Iranian ownership. The plan involves turning a branch of Bank Melli Iran in Azerbaijan into an independent Azerbaijani bank.
- In May 2017, ICD pledged to work with the Association for Azerbaijan-Arab Countries Cooperation (AACC) to introduce Islamic banking products in Azerbaijan and to lobby for changes



in Azerbaijani banking legislation in order to incorporate Islamic banking.

- In the same month, ALHuda Center of Islamic Banking and Economics (CIBE) and Studying of Economic Resources (SER) signed an agreement for the promotion and development of Islamic finance in Azerbaijan and other countries in the region. Under this agreement, both organizations will implement a strategy for research, product development, Sharia'a advisory and capacity building initiatives for the sustainable development of Islamic finance in Azerbaijan and the region.
- During the IDB Group Annual Meetings in Jeddah in May 2017, ICD signed an advisory services agreement with FINOKO to establish an Islamic microfinance window.
- ICD also entered into a joint strategic collaboration with the Azerbaijan National Academy of Sciences High Technologies Park (ANAS HTP) to help provide financing to companies and SMEs interested in realizing investment projects in Azerbaijan.



IDB Group Projects in Azerbaijan

Total projects: 67
Value: USD1,353.5 million

Mode	Project Name	Sector	Year	Entity	USD mln
Special Assistance	Maahad Al Imam Al Bukhari	Education	1991	IDB	\$0.3M
Special Assistance	Construction of 5 Quranic Schools	Education	1991	IDB	\$0.1M
Special Assistance	National Language Arabic Script Programme	Education	1991	IDB	\$0.0M
Special Assistance	Procurement of Food, Medicine and Agricultural Equipment	Other Social Services	1992	IDB	\$1.5M
Technical Assistance	F.S. of Samur Absheron Irrigation Canal	Agriculture	1992	IDB	\$0.3M
Technical Assistance	Detailed Design Tender Document for Road (Gazi-Mohd)	Transportation	1992	IDB	\$0.2M
Technical Assistance	T.A. for Khurdalan Milk Plant	Industry & Mining	1993	IDB	\$0.2M
Technical Assistance	T.A. for Lankeran Tomato Paste Plant	Industry & Mining	1993	IDB	\$0.2M
Technical Assistance	New Hanger at Baku International Airport (Phase I)	Transportation	1993	IDB	\$0.3M
Loan	Main Mill-Mughan Drainage Canal Project	Agriculture	1994	IDB	\$9.8M
Loan	Alyat Ghazi Mohamed Road	Transportation	1997	IDB	\$13.1M
Instalment Sale	Mingechaur Power Project	Energy	1998	IDB	\$12.5M
Loan	Khanarc Canal Project	Agriculture	1998	IDB	\$9.4M
Technical Assistance	Preparation of Tender Documents/Tender Evaluation for Mingechaur Power	Energy	1998	IDB	\$0.2M
Loan	Integrated Rural Development Project	Agriculture	1999	IDB	\$9.6M
Loan	Khanarc Canal (Phase II)	Agriculture	2001	IDB	\$9.4M
Technical Assistance	C.B. for Ministry of Finance	Public Administration	2001	IDB	\$0.4M
Loan	Improvement of Physical and Social Infrastructure Facilities Affected by the Earthquake of November 2000	Health	2002	IDB	\$9.0M
Instalment Sale	International Bank Azerbaijan (1st Line)	Finance	2003	ICD	\$4.5M
Instalment Sale	Rabita Bank (1st Line)	Finance	2003	ICD	\$0.8M
Instalment Sale	UniBank	Finance	2003	ICD	\$1.7M
Leasing	Telecom Cable Expansion Project	Finance	2003	IDB	\$10.0M
Istisna'a	Reconstruction of Ujar-Yevlakh Road Project	Transportation	2003	IDB	\$22.0M
Instalment Sale	Khachmaz Electric Substations and Transmission Line Project	Energy	2004	IDB	\$13.5M
Loan	Samur Absheron Irrigation Project (Velvelichary-Takhtakorpu Canal)	Agriculture	2004	IDB	\$10.1M
Loan	Construction of Social Infrastructure Facilities Project for IDPs	Health	2005	IDB	\$10.3M
Loan	Construction of Yevlakh-Ganja Road Project	Transportation	2005	IDB	\$10.4M
Technical Assistance	Strengthening the Capacity of the Ministry of Economic Development Project	Public Administration	2005	IDB	\$0.3M
Instalment Sale	Azerdemiryol Bank	Finance	2006	ICD	\$3.0M
Instalment Sale	Bank Standard	Finance	2006	ICD	\$3.0M
Instalment Sale	Internationa Bank Azerbaijan (2nd Line)	Finance	2006	ICD	\$2.0M
Instalment Sale	Rabita Bank ((2nd Line)	Finance	2006	ICD	\$1.0M

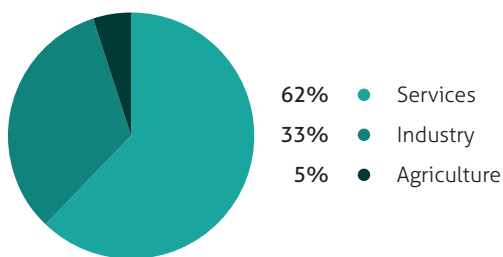
Mode	Project Name	Sector	Year	Entity	USD mln
Instalment Sale	Turan Bank	Finance	2006	ICD	\$1.0M
Technical Assistance	IDB International Investment Conference in Baku	Trade related activities	2006	IDB	\$0.3M
Equity	Caspian International Investment Company	Finance	2007	ICD	\$7.0M
Leasing	Mingechaur Hydro Power (Phase II) Project	Energy	2007	IDB	\$80.0M
Technical Assistance	C.B. of the State Committee for Securities	Public Administration	2007	IDB	\$0.3M
Equity	Azerbaijan Leasing Company (Ansar)	Finance	2008	ICD	\$6.2M
Instalment Sale	Baki Plaza	Real Estate	2008	ICD	\$20.0M
Technical Assistance	Strengthening the Capacity of the Cabinet of Ministers	Public Administration	2008	IDB	\$0.3M
Technical Assistance	F.S. for the Reconstruction of Mil-Garabagh Water Collector	Water, Sanitation & Urban Services	2008	IDB	\$0.3M
Trade (Murabaha)	Global Line of Finance Azerbaijan	Finance	2009	ICD	\$40.0M
Istisna'a	Janub Power Plant	Energy	2009	IDB	\$199.8M
Trade (Murabaha)	Pharmaceutical products	Industry & Mining	2009	ITFC	\$1.0M
Trade (Murabaha)	Plastic and raw material	Industry & Mining	2009	ITFC	\$1.0M
Istisna'a	Integrated Rural Development Project (Jeddah Declaration)	Agriculture	2010	IDB	\$14.9M
Istisna'a	Integrated Rural Development Project (Jeddah Declaration)	Agriculture	2010	IDB	\$49.5M
Loan	Integrated Rural Development Project (Jeddah Declaration)	Agriculture	2010	IDB	\$2.0M
Leasing	Baku Waste to Energy Plant	Energy	2010	IDB	\$191.2M
Trade (Murabaha)	Wheat	Finance	2010	ITFC	\$1.3M
Trade (Murabaha)	Cement Mixer	Industry & Mining	2010	ITFC	\$3.0M
Trade (Murabaha)	Home Appliances	Industry & Mining	2010	ITFC	\$1.2M
Trade (Murabaha)	Spare Parts of Control Valves for Control Plants	Industry & Mining	2010	ITFC	\$30.0M
Istisna'a	Support to the National Water Supply and Sanitation Program in Six Regions Project	Water, Sanitation & Urban Services	2011	IDB	\$200.1M
Istisna'a	Flood Protection, Modernization and Expansion of the Irrigated Areas Project in Nakhchivan Autonomous Republic	Water, Sanitation & Urban Services	2011	IDB	\$55.3M
Istisna'a	Flood Protection, Modernization and Expansion of the Irrigated Areas Project in Nakhchivan Autonomous Republic	Water, Sanitation & Urban Services	2011	IDB	\$9.5M
Technical Assistance	F.S. on Upgrading and Reconstruction of Ujar-Zardab-Agjabadi Road Project	Transportation	2011	IDB	\$0.3M
Trade (Murabaha)	Cement Mixer	Industry & Mining	2011	ITFC	\$1.0M
Trade (Murabaha)	Crawler Excavator, Dozers	Industry & Mining	2011	ITFC	\$3.5M
Trade (Murabaha)	Toys, Electronic items	Information & Communications	2011	ITFC	\$1.5M
Trade (Murabaha)	Home Appliances, Electrical and Electronic	Information & Communications	2011	ITFC	\$1.5M
Trade (Murabaha)	Home Appliances, Electrical and Electronic	Information & Communications	2012	ITFC	\$2.0M
Trade (Murabaha)	International Bank of Azerbaijan	Finance	2013	ICD	\$20.0M
Technical Assistance	Empowerment of Women Entrepreneurs Through Development of Planning Skills	Education	2013	IDB	\$0.0M
Trade (Murabaha)	Home Appliances, Electrical and Electronic	Information & Communications	2013	ITFC	\$5.0M
Istisna'a	Upgrading and Reconstruction of Ujar-Zardab-Agjabadi Road	Transportation	2014	IDB	\$224.4M
Trade (Murabaha)	Unibank (2)	Finance	2014	ICD	\$10.0M

Source: <http://www.isdb.org>

KAZAKHSTAN: AT A GLANCE

2016	IMF	World Bank
GDP growth (annual %)	1.1%	1.1%
GDP (\$)	\$133.67bln	\$137.28bln
GDP per capita (\$)	\$7,456	\$7,713
Inflation (annual %)	8.5%	6.6%

GDP Breakdown by Sectors (2016)



Currency Performance



72 years

Life expectancy at birth, total (years) (2015)



2.7%

Poverty headcount ratio at national poverty lines (% of population) (2015)



99.8%

Adult literacy rate, population 15+ years, both sexes (2015)

Land area (sq.km)
2.725 mil

Total population
17.797 mil

Currency
Kazakhstani tenge



52.0%

Account at a financial institution, male (% age 15) (2014)



100.0%

Access to electricity (% of population) (2014)



55.6%

Account at a financial institution, female (% age 15) (2014)



5.0%

Unemployment, total (% of total labour force) (2016)



