



Bukhara

Islamic Finance and Investment Opportunities in Central Asia

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EURASIA CAPITAL
MANAGEMENT

Central Asia Countries



**EURASIA CAPITAL
MANAGEMENT**

Azerbaijan



Population: 8.4 mln.
Area: 86 600 sq.km
GDP: USD 31 bln.
Key industries: petroleum, natural gas, oilfield equipment; steel, iron ore; cement; chemicals and petrochemicals; textiles

Kazakhstan



Population: 15.6 mln
Area: 2,724,900 sq.km
GDP: USD 103 bln.
Key industries: oil, coal, iron ore, manganese, chromite, lead, zinc, copper, titanium, bauxite, gold, silver, iron and steel

Uzbekistan



Population: 27.3mln
Area: 447,400 sq.km
GDP: USD 21 bln.
Key industries: oil, gas, metals, chemicals, cotton, textiles, foods and vegetables, transport



Kyrgyzstan



Population: 5.21 mln.
Area: 198,500 sq.km
GDP: USD 3.7 bln.
Key industries: small machinery, textiles, food processing, cement, sawn logs, electric motors, gold, rare earth metals

Tajikistan



Population: 6.9 mln.
Area: 143,100 sq.km
GDP: USD 3.7 bln
Key industries: aluminum, zinc, lead; chemicals and fertilizers, cement, vegetable oil, metal-cutting machine tools

China



Population: 1.32 bln.
Area: 9 640 821 sq.km
GDP: USD 3.42 trl.
Key industries: coal, oil and gas, minerals and metals, steel, automotive, services, trade, manufacturing, agriculture, textiles, ships, aircrafts, satellites etc.

Russia



Population: 142 mln.
Area: 17 075 400 sq.km
GDP: USD 1.29 trl.
Key industries: oil, natural gas, coal, metals, gold, timber, agriculture, machine-building, trade, transport, chemicals, telecom, electronic etc.

Turkmenistan



Population: 5.2 mln.
Area: 488,100 sq.km
GDP: USD 26.2 bln.
Key industries: natural gas, oil, petroleum products, textiles, food processing

Overview of the Region



- ❖ Central Asia and the Caucasus are the world’s fastest growing regions (10.2% of GDP growth per year in 2002-2007)
- ❖ The Caspian basin contains one of the world’s largest oil reserves while the Tien Shan Gold Belt is the world’s second largest gold province
- ❖ Neighboring Russia and China – two economic powerhouses - are major trading partners
- ❖ Dynamic, literate and entrepreneurial population of about 100 million
- ❖ Major flows of direct investments from strategic investors
- ❖ Frontier markets of Central Asia and Caucasus represent a unique investment opportunity for international portfolio investors

Country	Area ('000 km ²)	Population (mn)	GDP (\$ bn)	GDP growth 2007
Azerbaijan	86.6	8.2	31.0	25.4%
Kazakhstan	2,717	15.3	103.0	8.5%
Uzbekistan	447.4	28.3	21.0	9.5%
Kyrgyzstan	198.5	5.3	3.5	8.2%
Tajikistan	143.1	7.2	3.7	7.8%
Turkmenistan	488.1	5.2	26.2	11.6%
Russia	17 075.4	142	1 290	8.1%
China	9 640.8	1 320.0	3420.0	11.4%

Emergence of Islamic Finance in Central Asia

- ❖ Fourth largest muslim-populated market after Indonesia, Pakistan and India (about 100 million)
- ❖ Growing demand for Shariah-compliant financing methods due to revival of islamic values in post-communist countries
- ❖ Willingness of national governments to cooperate with cash-rich Gulf countries amid international liquidity crisis (Kazakh government works on amending Tax code to provide income tax exemptions to companies utilizing islamic finance instruments)
- ❖ Initial steps of cooperation with Islamic Development Bank using shariah-compliant funding
- ❖ Success story of pilot projects on establishing the first islamic banks in the region (BTA of Kazakhstan, EKO Bank of Kyrgyzstan, Kavsar Bank of Azerbaijan etc.)



Why Islamic Finance in Central Asia?

- ❖ The largest region in the world, which remains untapped by islamic finance players
- ❖ A land of *Imam Bukhari* and *Imam Termidhi*, which remained under communist rule for seven decades, looks forward to reviving its historic legacy
- ❖ Regional decision-makers and private bankers are gradually opening up to islamic financial products

Country	Muslim population, thousand
Azerbaijan	7 278
Kazakstan	6 903
Uzbekistan	24 064
Turkmenistan	4 610
Kyrgyzstan	4 013
Tajikistan	6 491
Russia	21 105
China	19 950
Georgia	458
Mongolia	116
Total	94 988



Leaders say...



- ❖ “There are unused potential of those who want to actively cooperate with us within the regional frameworks of the largest financial centers such as World Bank, ADB, IDB and powerful financial institutions of the Arab world...”
(Uzbek President Islam Karimov, 28 August 2008)
- ❖ “Today the islamic finance world is experiencing a robust and rapid growth all over the globe. Thereby, we are creating jointly with Qatar the first islamic bank in CIS...”
(Kazakh President Nursulton Nazarbaev, 18 May 2008)
- ❖ “The development of Islamic banking will convince the IDB’s other 55 member countries to invest in the country’s economy. Kyrgyz government is considering to set up a regional Islamic banking center in Bishkek...”
(Kyrgyz President Kurmanbek Bakiev)



