



UZBEKISTAN'S RELATIONS WITH THE ISLAMIC BANK AND PROSPECTS FOR THEIR DEVELOPMENT

Tashkent State University of Economics

Baratova Sevinch

Annotation

The relationship between Uzbekistan and the Islamic Development Bank (IsDB) has evolved significantly, particularly in the wake of Uzbekistan's recent economic reforms. As a founding member of the IsDB, Uzbekistan has benefited from financial assistance, knowledge-sharing, and development programs aimed at strengthening various sectors of its economy. This thesis explores the history of this relationship, focusing on the projects funded by the IsDB in Uzbekistan, particularly in infrastructure, healthcare, and education. It also delves into the future prospects for collaboration, especially in light of Uzbekistan's aspirations to attract foreign investment and integrate further into global trade networks. Key areas of potential growth include renewable energy, agricultural development, and digital transformation. With the strategic shift in Uzbekistan's foreign policy and the increasing emphasis on Islamic finance, this partnership is likely to strengthen, positioning the country as a key player in regional development. The paper concludes with policy recommendations for Uzbekistan to maximize the benefits of its engagement with the IsDB.

Key words: Uzbekistan, Islamic Development Bank, economic reforms, infrastructure, Islamic finance, foreign investment, renewable energy, digital transformation, regional development.

Uzbekistan's relationship with the Islamic Development Bank (IsDB) is rooted in shared economic and developmental objectives. Since Uzbekistan became a member of the IsDB in 2003, the country has been an active beneficiary of the bank's financial support. As of 2023, the IsDB has approved financing for over 40 projects in Uzbekistan across diverse sectors, with a total commitment exceeding \$2 billion. This thesis aims to analyze the historical development of this relationship, evaluate the key projects that have shaped it, and



assess the prospects for future collaboration in light of Uzbekistan's economic transformation.

Uzbekistan, the most populous Central Asian nation, has been undergoing profound reforms under the leadership of President Shavkat Mirziyoyev since 2016. These reforms have focused on liberalizing the economy, improving governance, and attracting foreign investment. The IsDB, with its strong commitment to fostering economic growth and reducing poverty in member countries, has been a strategic partner in supporting these efforts. In this context, Uzbekistan's collaboration with the IsDB presents significant opportunities for enhancing infrastructure, social development, and economic diversification.

Uzbekistan's accession to the IsDB occurred during a period when the country sought to diversify its international partnerships. After the collapse of the Soviet Union, Uzbekistan's foreign relations initially focused on strengthening ties with traditional allies like Russia. However, as the country opened up to international markets and multilateral institutions, the IsDB emerged as an important development partner.

The IsDB has supported Uzbekistan through concessional financing, technical assistance, and knowledge-sharing. Early projects financed by the bank were concentrated in sectors such as transportation, healthcare, and education. For example, the reconstruction of major highways and the expansion of the healthcare system were critical to improving access to essential services. Additionally, the IsDB provided resources for educational reforms, particularly in vocational training, helping to modernize the country's workforce.

The IsDB's involvement in Uzbekistan's development has been diverse, spanning several critical sectors:

1. **Infrastructure Development:** The IsDB has played a pivotal role in financing key infrastructure projects, particularly in transportation. Projects such as the reconstruction of the Guzar-Bukhara-Nukus-Beineu highway, which is part of the larger CAREC (Central Asia Regional Economic Cooperation) initiative, have improved regional connectivity and



trade. Other infrastructure projects include investments in urban development and water management systems, which are essential for sustainable growth.

2. Healthcare: The IsDB has also contributed significantly to Uzbekistan's healthcare sector. It has financed the construction and rehabilitation of hospitals, the procurement of medical equipment, and the training of healthcare professionals. The bank's support in this sector has been particularly important in rural areas, where access to quality healthcare remains a challenge.

3. Education: Education is another priority area for IsDB funding. The bank has provided resources for the construction of new schools, the modernization of curricula, and the development of vocational training programs. These efforts are aligned with Uzbekistan's broader goal of improving human capital to support long-term economic development.

4. Energy Sector: Uzbekistan's energy sector is undergoing a significant transformation, with a strong emphasis on renewable energy. The IsDB has funded several projects aimed at increasing energy efficiency and expanding the use of renewable energy sources, particularly solar and wind power. These projects are crucial for Uzbekistan's efforts to reduce its carbon footprint and meet its climate change commitments.

Looking ahead, the prospects for deeper cooperation between Uzbekistan and the IsDB are promising. Several key factors will shape the future of this relationship:

1. Islamic Finance: Uzbekistan has expressed a growing interest in expanding the role of Islamic finance in its economy. The establishment of the country's first Islamic bank, in cooperation with the IsDB, marks a significant step in this direction. Islamic finance, which operates on principles of risk-sharing and ethical investment, offers an alternative to conventional financial systems. As Uzbekistan seeks to attract investment from Muslim-majority countries and diversify its financial sector, the IsDB's expertise in this field will be invaluable.



2. Renewable Energy and Sustainability: Uzbekistan has set ambitious goals for increasing the share of renewable energy in its energy mix. The IsDB, with its focus on sustainable development, is well-positioned to support these efforts. Future projects may include the expansion of solar and wind power plants, as well as investments in energy efficiency technologies.

3. Agriculture and Food Security: Agriculture remains a cornerstone of Uzbekistan's economy, employing a significant portion of the population. The IsDB has the potential to play a crucial role in enhancing agricultural productivity through investments in modern farming techniques, irrigation systems, and rural development programs. These initiatives will help Uzbekistan achieve food security while also creating new export opportunities.

4. Digital Transformation: As part of its economic modernization, Uzbekistan has prioritized digital transformation across various sectors. The IsDB's support in this area could include investments in digital infrastructure, the development of e-government services, and capacity-building programs in information technology. This would not only enhance economic efficiency but also improve governance and transparency.

Uzbekistan's relationship with the Islamic Development Bank has been instrumental in supporting the country's development over the past two decades. As Uzbekistan continues its economic reforms and seeks to integrate further into the global economy, the IsDB will remain a key partner. With opportunities in Islamic finance, renewable energy, agriculture, and digital transformation, the prospects for future cooperation are strong. By addressing the challenges and building on the successes of past projects, Uzbekistan can ensure that its partnership with the IsDB continues to drive sustainable and inclusive growth.

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