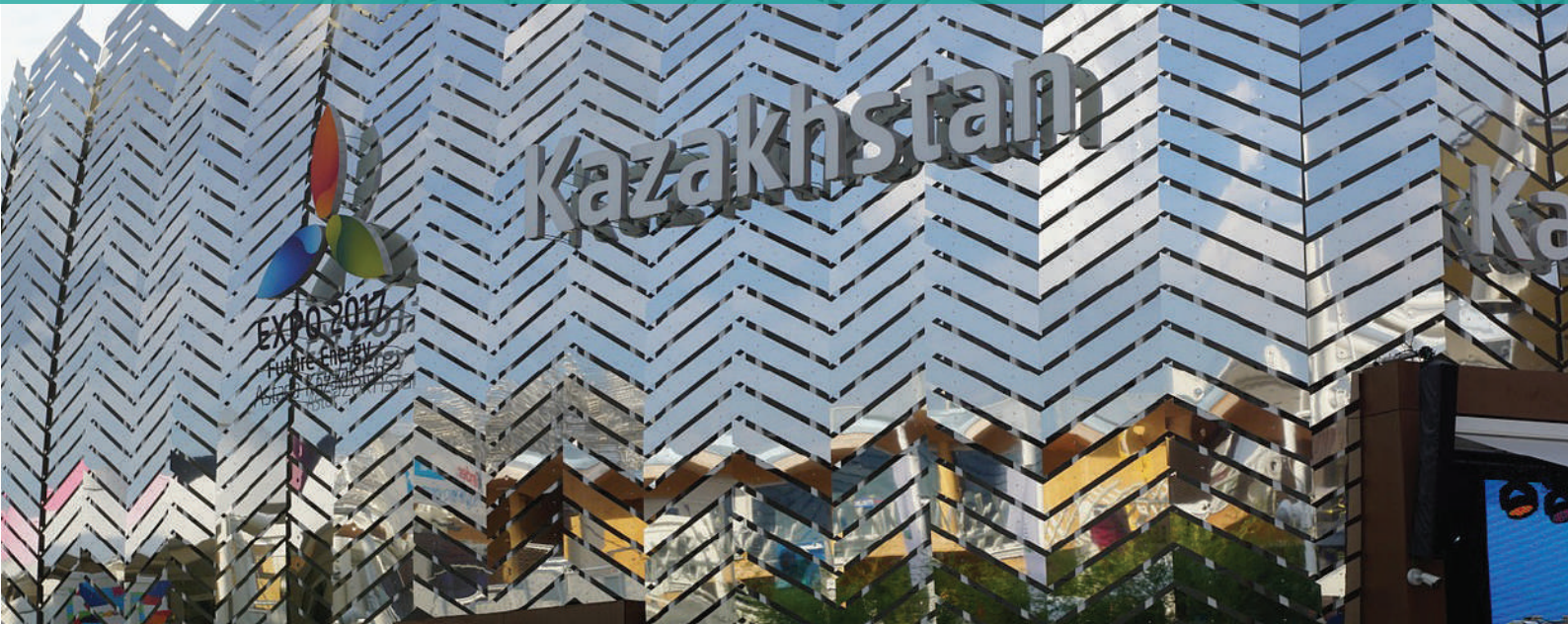
36th (out of 190 countries)

Ease of Doing Business in Kazakhstan (2018)

Source: World Bank, IMF, UNESCO



KAZAKHSTAN



Key Highlights and Recent Developments:

- More than half of Kazakhstan’s population of 17 million is Muslim, therefore the country has made significant efforts in developing the Islamic finance industry domestically.
- In November 1995, Kazakhstan became an IDB member, where it continues to play a major role in the development of Islamic finance in the country. Soon after in 1997, IDB opened its regional office in Almaty from which to better approach the local governments in the CIS region.
- In 2009, Kazakhstan became the first of the CIS countries to alter its legislation in order to facilitate Islamic banking and finance. In particular, it relaxed the conventional taxation system, which was too burdensome for banking mechanisms that do not operate through interest rates.
- In the same year, the Association of Islamic Finance Development (ADIF) was established. Supported by the National Bank of the Republic of Kazakhstan (NBK), ADIF’s activities are designed to facilitate the development of the Islamic finance market in the country through active cooperation with international organizations and investors. ADIF is the first legal entity in Kazakhstan to provide a full range of Islamic finance services, from training to attracting investments in the economy.

Current Population (2016)	17.797 million
Total Muslim Population (2010)	8.887 million
<i>% of Total</i>	56.4%
Total Muslim Population (2030E)	9.728 million
<i>% of Total</i>	56.4%

- In 2010, Abu-Dhabi based Al-Hilal Bank became the first and the only full-fledged Islamic bank in the country under an agreement between Kazakhstan and UAE.
- Takaful was introduced in the same year with the Halal Mutual Insurance Takaful being the first Islamic insurance company in the country. There is also an Islamic investment fund in the form of the Hajj Fund of Kazakhstan which is owned by Malaysia’s AmanahRaya and local Fattah Finance, the first brokerage company in the country which provides financial services according to Sharia’a law and manages Islamic investment funds.
- Kazakhstan’s Islamic finance industry took a step forward in the same year when President Nazarbayev declared his intention to make Kazakhstan the regional hub for Islamic finance, announcing a 41-point plan setting targets for new Islamic banks.

- In 2011, the country's Islamic finance laws and regulations enjoyed further improvement through the establishment of a legal framework for the issue of sovereign Islamic securities such as sukuk.
- In the same year, Kazakhstan became a member of the Islamic Financial Services Board (IFSB).
- In March 2012, the Government approved the Islamic Finance Development Roadmap 2020, in which it determines the implementation of initiatives that will help grow the Islamic finance industry. Specifically, this roadmap would include the establishment of Islamic mechanisms for managing disputes.
- Underpinned by the new sukuk law, in July 2012, the Development Bank of Kazakhstan partnered with the Central Bank of Malaysia to issue a USD57mln denominated sukuk (sukuk al-murabahah), the first in the CIS region.
- In the same year, the Fund for Financial Support of Agriculture (FFSA) launched the Murabahah Program for Islamic Microfinance under an agreement between the IDB and the Fund.
- In March 2013, ICD took a stake in Zaman Bank in order to convert it into an Islamic lender.
- In the same year, ICD and a group of international and local investors established the first Sharia'a compliant leasing company, Kazakhstan Ijarah Company.
- In 2014, the NBK became an observer member of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and an observer member of the International Islamic Financial Market (IIFM), a standard-setting body that focuses on the standardization of Islamic financial contracts and product templates relating to the capital and money markets, corporate finance, and trade finance segments of the Islamic finance industry.
- The year 2015 was particularly favourable for Islamic finance in Kazakhstan. Facing a new financial crisis, the devaluation of the Kazakh currency, the tenge, and the slowdown of foreign investments, the government sought to diversify its sources of financing. In April, President Nazarbayev passed a new law authorizing Islamic insurance, leasing and deposits in compliance with Sharia'a law.





- In May 2015, the ADIF signed a cooperation agreement with Shariyah Review Bureau (SRB), a bureau which is licensed by the Central Bank of Bahrain and operates globally to develop services in accordance with Sharia'a law.
- In the same month, Kazakhstan Stock Exchange and Nasdaq Dubai Islamic partnered up to develop the country's Islamic capital market sector.
- In November 2015, the parliament approved new Islamic finance laws and amendments to launch the nation's first sovereign sukuk, to authorize conventional banks to convert to Islamic banks, and to open an offshore centre in Astana-- one of its aims being to attract Islamic finance.
- In December 2015, the Central Bank of Kazakhstan made plans to reduce the capital required from Islamic banks by half, decreasing from USD16mln to USD8mln. This measure was aimed at attracting both local and foreign investors and at diversifying the Islamic partners.
- In August 2017, Kazakhstan's previously commercial Zaman Bank became an official Islamic bank after receiving a license from the NBK. The license allows the bank to tap into the Islamic banking sector and makes Zaman Bank the second Islamic bank in the country.
- It was reported that Kazakhstan will issue sukuk worth USD300mln in 2018 through the Development Bank of Kazakhstan, according to an announcement by President Nazarbayev during the Global Islamic Finance Awards ceremonies which were held as a parallel event to the OIC conference on 10-11 September 2017.

IDB Group Projects in Kazakhstan

Total projects: 66
Value: USD1,990.7 million

Mode	Project Name	Sector	Year	Entity	USD mln
Special Assistance	One Islamic Institute and Six Quranic Schools	Education	1992	IDB	\$0.4M
Technical Assistance	F.S. Study for Karaganda-Akmola Road	Transportation	1993	IDB	\$0.3M
Technical Assistance	F.S. and Preliminary Design for Baravoe-Kokshetau-Petropavlovsk Road Project	Transportation	1996	IDB	\$0.2M
Instalment Sale	Health Sector Project	Health	1997	IDB	\$4.5M
Loan	Reconstruction of the Almaty Gulshad Road	Transportation	1998	IDB	\$9.6M
Combined Lines of Financing	Allocation for Lines of Financing to Three Banks	Finance	2000	IDB	\$14.7M
Istisna'a	Karaganda-Astana Road Project	Transportation	2000	IDB	\$20.0M
Special Assistance	Iqra University, Almaty, Kazakhstan	Education	2001	IDB	\$0.3M
Technical Assistance	C.B. of the Institute of Physics and Technology	Education	2001	IDB	\$0.3M
Technical Assistance	T.A. for Economic F.S of Almaty-Bystrovka Road	Transportation	2002	IDB	\$0.3M
Instalment Sale	Modernization of Postal Services Project	Information & Communications	2003	IDB	\$9.0M
Loan	Rural Water Supply Project	Water, Sanitation & Urban Services	2003	IDB	\$9.5M
Leasing	Agrofirma Kenozhi Ltd., Schuchinsk	Finance	2003	IDB	\$5.2M
Special Assistance	Additional Grant for the Renovation and Equipping of Iqra University	Education	2003	IDB	\$0.2M
Trade (Murabaha)	Agriculture Products	Finance	2003	IDB	\$10.0M
Instalment Sale	Wireline Oilfield Services, WOS	Industry & Mining	2004	ICD	\$8.0M
Leasing	Agriculture	Finance	2004	IDB	\$4.0M
Leasing	Limited Liabilities Co. "BOGVI"	Finance	2004	IDB	\$4.0M
Technical Assistance	Microfinance to Rural Areas Project	Finance	2004	IDB	\$0.2M
Trade (Murabaha)	Electronics	Finance	2004	IDB	\$1.0M
Trade (Murabaha)	Oil Transportation	Finance	2004	IDB	\$10.0M
Trade (Murabaha)	Purchase of Fiber Optic Cables & Acseries CJSC	Finance	2004	IDB	\$15.0M
Combined Lines of Financing	Halyk Bank	Finance	2007	IDB	\$50.0M
Combined Lines of Financing	Kazkommerts Bank	Finance	2007	IDB	\$50.0M
Technical Assistance	Preparation of a Detailed Study for Modernization of Mail Services and Establishment of Postal Savings System	Information & Communications	2008	IDB	\$0.2M
Combined Lines of Financing	Kazagrofinance Line of Financing	Finance	2009	IDB	\$30.0M
Combined Lines of Financing	Nur Bank Line of Financing	Finance	2009	IDB	\$10.0M
Istisna'a	Reconstruction of Road Section Border of South Kazakhstan Oblast-Taraz Project	Transportation	2009	IDB	\$186.0M
Special Assistance	Extension of the Egyptian University Culture of Islamic Culture, Almaty	Education	2009	IDB	\$1.0M
Trade (Murabaha)	All Goods Acceptable Under ITFC Rules for Trade Financing	Finance	2009	ITFC	\$5.0M

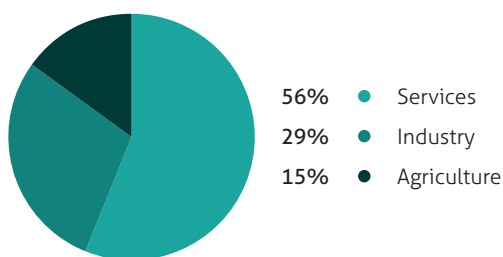
Mode	Project Name	Sector	Year	Entity	USD mln
Loan	Microfinance to Rural Areas Project	Finance	2010	IDB	\$10.0M
Technical Assistance	Establishment of a Lab for Halal Certification of Food	Industry & Mining	2010	IDB	\$0.3M
Trade (Murabaha)	Wheat	Agriculture	2011	ITFC	\$50.0M
Trade (Murabaha)	Wheat	Agriculture	2011	ITFC	\$30.0M
Trade (Murabaha)	Wheat	Agriculture	2011	ITFC	\$50.0M
Equity	Kazakhstan Leasing Company	Finance	2012	ICD	\$10.0M
Equity	Zaman Bank	Finance	2012	ICD	\$10.0M
Technical Assistance	National Bank of Kazakhstan to Develop Legal Framework for Islamic Finance	Finance	2012	IDB	\$0.2M
Trade (Murabaha)	Wheat	Agriculture	2012	ITFC	\$65.0M
Trade (Murabaha)	Wheat	Agriculture	2012	ITFC	\$30.0M
Trade (Murabaha)	Wheat	Agriculture	2012	ITFC	\$65.0M
Trade (Murabaha)	Wheat	Agriculture	2012	ITFC	\$50.0M
Trade (Murabaha)	AIC Investment	Agriculture	2013	ICD	\$10.0M
Trade (Murabaha)	AIC Investment	Finance	2013	IDB	\$10.0M
Trade (Murabaha)	Wheat	Agriculture	2013	ITFC	\$125.0M
Trade (Murabaha)	Wheat	Agriculture	2013	ITFC	\$50.0M
Technical Assistance	Preparation of Preliminary Institutional Framework Study for the OIC Food Security Organization	Public Administration	2014	IDB	\$0.3M
Trade (Murabaha)	Zaman Leasing LLP	Finance	2014	IDB	\$12.0M
Trade (Murabaha)	Wheat	Agriculture	2014	ITFC	\$50.0M
Instalment Sale	Agriculture Sector Support	Agriculture	2015	IDB	\$70.0M
Istisna'a	Rehabilitation of Irrigation and Drainage	Agriculture	2015	IDB	\$235.5M
Leasing	Rehabilitation of Irrigation and Drainage	Agriculture	2015	IDB	\$14.1M
Trade (Murabaha)	KazAgroFinance	Finance	2015	ICD	\$25.0M
Technical Assistance	Preparation of F.S. for Livestock and Dairy Development	Agriculture	2016	IDB	\$0.3M
Technical Assistance	Developing the Capacities of Al-Farabi Kazakh National University, Kazakhstan in Phytochemical Development.	Education	2016	IDB	\$0.2M
Technical Assistance	Diagnostic Mission to initiate a Reverse Linkage Project between Kazakhstan (Recipient) and Malaysia (Provider) in Halal Ecosystem	Education	2016	IDB	\$0.0M
Trade (Murabaha)	Zaman Leasing LLP	Finance	2016	IDB	\$2.5M
Istisna'a	Reconstruction of Aktobe-Makat Road	Transportation	2017	IDB	\$205.6M
Istisna'a	Reconstruction of Atyrau - Border of Russian Federation (Astrakhan) Road Project	Transportation	2017	IDB	\$312.2M
Leasing	Reconstruction of Aktobe-Makat Road	Transportation	2017	IDB	\$9.5M
Leasing	Reconstruction of Atyrau - Border of Russian Federation (Astrakhan) Road Project	Transportation	2017	IDB	\$16.3M
Trade (Murabaha)	Kazakhstan Ijara Company (NBFI)	Finance	2017	ICD	\$4.0M

Source: <http://www.isdb.org>

KYRGYZSTAN: AT A GLANCE

2016	IMF	World Bank
GDP growth (annual %)	3.8%	3.8%
GDP (\$)	\$6.55bln	\$6.55bln
GDP per capita (\$)	\$1,073	\$1,077
Inflation (annual %)	-0.5%	0.4%

GDP Breakdown by Sectors (2016)



Currency Performance



71 years

Life expectancy at birth, total (years) (2015)



32.1%

Poverty headcount ratio at national poverty lines (% of population) (2015)



99.5%

Adult literacy rate, population 15+ years, both sexes (2015)

Total population
6.082 mil

Land area (sq.km)
199,900

Currency
Kyrgyzstani som



17.9%

Account at a financial institution, male (% age 15) (2014)



Capital
Bishkek

Export commodities
Gold, cotton, wool, garments, meat, electricity, machinery

Official Language(s)
Kyrgyz, Russian



18.9%

Account at a financial institution, female (% age 15) (2014)



99.8%

Access to electricity (% of population) (2014)



7.2%

Unemployment, total (% of total labour force) (2016)



77th (out of 190 countries)

Ease of Doing Business in Kyrgyzstan (2018)

Source: World Bank, IMF, UNESCO



KYRGYZSTAN



Key Highlights and Recent Developments:

- Beginning in the 1990s, Kyrgyzstan positioned itself as the main recipient of Islamic finance earmarked for the region, a role which has since been gradually captured by Kazakhstan.
- In 1997, a Kyrgyz businessman bought a local branch of Russian Credit Bank and renamed it EcoBank to “break the monopoly” of the conventional banking system in Kyrgyzstan and offer Islamic finance as a viable alternative.
- Following the Tulip Revolution in 2005, President Kurmanbek Bakiyev initiated the introduction of Islamic finance to the country.
- In 2005, the EcolslamicBank was created from the former EcoBank after President Bakiyev was persuaded of the merits of the Islamic banking system using the example of Malaysia’s success.
- By July 2007, following an agreement between the Kyrgyz government and the IDB, EcolslamicBank was inaugurated as the pilot project for Islamic banking in the country.
- In March 2009, the country’s parliament approved legislation enabling all commercial banks in Kyrgyzstan to operate according to Sharia’a principles. The National Bank of Kyrgyzstan will

Current Population (2016)	6.082 million
Total Muslim Population (2010)	4.927 million
<i>% of Total</i>	88.8%
Total Muslim Population (2030E)	6.140 million
<i>% of Total</i>	93.8%

be responsible for issuing licences to Sharia’a compliant financial institutions, as well as supervising and regulating their activity.

- In September 2011, IDB signed a financing agreement with Kyrgyzstan amounting to USD23.08mln to improve power supplies in the cities of Bishkek and Osh.
- In 2011, Kompanion Invest, a subsidiary of Kompanion Bank CJSC, became the first microcredit company in the country that complies with Sharia’a law.
- In 2012, Kyrgyzstan signed an agreement with IDB for technical assistance worth USD193mln for the development of Islamic finance services in the country.





- In March 2013, a Committee for the Development of Islamic Finance was established and was tasked to support the engagement of private and public sectors in the Islamic economy.
- Several microcredit organizations in the country work in accordance with the Murabahah principle and, in February 2014, Kyrgyzstan set up a pilot project to launch Islamic insurance (takaful).
- In May 2014, international law firm Simmons & Simmons signed an agreement with the Kyrgyz government to provide consultancy services for the development of laws and regulations supporting the introduction of takaful and sukuk in the country. The consultancy services to be provided by Simmons & Simmons are to be funded under a technical assistance grant provided by the IDB.
- In 2015, ICD launched the first Islamic leasing company in Kyrgyzstan in order to serve the growing demand of small and medium-sized businesses for Islamic financial products and services.
- In February 2016, IFC, a member of the World Bank Group, released a study which highlighted the overwhelming demand for Islamic finance among smaller business in Kyrgyzstan. The report revealed that 80% of micro, small and medium enterprises are interested in Sharia'a compliant financing, a market that could be worth up to USD456mln for lenders. Despite the potential, the study found that Islamic finance was not widely available because of a lack of awareness and the high cost of structuring transactions.
- In February 2017, it was reported that Kyrgyzstan's Ministry of National Economy was considering the introduction of changes and amendments related to Islamic financing principles to the tax code of the Republic to create a unified equal law-based financial environment.
- In May 2017, ICD signed an agreement with the Russian-Kyrgyzstan Development Fund in order to explore avenues for collaboration and develop joint products to provide additional financing tools for the country's private sector, specifically for small and medium-sized businesses.
- Currently, the National Bank of Kyrgyzstan and IDB Group is undergoing a feasibility study in order to understand the necessity for the establishment of a new Islamic bank in the country.

IDB Group Projects in Kyrgyzstan

Total projects: 60
Value: USD339.0 million

Mode	Project Name	Sector	Year	Entity	USD mln
Special Assistance	One Islamic Institute and 4 Quranic Schools	Education	1992	IDB	\$0.3M
Special Assistance	Assistance to Earthquake Victims of Toktogul Region	Other Social Services	1992	IDB	\$1.1M
Special Assistance	F.S. for Export of Power	Other Social Services	1993	IDB	\$0.3M
Loan	Specialized Maternity Hospital	Health	1995	IDB	\$1.9M
Technical Assistance	F.S. Preparation of Tender Documents for Bishkek-Torugart Road	Transportation	1995	IDB	\$0.3M
Instalment Sale	Manufacture of Distribution Transformers Substations	Industry & Mining	1996	IDB	\$8.0M
Loan	220 KV Transmission Line	Energy	1997	IDB	\$10.1M
Loan	The National Center of Cardiology and Therapeutics	Health	1997	IDB	\$3.0M
Special Assistance	Feasibility Study and Detailed Design for Talas Jambul - Suusamyр Road	Other Social Services	1997	IDB	\$0.3M
Loan	Construction of the Bishkek-Osh Road	Transportation	1998	IDB	\$10.0M
Loan	Reconstruction of Taraz-Talas Suusamyр Road	Transportation	2000	IDB	\$9.2M
Special Assistance	Capacity Building for State Property and Direct Investments (SPADI)	Other Social Services	2002	IDB	\$0.2M
Special Assistance	Urgent Relief (Utilized for Reconstruction & Equipping of School in Osh)	Other Social Services	2003	IDB	\$0.2M
Technical Assistance	C.B. of International Charitable Foundation Project	Health	2003	IDB	\$0.1M
Technical Assistance	Strengthening the Capacity of the Ministry of Finance	Public Administration	2005	IDB	\$0.2M
Instalment Sale	EcoBank	Finance	2006	ICD	\$1.0M
Loan	110 KV Aigul Tash to Samat Transmission Line Substation	Energy	2007	IDB	\$12.0M
Loan	Reconstruction of Osh-Irkeshtam Road	Transportation	2007	IDB	\$17.3M
Loan	Reconstruction of Taraz-Talas Suusamyр Road	Transportation	2007	IDB	\$3.6M
Technical Assistance	Introduction of Islamic Banking and Finance Principles	Finance	2007	IDB	\$0.3M
Leasing	Kurmenty Cement Co.	Industry & Mining	2008	ICD	\$14.4M
Loan	Taraz- Talas- Susamyр Road (Phase II)	Transportation	2008	IDB	\$11.2M
Technical Assistance	Replenishment of Food Security Stocks - Phase I Jeddah Declaration	Agriculture	2008	IDB	\$0.7M
Loan	Reconstruction of Bishkek-Torugart Road Project	Transportation	2009	IDB	\$17.0M
Technical Assistance	Development of Islamic Financial Services Industry	Finance	2009	IDB	\$0.2M
Loan	Microfinance Project	Finance	2009	IDB	\$5.0M
Loan	Microfinance Project for Rural Areas - Bai Ordo Co.	Finance	2009	IDB	\$1.0M
Technical Assistance	Production of Improved Seeds of Wheat (Jeddah Declaration)	Agriculture	2009	IDB	\$0.4M

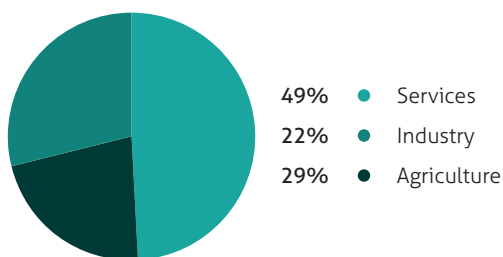
Mode	Project Name	Sector	Year	Entity	USD mln
Technical Assistance	Microfinance Project	Finance	2009	IDB	\$0.3M
Technical Assistance	Microfinance Project for Rural Areas - Bai Ordo Co.	Finance	2009	IDB	\$0.1M
Technical Assistance	Emergency Assistance for Affected People and Refugees	Health	2010	IDB	\$1.2M
Loan	Improvement of Electricity Supply in Bishkek and Osh Cities Project	Energy	2011	IDB	\$23.1M
Loan	Sustainable Villages Project	Agriculture	2012	IDB	\$6.0M
Loan	Sustainable Villages Project	Agriculture	2012	IDB	\$3.0M
Loan	Reconstruction of Taraz-Talas-Suusamyр Road (Phase III) Project	Transportation	2012	IDB	\$10.0M
Technical Assistance	Project Preparation Facility for the ISFD Sustainable Villages Project	Agriculture	2012	IDB	\$0.1M
Loan	Microfinance Project for Rural Development - Center Kapital	Finance	2012	IDB	\$1.1M
Loan	Microfinance Project for Rural Development - Finance Partner	Finance	2012	IDB	\$1.2M
Loan	Microfinance Project for Rural Development - OJSC "Kyrgyzstan Commercial Bank"	Finance	2012	IDB	\$1.0M
Technical Assistance	Microfinance Project for Rural Development - Center Kapital	Finance	2012	IDB	\$0.1M
Technical Assistance	Microfinance Project for Rural Development - Finance Partner	Finance	2012	IDB	\$0.1M
Technical Assistance	Microfinance Project for Rural Development - OJSC "Kyrgyzstan Commercial Bank"	Finance	2012	IDB	\$0.1M
Loan	Improvement of Electricity Supply in Arka Area of Batken Region	Energy	2013	IDB	\$16.3M
Loan	Reconstruction of Osh-Batken-Isfana Road Project	Transportation	2013	IDB	\$21.3M
Equity	Ijara Company Kyrgyzstan (ICK)	Finance	2014	ICD	\$1.5M
Technical Assistance	Reverse Linkage Between KYR and IND in Artificial Insemination Livestock	Agriculture	2014	IDB	\$0.3M
Trade (Murabaha)	Global Line of Finance for Kyrgyzstan	Finance	2014	ICD	\$10.0M
Technical Assistance	Improving Employability of Kyrgyzstani Youth	Finance	2014	IDB	\$0.1M
Loan	Sarymsak Irrigation Scheme Development Project	Agriculture	2015	IDB	\$10.3M
Loan	Sarymsak Irrigation Scheme Development Project	Agriculture	2015	IDB	\$3.0M
Loan	Central Asia-South Asia Electricity Transmission and Trade Project (CASA-1000)	Energy	2015	IDB	\$12.5M
Loan	Central Asia-South Asia Electricity Transmission and Trade Project (CASA-1000)	Energy	2015	IDB	\$12.5M
Loan	Central Asia-South Asia Electricity Transmission and Trade Project (CASA-1000)	Energy	2015	IDB	\$12.5M
Loan	Central Asia-South Asia Electricity Transmission and Trade Project (CASA-1000)	Energy	2015	IDB	\$12.5M
Loan	Reconstruction of The North-South Alternative Highway Project (Balyktchy T – Jalal-Abad T)	Transportation	2015	IDB	\$12.0M
Loan	Rural Water Supply and Sanitation Improvement Project – Kyrgyz Republic	Agriculture	2016	IDB	\$15.0M
Loan	Rural Water Supply and Sanitation Improvement Project – Kyrgyz Republic	Agriculture	2016	IDB	\$5.0M
Equity	Kyrgyz SME Fund	Finance	2017	ICD	\$8.0M
Trade (Murabaha)	MolBulak	Finance	2017	ICD	\$10.0M

Source: <http://www.isdb.org>

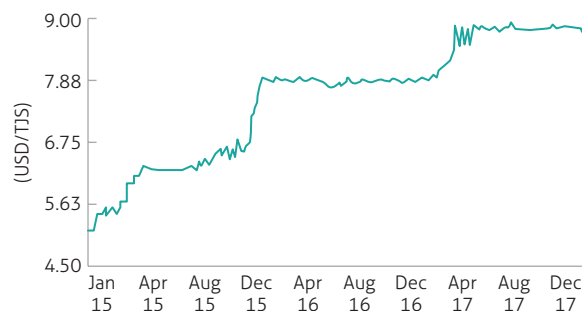
TAJIKISTAN: AT A GLANCE

2016	IMF	World Bank
GDP growth (annual %)	6.9%	6.9%
GDP (\$)	\$6.92bln	\$6.95bln
GDP per capita (\$)	\$800	\$796
Inflation (annual %)	6.1%	6.0%

GDP Breakdown by Sectors (2016)



Currency Performance



71 years

Life expectancy at birth, total (years) (2015)



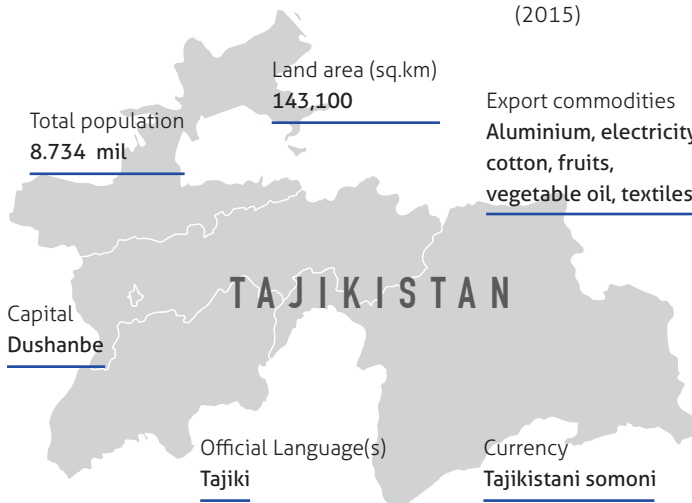
31.3%

Poverty headcount ratio at national poverty lines (% of population) (2015)



99.8%

Adult literacy rate, population 15+ years, both sexes (2015)



13.9%

Account at a financial institution, male (% age 15) (2014)



100.0%

Access to electricity (% of population) (2014)



9.1%

Account at a financial institution, female (% age 15) (2014)



2.4%

Unemployment, total (% of total labour force) (2016)



123rd (out of 190 countries)

Ease of Doing Business in Tajikistan (2018)

Source: World Bank, IMF, UNESCO



TAJIKISTAN



Key Highlights and Recent Developments:

- In Tajikistan, a poorly regulated banking system, shallow capital markets and limited integration into the global financial system has not allowed Islamic finance to develop significantly.
- Tajikistan is the third lowest country in the world in terms of financial depth, with only 11.5% of adults having an account with at least one formal financial institution, 4.8% of adults having a bank loan, 0.3% of adults having formal savings and only 0.8% of adults having paid for health insurance. Therefore improved financial intermediation and sector development is still high on the agenda.
- Tajikistan has been an IDB member since 1996. The country was among the penultimate group of states to join, and has since become actively involved in the Bank's projects in energy, transport systems and health care.
- Following a request from the government in 1998, IDB began to finance a reconstruction project of secondary schools in rural areas of the country. The project consisted of three phases, with IDB's contribution amounting to USD17.49mln out of the overall value of USD20.04mln. Through IDB investments, 13 schools and an orphanage have been reconstructed in 13 rural areas of Tajikistan.

Current Population (2016)	8.734 million
Total Muslim Population (2010)	7.006 million
<i>% of Total</i>	<i>99.0%</i>
Total Muslim Population (2030E)	9.525 million
<i>% of Total</i>	<i>99.0%</i>

- Providing another example, since 2004, Tajikistan has been streamlining efforts in order to rectify the country's power problems by constructing mini hydropower plants rural areas which will be managed by Barki Tojik, the country's state utility company. Since the project's approval in 2004, IDB has financed five out of eight mini hydropower plants, amounting to USD11.15mln out of an overall budget of USD14.5mln.
- Despite these successes, limited progress towards a full Islamic banking sector was made until August 2014, when the country's Islamic banking legislation was enacted. The law was drafted since 2012 by the assistance of Zaid Ibrahim & Co, Malaysia's biggest law firm, under the technical support grant from IDB.

- In July 2012, the International Islamic Trade Finance Corporation (ITFC), a member of the IDB group, signed a USD40mln financing agreement with Tajikistan for the imports of gasoline and diesel.
- Currently, ICD provides lines of finance to local banks in Tajikistan in order to support small and medium-sized businesses in the country. ICD's portfolio in Tajikistan stands at USD65mln as of July 2017.
- In 2013, ICD established the first Islamic leasing company in the country, ASR Leasing, and together with strategic investors, ICD is currently exploring the establishment of an SME fund which will operate under Sharia'a principles.
- Alif Capital is the first regulated microfinance institution in Tajikistan that offers Sharia'a compliant finance focusing on small and medium-sized enterprises.
- In May 2015, Tajik lender Bonki Rusdhi Tojikistan confirmed that it will be converting its business to become a full-fledged Islamic bank. Announcing its intentions to do so in October 2014, the bank's transformation will be assisted by ICD. So far, no progress has been made.
- Recently, Sohibcor Bank confirmed that it will be converting its business to become the country's first full-fledged Islamic bank by 2018. The transformation will be assisted by ICD's specialised team which, in the past decade, has successfully converted several banks and leasing companies into Sharia'a compliant financial institutions. This latest initiative showcases ICD's concerted push for Islamic finance development in Tajikistan.
- In January 2016, ICD agreed to extend a line of Sharia'a compliant financing facility via local financier Agroinvestbank to support SMEs in the industrial, communication, technology, health, construction and agricultural sectors. The latest initiative builds on ICD's previous USD11.5mln line of facility to the country and form part of its USD25.0mln country program allocation for Tajikistan.
- In February 2017, the National Bank of Tajikistan established the Consultative Council for Islamic Banking Services with the aim of introducing Islamic finance in the country.



IDB Group Projects in Tajikistan

Total projects: 76
Value: USD459.9 million

Mode	Project Name	Sector	Year	Entity	USD mln
Special Assistance	Construction of Hostel Building	Education	1991	IDB	\$0.2M
Special Assistance	Construction of 4 Quranic Schools (Utilized for Termizi University)	Education	1991	IDB	\$0.1M
Special Assistance	National Language Arabic Script Programme	Education	1991	IDB	\$0.0M
Special Assistance	Assistance for Tajik Refugees	Other Social Services	1993	IDB	\$0.3M
Loan	Republican Center for Cardiovascular Thoracic Surgery	Health	1997	IDB	\$3.0M
Technical Assistance	Design for Irrigation of 6000Ha in Dangara Valley	Agriculture	1997	IDB	\$0.3M
Technical Assistance	F.S. for Construction of a 15km Road from Kulma Pass to Karakorum	Transportation	1997	IDB	\$0.3M
Loan	Reconstruction and Completion of Secondary Schools	Education	1998	IDB	\$9.5M
Special Assistance	Institution and Capacity Building of the Ministry of Education	Education	1998	IDB	\$0.2M
Technical Assistance	F.S. for Construction of 31km Road from Shagon to Zigar	Transportation	1998	IDB	\$0.3M
Loan	Construction of Murgab-Kulma Pass Highway	Transportation	1999	IDB	\$9.5M
Loan	Power Project	Energy	2000	IDB	\$9.3M
Technical Assistance	F.S. of Hydropower Plants in Rural Areas	Energy	2000	IDB	\$0.2M
Loan	Dangara Valley Irrigation Project	Agriculture	2001	IDB	\$8.1M
Loan	Emergency Surgical Care Center Project	Health	2001	IDB	\$2.5M
Loan	Construction of Shagon-Zigar Road Project	Transportation	2001	IDB	\$9.1M
Technical Assistance	Capacity Building of National Bank of Tajikistan Project	Finance	2001	IDB	\$0.2M
Loan	Microfinance Project	Finance	2002	IDB	\$1.0M
Loan	Dushanbe Water Supply Project	Water, Sanitation & Urban Services	2003	IDB	\$9.2M
Special Assistance	Feasibility Study for Establishment of Investment Holding Company	Other Social Services	2003	IDB	\$0.1M
Technical Assistance	C.B. of the Ministry of Economy and Trade Project	Public Administration	2003	IDB	\$0.2M
Technical Assistance	Organization of International Investment Conference in Tajikistan and Uzbekistan	Trade related activities	2003	IDB	\$0.3M
Loan	Mini Hydropower Plants in the Rural Areas Project	Energy	2004	IDB	\$9.2M
Loan	Power Project	Energy	2004	IDB	\$1.9M
Loan	Shagon-Zigar Road (Phase II) Project	Transportation	2004	IDB	\$13.8M
Loan	Reconstruction of Secondary Schools (Phase II)	Education	2005	IDB	\$10.5M
Loan	Construction and Equipping of Dangara General Hospital	Health	2005	IDB	\$10.5M
Special Assistance	Capacity Building of AmonatBank	Other Social Services	2005	IDB	\$0.2M
Instalment Sale	Agroinvest Bank	Finance	2006	ICD	\$1.5M

Mode	Project Name	Sector	Year	Entity	USD mln
Special Assistance	Construction of Imam Termizi University (Female Section), Dushanbe	Education	2006	IDB	\$0.2M
Loan	Power Project	Energy	2007	IDB	\$3.0M
Loan	Regional Power Transmission Interconnection Project	Energy	2007	IDB	\$10.0M
Loan	Dangara Valley Irrigation Network Project (Phase II)	Agriculture	2008	IDB	\$13.2M
Special Assistance	Emergency Aid to Victims of Severe Weather, 2008	Other Social Services	2008	IDB	\$0.2M
Technical Assistance	Replenishment of Food Security Stocks - Phase I (Jeddah Declaration)	Agriculture	2008	IDB	\$1.0M
Trade (Murabaha)	Agricultural Inputs	Agriculture	2008	ITFC	\$14.0M
Loan	Microfinance Project for Rural Areas - National Bank of Tajikistan	Finance	2009	IDB	\$6.0M
Loan	Construction of Kulyab-Kalaikhum Road Project	Transportation	2009	IDB	\$20.0M
Loan	Dangara Valley Irrigation Network Project (Phase II)	Agriculture	2009	IDB	\$2.6M
Loan	Regional Power Transmission Interconnection Project	Energy	2009	IDB	\$4.1M
Loan	Microfinance Project for Rural Areas - Amonatbank, Tajikistan	Finance	2009	IDB	\$2.5M
Loan	Microfinance Project for Rural Areas - Tojiksodirotbank, Tajikistan	Finance	2009	IDB	\$1.5M
Loan	Construction and Equipping of Dangara General Hospital	Health	2009	IDB	\$2.0M
Technical Assistance	Production of Improved Seeds of Wheat (JED Declaration)	Agriculture	2009	IDB	\$0.4M
Technical Assistance	Microfinance Project for Rural Areas - Amonatbank, Tajikistan	Finance	2009	IDB	\$0.1M
Technical Assistance	Microfinance Project for Rural Areas - National Bank of Tajikistan	Finance	2009	IDB	\$0.2M
Technical Assistance	Microfinance Project for Rural Areas - Tojiksodirotbank, Tajikistan	Finance	2009	IDB	\$0.0M
Trade (Murabaha)	Global Line of Finance Tajikistan	Finance	2010	ICD	\$10.0M
Loan	Shagon-Zigar Road (Phase III) Project	Transportation	2011	IDB	\$18.7M
Loan	Dushanbe Water Supply Project	Water, Sanitation & Urban Services	2011	IDB	\$2.1M
Technical Assistance	TA for Development of Islamic Banking	Finance	2011	IDB	\$0.2M
Loan	Secondary Schools Development Project	Education	2012	IDB	\$17.5M
Loan	Vocational Literacy Program for Poverty Reduction Project (VOLIP)	Education	2012	IDB	\$4.4M
Loan	Vocational Literacy Program for Poverty Reduction Project (VOLIP)	Education	2012	IDB	\$5.5M
Loan	Mini Hydropower Plants in the Rural Areas Project	Energy	2012	IDB	\$2.0M
Equity	Asr Leasing Company	Finance	2013	ICD	\$2.0M
Istisna'a	Dangara Valley Irrigation Network (Phase III) Project	Agriculture	2013	IDB	\$16.7M

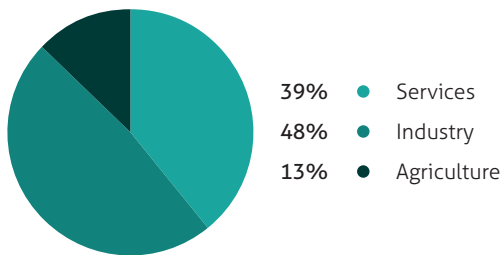
Mode	Project Name	Sector	Year	Entity	USD mln
Loan	Dangara Valley Irrigation Network (Phase III) Project	Agriculture	2013	IDB	\$10.1M
Loan	Reconstruction of Ravshan Electricity Substation Project	Energy	2013	IDB	\$13.1M
Leasing	Saadi Residential Dev. (Savtechnic)	Finance	2013	IDB	\$5.0M
Trade (Murabaha)	Global Line of Finance to Tajikistan	Finance	2013	ICD	\$10.0M
Trade (Murabaha)	Savtechnik Intl (Saadi Tower)	Real Estate	2013	ICD	\$10.0M
Technical Assistance	C.B. of the State Committee on Investment and State Property Management	Finance	2013	IDB	\$0.3M
Technical Assistance	Support to Prevention of Mother-to-Child HIV Transmission	Health	2013	IDB	\$0.4M
Trade (Murabaha)	Dusti Pharmacy	Health	2014	ICD	\$9.0M
Trade (Murabaha)	Petroleum, Wheat, Sugar	Agriculture	2014	ITFC	\$10.0M
Loan	Central Asia-South Asia Electricity Transmission and Trade Project (CASA-1000)	Energy	2015	IDB	\$17.5M
Loan	Central Asia-South Asia Electricity Transmission and Trade Project (CASA-1000)	Energy	2015	IDB	\$17.5M
Loan	Central Asia-South Asia Electricity Transmission and Trade Project (CASA-1000)	Energy	2015	IDB	\$17.5M
Loan	Central Asia-South Asia Electricity Transmission and Trade Project (CASA-1000)	Energy	2015	IDB	\$17.5M
Loan	Construction of Kulyab-Kalaikhumb Road Project (Section A & F)	Transportation	2016	IDB	\$20.0M
Technical Assistance	Transforming Care Work in the Rural Communities of Tajikistan: A Pilot Approach to Engage Women and Men in the Recognition, Reduction and Redistribution of Unpaid Care Work	Education	2016	IDB	\$0.1M
Technical Assistance	Technical Assistance for Capacity Building of the Ministry of Energy and Water Resources	Energy	2016	IDB	\$0.3M
Trade (Murabaha)	Petroleum, Wheat, Sugar	Agriculture	2016	ITFC	\$30.0M
Technical Assistance	Familiarization Visit for Five Officials from the Office of the IDB, Governor and Office of the President, Tajikistan	Education	2017	IDB	\$0.0M
Technical Assistance	Regional Capacity Building Workshop on Inquiry Based Science Education (IBSE)	Education	2017	IDB	\$0.0M

Source: <http://www.isdb.org>

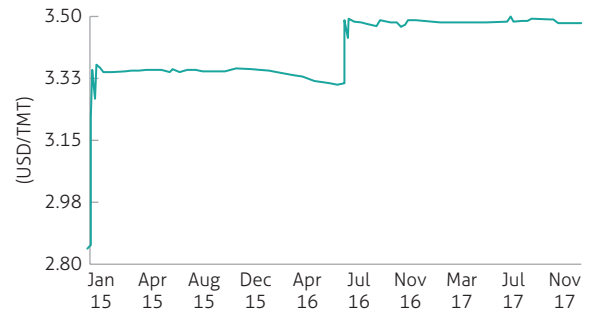
TURKMENISTAN: AT A GLANCE

2016	IMF	World Bank
GDP growth (annual %)	6.2%	6.2%
GDP (\$)	\$36.18bln	\$36.18bln
GDP per capita (\$)	\$6,622	\$6,930
Inflation (annual %)	6.1%	n/a

GDP Breakdown by Sectors (2016)



Currency Performance



68 years

Life expectancy at birth, total (years) (2015)



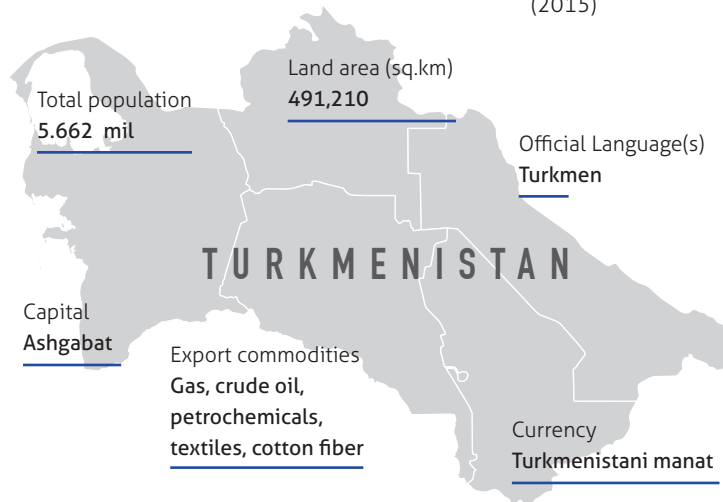
n/a

Poverty headcount ratio at national poverty lines (% of population) (2015)



99.7%

Adult literacy rate, population 15+ years, both sexes (2015)



2.0%

Account at a financial institution, male (% age 15) (2014)



100.0%

Access to electricity (% of population) (2014)



1.6%

Account at a financial institution, female (% age 15) (2014)



8.6%

Unemployment, total (% of total labour force) (2016)



n/a

Ease of Doing Business in Turkmenistan (2018)

Source: World Bank, IMF, UNESCO



TURKMENISTAN



Key Highlights and Recent Developments:

- Despite its upper-middle income status, Turkmenistan is still at an early stage of transition, with the country in dire need of structural reforms such as privatization, price and trade liberalization, and the creation of institutions for market regulation, which began only after 2007.
- On the trade front, despite the ongoing and planned diversification of export markets, Turkmenistan's exports are increasingly dependent on a single large market (China) and continue to be dominated by a single product (natural gas), making the economy vulnerable to fluctuations in global prices beyond its control.
- The public sector's large overall role in economic activity, tight administrative controls and overall slow pace of economic reforms remain the key obstacles to private sector development in Turkmenistan.
- Turkmenistan became an IDB member in 1994.
- In 2008, in an effort to improve investment conditions in the country, the government adopted legal reforms on foreign investment and licensing. Nevertheless, the lack of established rule of law, inconsistent regulatory practices, and unfamiliarity with international business norms are major disincentives to foreign investment.

Current Population (2016)	5.662 million
Total Muslim Population (2010)	4.830 million
<i>% of Total</i>	93.3%
Total Muslim Population (2030E)	5.855 million
<i>% of Total</i>	93.3%

- In November 2010, ICD signed an agreement with the State Bank for Foreign Economic Affairs of Turkmenistan to promote mutual cooperation between ICD and the country's private sector.
- In November 2011, ICD signed an agreement with Ashgabat in order to establish a joint investment holding aimed at small and in the sectors of agriculture, logistics and real estate.
- In 2016, IDB signed an agreement with the State Bank for Foreign Economic Affairs on the allocation of a loan of USD700mln for the construction of the Turkmen segment of the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas trunkline.
- In 2017, ICD announced that it will be exploring the establishment of the first Sharia'a compliant investment company in Turkmenistan with strategic investors from ICD member countries.

IDB Group Projects in Turkmenistan

Total projects: 19
Value: USD1,452.0 million

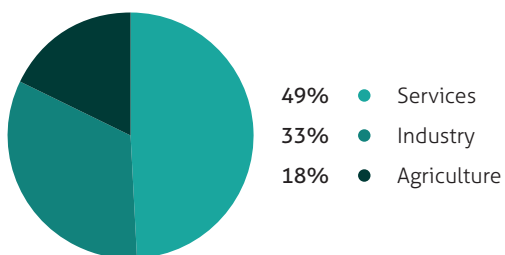
Mode	Project Name	Sector	Year	Entity	USD mln
Special Assistance	One Islamic Institute and Four Quranic Schools	Education	1992	IDB	\$0.3M
Technical Assistance	F.S. of Kazandjik-Kizykl-Atrek Irrigation Canal	Agriculture	1993	IDB	\$0.3M
Instalment Sale	Turkmenbashi Referral and Training Hospital	Education	1995	IDB	\$5.3M
Instalment Sale	New Oil Tanker	Transportation	1996	IDB	\$11.0M
Loan	Diagnostic Centers Project	Health	1999	IDB	\$9.7M
Istisna'a	Balkan Velayat Water Supply Project	Water, Sanitation & Urban Services	2000	IDB	\$17.4M
Instalment Sale	Telecommunication Infrastructure Project	Information & Communications	2001	IDB	\$15.1M
Instalment Sale	Mary Diagnostics Center Project	Health	2002	IDB	\$5.5M
Technical Assistance	F.S. and Preliminary Design of Turkmenbashi-Karabogaz Road Project	Transportation	2004	IDB	\$0.3M
Loan	Archman Medical Hydrotherapy Center	Health	2005	IDB	\$10.4M
Istisna'a	Bereket-Etrek-Turkmenistan-Iran Border Railway Project (Tranche 1)	Transportation	2009	IDB	\$174.1M
Istisna'a	Bereket-Etrek-Turkmenistan-Iran Border Railway Project (Tranche 2)	Transportation	2009	IDB	\$197.1M
Instalment Sale	Procurement of Two New Oil Tankers	Transportation	2009	IDB	\$32.0M
Technical Assistance	F.S. of Silicon Production from Karakum Sand	Industry & Mining	2009	IDB	\$0.3M
Technical Assistance	Development of Biotechnological Methods for the Production of Biomass of Prospective Medical Plants of Turkmenistan	Health	2011	IDB	\$0.3M
Instalment Sale	Turkmenistan-Afghanistan-Pakistan-India (TAPI) Gas Pipeline Project – Turkmenistan	Energy	2016	IDB	\$350.0M
Istisna'a	Turkmenistan-Afghanistan-Pakistan-India (TAPI) Gas Pipeline Project – Turkmenistan	Energy	2016	IDB	\$350.0M
Instalment Sale	Telecommunication Network Enhancement Project	Information & Communications	2017	IDB	\$265.0M
Leasing	Telecommunication Network Enhancement Project	Information & Communications	2017	IDB	\$8.0M

Source: <http://www.isdb.org>

UZBEKISTAN: AT A GLANCE

2016	IMF	World Bank
GDP growth (annual %)	7.8%	7.8%
GDP (\$)	\$66.85bln	\$67.22bln
GDP per capita (\$)	\$2,132	\$2,110
Inflation (annual %)	8.0%	n/a

GDP Breakdown by Sectors (2016)



Currency Performance



71 years

Life expectancy at birth, total (years) (2015)



n/a

Poverty headcount ratio at national poverty lines (% of population) (2015)



98.6%

Adult literacy rate, population 15+ years, both sexes (2015)



42.2%

Account at a financial institution, male (% age 15) (2014)



100.0%

Access to electricity (% of population) (2014)



39.3%

Account at a financial institution, female (% age 15) (2014)



8.9%

Unemployment, total (% of total labour force) (2016)



74th (out of 190 countries)

Ease of Doing Business in Uzbekistan (2018)



UZBEKISTAN



Key Highlights and Recent Developments:

- With its population of 32 million and traditional Islamic roots, Uzbekistan is one of the most promising markets for Islamic finance in the region.
- However, natural and growing demand for Islamic products and services in the country contrast with the absence of a regulatory platform to accommodate Islamic finance and Sharia'a compliant investments.
- Uzbekistan has made only modest progress, despite joining the IDB in 2003 with full membership in ICD from 2004, and receiving sequential rounds of funding.
- Although the history of Uzbekistan's engagement with the IDB dates back to 1992 which include the financing of pilot infrastructure projects, it was not until the government of Uzbekistan approved a programme of cooperation between Uzbekistan and the IDB in 2004 that Islamic finance became available for the private and public sector.
- In 2014, ICD signed an agreement to help develop Islamic leasing businesses in Uzbekistan and subsequently launched Taiba Leasing as the first full-fledged Sharia'a compliant leasing company in the country.
- Private sector initiatives launched by the ICD include interventions with private banks and SMEs.

Current Population (2016)	31.848 million
Total Muslim Population (2010)	26.833 million
<i>% of Total</i>	96.5%
Total Muslim Population (2030E)	32.760 million
<i>% of Total</i>	96.5%

- In May 2017, IDB signed a financing agreement with the Ministry of Finance for USD300mln to fund the construction of rural housing projects in the country in order to expand access to affordable and improved housing which is equipped with basic infrastructure.
- In the same month, ICD entered into a financing agreement of USD7.0mln with Uzbek Leasing International to finance small and medium-sized businesses in Uzbekistan.
- In June 2017, ICD and JSCB Microkreditbank Uzbekistan entered into a financing agreement of USD12.0mln. The collaboration will focus on developing the private sector especially SMEs on the financing front, as well as to promote Islamic finance in the country.
- ICD is currently exploring the idea of establishing an SME fund in Uzbekistan to provide equity financing (Musharaka) to small and medium-sized businesses in the country.

IDB Group Projects in Uzbekistan

Total projects: 75
Value: USD2,332.5 million

Mode	Project Name	Sector	Year	Entity	USD mln
Special Assistance	Construction of Hostel for Mir Arab Islamic Institute in Boukhara	Education	1991	IDB	\$0.3M
Special Assistance	Maahad Imam Al Bukhari, Tashkent	Education	1991	IDB	\$0.2M
Special Assistance	ISL School and Hostel in Samarkand (Darul Hadith Madrasa/Imam Bukhar Al Bukhari Complex)	Education	1991	IDB	\$0.3M
Special Assistance	National Language Arabic Script Programme	Education	1991	IDB	\$0.0M
Special Assistance	Construction of Eight Quranic Schools	Education	1991	IDB	\$0.3M
Special Assistance	Medical Equipment for Science Center for Surgery, formerly (Completion of Hospital)	Health	1991	IDB	\$0.3M
Special Assistance	Printing Press for Tashkent Islamic University	Education	2001	IDB	\$0.4M
Special Assistance	Additional Grant for Participation in Equipping and Furnishing of Imam Al-Bukhari	Education	2003	IDB	\$0.1M
Technical Assistance	Organization of International Investment Conference in Tajikistan and Uzbekistan	Trade related activities	2003	IDB	\$0.2M
Leasing	Textile	Finance	2004	IDB	\$0.8M
Combined Lines of Financing	Extension of Line of Financing to the National Bank of Uzbekistan Project	Finance	2004	IDB	\$15.0M
Instalment Sale	500 kV Syrdarya to Sogdiana Transmission Line Project	Energy	2004	IDB	\$17.4M
Instalment Sale	State Medical Emergency Hospitals Equipment Project	Health	2004	IDB	\$23.8M
Instalment Sale	Road Construction and Maintenance Equipment Project	Transportation	2004	IDB	\$12.6M
Leasing	500 kV Syrdarya to Sogdiana Transmission Line Project	Energy	2004	IDB	\$7.7M
Leasing	Yadem Tekstil Company - Sukuk Financing	Industry & Mining	2004	IDB	\$12.0M
Leasing	Yadem Tekstil Company - Sukuk Financing	Industry & Mining	2004	IDB	\$8.0M
Leasing	Spinning Equipment and Joint Venture Alisher Navoi International	Finance	2004	IDB	\$6.9M
Technical Assistance	F.S. for Investment Holding Company	Finance	2004	IDB	\$0.1M
Leasing	Modernization & Expansion Project in OJSC	Finance	2005	IDB	\$4.0M
Trade (Murabaha)	Uzbek Leasing International	Finance	2005	IDB	\$1.0M
Loan	Construction and Equipping of Secondary Schools	Education	2005	IDB	\$10.3M
Technical Assistance	C.B. of the Ministry of Finance	Public Administration	2005	IDB	\$0.3M
Instalment Sale	Ipak Yuli Bank	Finance	2006	ICD	\$2.0M
Combined Lines of Financing	Global Line of Financing to Three Banks for SMEs	Finance	2007	IDB	\$15.0M
Loan	Construction and Equipping of Vocational Colleges Project	Education	2007	IDB	\$10.5M
Technical Assistance	C.B. of the Chamber of Commerce and Industry	Public Administration	2007	IDB	\$0.2M

Mode	Project Name	Sector	Year	Entity	USD mln
Istisna'a	Reconstruction of Irrigation and Drainage Networks in Djizzakh and Syrdaria Regions	Agriculture	2008	IDB	\$52.6M
Combined Lines of Financing	Second Line of Financing to National Bank of Uzbekistan under Full Delegation of Authority	Finance	2008	IDB	\$15.0M
Instalment Sale	500 KV Guzar-Surkhan Transmission Line Substations	Energy	2008	IDB	\$42.0M
Equity	Uzbekistan Leasing Company (Taiba)	Finance	2009	ICD	\$5.0M
Trade (Murabaha)	Global Line of Finance - Uzbekistan1	Finance	2009	ICD	\$50.0M
Istisna'a	Tashkent Sewerage Project	Water, Sanitation & Urban Services	2009	IDB	\$35.4M
Istisna'a	Reconstruction and Upgrading of M39 Road in Surkhandarya Region	Transportation	2010	IDB	\$167.2M
Loan	Support to Secondary Education Sector	Education	2010	IDB	\$11.7M
Trade (Murabaha)	Global Line of Finance - Uzbekistan2	Finance	2011	ICD	\$30.0M
Instalment Sale	Khausak-Shady and Kandym (KSK) Gas Field Project	Energy	2011	IDB	\$100.0M
Instalment Sale	Support to Development of Oncology Services Project	Health	2012	IDB	\$37.0M
Istisna'a	Reconstruction of Main Irrigation Canals of Tashsaka Irrigation System	Agriculture	2012	IDB	\$70.4M
Istisna'a	Reconstruction of Main Irrigation Canals of Tashsaka Irrigation System	Agriculture	2012	IDB	\$20.0M
Leasing	Modernization of Hydropower Stations Project	Energy	2012	IDB	\$100.0M
Trade (Murabaha)	Leading Force - I	Industry & Mining	2012	ICD	\$2.1M
Trade (Murabaha)	Leading Force - II	Industry & Mining	2012	ICD	\$4.0M
Trade (Murabaha)	Aluminum System LLC	Industry & Mining	2012	ICD	\$7.0M
Trade (Murabaha)	Magnus Industrial Group	Industry & Mining	2012	ICD	\$6.0M
Technical Assistance	TA Grant for "UZINFOINVEST" Uzbekistan	Public Administration	2012	IDB	\$0.3M
Instalment Sale	Advanced Electricity Metering Project	Energy	2013	IDB	\$130.0M
Instalment Sale	Efficient Outdoor Lighting for Tashkent City Project	Energy	2013	IDB	\$36.0M
Instalment Sale	Upgrading of Public Health Laboratories Project Support	Health	2013	IDB	\$17.4M
Leasing	Modernization of Hydropower Stations in Tashkent, Shakhrikhan and Kadirya Cascades	Energy	2013	IDB	\$100.0M
Trade (Murabaha)	Global Line of Finance - Uzbekistan3	Finance	2013	ICD	\$50.0M
Trade (Murabaha)	ADC -Asian Diamond Classic	Industry & Mining	2013	ICD	\$9.0M
Leasing	Purchasing of Two Airplanes for Uzbekistan Airways Project	Transportation	2013	IDB	\$83.9M
Leasing	Purchasing of Two Airplanes for Uzbekistan Airways Project	Transportation	2013	IDB	\$84.4M
Leasing	Jurabek Laboratories I	Health	2014	ICD	\$4.5M
Instalment Sale	Support to the Development of Higher Education Project	Education	2014	IDB	\$27.8M
Istisna'a	Improvement of Water Resources Management of Hazarbag Irrigation in Surkhandarya Region Project	Agriculture	2014	IDB	\$89.6M

Mode	Project Name	Sector	Year	Entity	USD mln
Istisna'a	Support to the Development of Higher Education Project	Education	2014	IDB	\$16.7M
Trade (Murabaha)	Taiba Leasing Company	Finance	2014	ICD	\$5.0M
Trade (Murabaha)	Uzbek Leasing International	Finance	2014	ICD	\$5.0M
Trade (Murabaha)	Jurabek Laboratories II	Health	2014	ICD	\$5.5M
Trade (Murabaha)	VitaMed Medical Center	Health	2014	ICD	\$10.0M
Trade (Murabaha)	JV Gold Lida	Industry & Mining	2014	ICD	\$7.0M
Istisna'a	Construction of Modern Rural Housing Project (Phase I)	Agriculture	2014	IDB	\$100.0M
Istisna'a	Syrdarya Region Sewerage Improvement Project	Water, Sanitation & Urban Services	2015	IDB	\$57.5M
Trade (Murabaha)	Taiba Leasing Company	Finance	2016	ICD	\$5.0M
Trade (Murabaha)	Uzbek GLOF	Finance	2016	ICD	\$70.0M
Istisna'a	Construction of Modern Rural Housing Project (Phase II)	Agriculture	2017	IDB	\$113.0M
Istisna'a	Construction of Modern Rural Housing Project (Phase II)	Agriculture	2017	IDB	\$93.0M
Istisna'a	Construction of Modern Rural Housing Project (Phase II)	Agriculture	2017	IDB	\$94.0M
Istisna'a	Construction of Modern Rural Housing Project (Phase II) 2018	Water, Sanitation & Urban Services	2017	IDB	\$93.0M
Istisna'a	Construction of Modern Rural Housing Project (Phase II) 2019	Water, Sanitation & Urban Services	2017	IDB	\$94.0M
Trade (Murabaha)	ATM Group	Health	2017	ICD	\$10.0M
Trade (Murabaha)	Jurabek Laboratories III	Health	2017	ICD	\$10.0M
Trade (Murabaha)	Aluminum System LLC	Industry & Mining	2017	ICD	\$6.0M

Source: <http://www.isdb.org>

APPENDIX 2: GLOSSARY

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions: Bahrain-based Islamic international standard setting body established in 1991 for Islamic corporations and the industry. Members include central banks, Islamic financial institutions and other industry participants
Bai Ajil bi Ajil	Delayed-for-immediate sale. The sale price is paid immediately and delivery of the sale item is delayed. Synonymous with Bai al Salam
Bai al Arboon	A sale agreement in which a security deposit is given in advance as a partial payment towards the price of the commodity purchased. This deposit is fortified if the buyer failed to meet his obligation
Bai al Inah	Sale and buy-back. The sale and buy-back of an asset for a higher price than that for which the seller originally sold it. A seller immediately buys back the asset he has sold on a deferred payment basis at a price higher than the original price. This can be seen as a loan in the form of a sale
Bai al Salam	Future delivery. A contract whereby the payment is made in cash at the point of contract but the delivery of asset purchased will be deferred to a predetermined date
Bai Bithaman Ajil	Deferred payment sale. The sale of goods on a deferred payment basis. Equipment or goods requested by the client are bought by the bank, which subsequently sells the goods to the client for an agreed price, including a mark-up (profit) for the bank. The client may pay by instalments within a pre-agreed period, or in a lump sum. This sale works in a similar way to a Murabahah contract, but with deferred payment
Bai Dayn	Debt financing. The provision of financial resources required for production, commerce and services through the sale and purchase of trade documents and papers. Bai Dayn is a short-term facility with a year or less maturity. Only documents evidencing debts arising from bona fide commercial transactions can be traded.
Baitul Mal	Treasury
Fiqh	Islamic jurisprudence. The science of the Sharia'a. An important source of Islamic economics
GCC	Gulf Cooperation Council. A political alliance and trade bloc consisting of six states of the Arabian Gulf: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE
Hadith	The Prophet's sayings and commentary on the Qur'an
Halal	Lawful, permissible. The concept of halal has spiritual overtones. In Islam there are activities, professions, contracts and transactions that are explicitly prohibited (haram) by the Quran. All other activities, professions, contracts and transactions are halal. This concept differentiates Islamic economics from conventional economics. In conventional finance all activities are judged on economic utility. In Islamic economics, spiritual and moral factors are also involved – an activity may be economically sound but may not be allowed in Islamic society if it is not forbidden by the Sharia'a
Haram	Unlawful, forbidden. Activities, profession, contracts and transactions that are explicitly prohibited by the Qur'an or the Sunnah
IFSB	Islamic Financial Services Board. A Kuala Lumpur-based international standard-setting organization that was set up in 2003 to promote the stability of the Islamic financial services industry by issuing global prudential standards and guidelines. The IFSB helps regulators govern Islamic financial institutions in compliance with Basel II and evolving global standards

Ijarah	Leasing. A lease agreement whereby a bank or financier buys an item for a customer and then leases it to him over a specific period, thus earning profits for the bank by charging rental. The duration of the lease and the fee are set in advance. During the period of the lease, the asset remains in the ownership of the lessor (the bank), but the lessee has the right to use it. After the expiry of the lease agreement, this right reverts back to the lessor. This is a classic Islamic financial product
Ijarah Sukuk	A Sukuk (Islamic bond) having Ijarah as an underlying structure
Istisnah	Advance purchase of goods or buildings. Alternative spelling: Istisna'a, Istisna'ah. A contract of acquisition of goods by specification or order, where the price is paid in advance, or progressively in accordance with the progress of a job. For example, to purchase a yet to be constructed house, payments would be made to the builder according to the stage of work completed. This type of financing, along with Salam, is used as a purchasing mechanism, and Murabahah and Bai Bithaman Ajil are for financing sales
Maysir	Gambling. One of three fundamental prohibitions in Islamic finance (the other two being riba and gharar). The prohibition on maysir is often used as grounds for criticism of conventional financial practices such as speculation, conventional insurance and derivatives
Mudarabah	Trust financing, profit sharing. An investment partnership, whereby the investor (the rab al maal) provides capital to the entrepreneur (the mudarib) in order to undertake a business or investment activity. While profits are shared on a pre-agreed ratio, losses are born by the investor alone. The mudarib loses only his share of the expected income. The investor has no right to interfere in the management of the business, but he can specify conditions that would ensure better management of his money. In this way Mudarabah is sometimes referred to as a sleeping partnership. A joint Mudarabah can exist between investors and a bank on a continuing basis. The investors keep their funds in a special fund and share the profits before the liquidation of those financing operations that have not yet reached the stage of final settlement. Many Islamic investment funds operate on the basis of joint Mudarabah
Mudarib	Entrepreneur in a Mudarabah contract. The entrepreneur or investment manager in a Mudarabah who puts the investor's funds in a project or portfolio in exchange for a share of the profits. A Mudarabah is similar to a diversified pool of assets held in a discretionary asset management portfolio
Mufawadah	Equal, unlimited partnership
Mujtahid	Legal expert or a jurist who expends great effort in deriving a legal opinion or interpreting the sources of the law
Murabahah	Cost-plus financing. A form of credit that enables customers to make a purchase without having to take out an interest-bearing loan. The bank buys an item and sells it to the customer on a deferred basis. The price includes a profit margin agreed by both parties. Repayment, usually in instalments, is specified in the contract. The legality of this financing technique has been questioned because of its similarity to riba. However, the modern Murabahah has become the most popular financing technique among Islamic banks, used widely for consumer finance, real estate, the purchase of machinery and for financing short-term trade
Musharakah	Joint venture, profit and loss sharing. An investment partnership in which all partners are entitled to a share in the profits of a project in a mutually agreed ratio. Losses are shared in proportion to the amount invested. All partners to a Musharakah contribute funds and have the right to exercise executive powers in that project, similar to a conventional partnership structure and the holding of voting stock in a limited company. This equity financing arrangement is widely regarded as the purest form of Islamic financing
Qard	Loan

Qard al Hasan	Benevolent loan. A loan contract between two parties for social welfare or for short-term bridging finance. Repayment is for the same amount as the amount borrowed. The borrower can pay more than the amount borrowed so long as it is not stated by contract. Most Islamic banks provide interest-free loans to customers who are in need. The Islamic view of loans (qard) is that there is a moral duty to give them to borrowers free of charge, as a person seeks a loan only if he is in need of it
Qur'an	The holy scriptures of Islam
Rab al maal	The investor in a Mudarabah contract
Riba	Interest. An increase, addition, unjust return, or advantage obtained by the lender as a condition of a loan
Salam	Advance purchase. Alternative spelling: Al Salam, Bai al Salam, Bai Salam. Advance payment for goods which are to be delivered at a specified future date. Under normal circumstances, a sale cannot be effected unless the goods are in existence at the time of the bargain. However, this type of sale is an exception, provided the goods are defined and the date of delivery is fixed. The objects of sale must be tangible goods that can be defined as to quantity, quality and workmanship. This mode of financing is often applied in the agricultural sector, where the bank advances money for various inputs to receive a share in the crop, which it then sells
Sharia'a	Islamic jurisprudence
Sukuk	Islamic bond (sukuk). Similar to an asset backed bond, Sukuk is a form of commercial paper that provides an investor with ownership in an underlying asset, and a return based on this ownership. The issuing entity needs to identify existing assets to sell to the Sukuk investors, via transference to an SPV. The Sukuk investors then have a proportionate beneficial ownership in these assets. Investors typically take on the credit risk of the issuer rather than real asset risk on the assets owned by the SPV. Sukuks can be listed and rated, though this is not necessary, depending on the target investor market. Sukuks are typically issued by corporate issuers, financial institutions, and governments
Takaful	Islamic insurance. Based on the principle of mutual assistance, Takaful provides mutual protection of assets and property and offers joint risk-sharing in the event of a loss by one of the participants
Tawarruq	Reverse Murabahah. In personal financing, a client with a genuine need buys an item on credit from the bank on a deferred payment basis and then immediately resells it for cash to a third party. In this way, the client can obtain cash without taking out an interest-based loan
Wadiah	Islamic safekeeping deposit device, in which the bank is deemed as a keeper and trustee of funds
Wakalah	Agency. Absolute power of attorney: where a representative is appointed to undertake transactions on another person's behalf. In terms of Takaful operations, Wakalah refers to an agency contract, which may involve a fee for the agent
Waqf	Charitable trust. Alternative spelling: Awkaf, Awqaf. An endowment or a charitable trust set up for Islamic purposes (usually for education, mosques, or for the poor). It involves tying up a property in perpetuity so that it cannot be sold, inherited, or donated to anyone
Zakat	Religious tax. An obligatory contribution which every wealthy Muslim is required to pay to the Islamic state, or to distribute amongst the poor

Source: Institute of Islamic Banking and Insurance, Islamic Finance News (<http://www.islamicfinancenews.com>)

IC THE DEVELOPMENT



ICD helps private sector businesses to finance projects by providing a wide range of Sharia compliant services



Tel.: (966-12) 636 1400

Website: www.icd-ps.org



A tall, modern skyscraper with a glass facade, reflecting the surrounding city and sky. The word "MIZUHO" is prominently displayed on the top of the building.

MIZUHO

Redefining client-oriented service. One Mizuho.

Supporting businesses and economies for over a century, Mizuho is dedicated to your success and sustainable growth. With our global network and unrivaled expertise, we are committed to being your number one financial partner wherever you need us to be.

We aim to be
Number One
in customer trust

We aim to be
Number One
in service quality

We aim to be
Number One
in unified capabilities

One MIZUHO
Building the future with you

Mizuho Financial Group