Driving forces of Islamic Finance

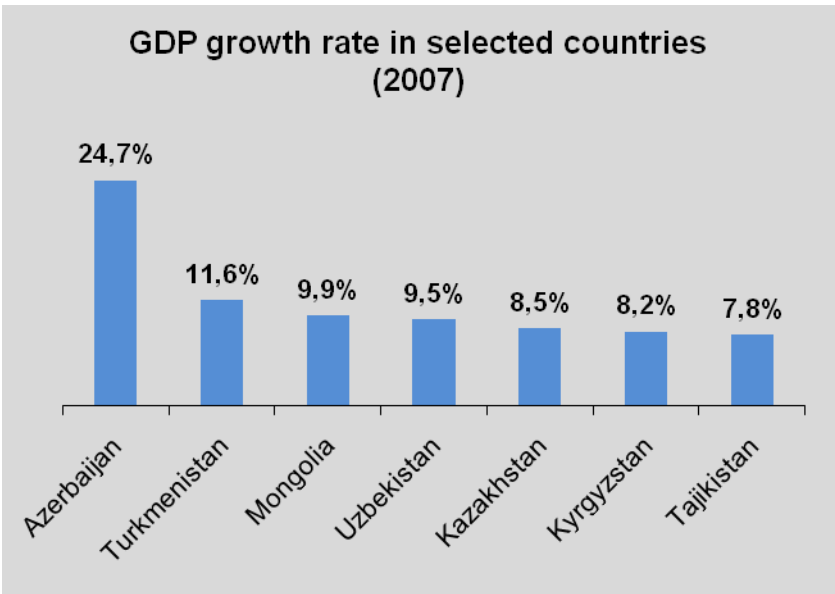
- ❖ Fertile soil for islamic finance “seeds” in shariah-favored industries such as *oil and gas, telecommunication, information technology, pharmaceuticals, and industrial real estate*
- ❖ Islamic Finance can become an alternative source of funds for local businesses in light of unstable global capital markets
- ❖ The region is ready for Islamic Finance not only economically, but also spiritually. Muslims actively support introduction of Islamic Finance.
- ❖ Idle money factor (significant household savings “kept under mattress” due to undeveloped traditional banking system)
- ❖ Relatively low correlation of local markets with global capital markets



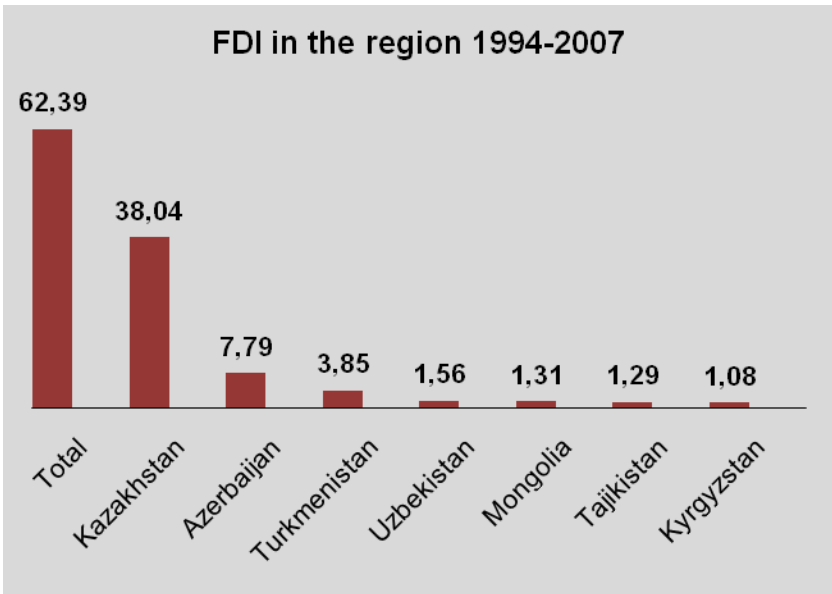
Rapid economic growth in the region on the back of huge natural resources



- ❖ The world's fastest growing region with average GDP growth rate exceeding 10% p.a. in 2004-2007 (7 out of world's 20 fastest growing economies are in Central Asia & Caucasus)
- ❖ These economies are set to continue to grow at 10% annually in 2008-2010
- ❖ Endowed with huge natural resources, the region is the key supplier of commodities to world market
- ❖ Commodities boom and economic growth support strong domestic consumption



Source: IMF, official data



Source: UNCTAD

Strengthening economic ties with Turkey, Middle East and Asia



- ❖ Turkish investors were the first who discovered the Central Asian market after independence in 1991.
- ❖ Turkish investors have invested in Uzbekistan about \$1.5bn by 2007. At present there are 534 Turkish companies, including 412 Turkish-Uzbek JVs that operate in Uzbekistan.
- ❖ Construction sector is one of the lucrative areas for Turkish investors. Since 1991 Turkish construction companies implemented projects of around \$1bn. Four star hotels such as Dedeman, Grand-Mir and Radisson are owned by Turkish entrepreneurs. Turkish companies are active in textile and other sectors as well.
- ❖ Companies from the United Arab Emirates intend to participate in 2008-2012 in the implementation of joint projects worth more than \$3.5bn in Uzbekistan. President Islam Karimov's resolution approved the list of 21 investment projects recommended for implementation within the framework of direct foreign investment of UAE companies and financial cooperation.
- ❖ This list was set as a result of Uzbek President's official visit to Abu Dhabi in March 17-18 this year. The document states that the most of the capital (\$1.38bn) is to be invested in fuel and energy projects.



Strengthening economic ties with Turkey, Middle East and Asia



- ❖ In March 2007, Kazakh Alliance Bank signed a contract on attracting IF-compliant \$150m loan with assistance of Calyon Corporate and investment bank SA and Abu Dhabi Islamic Bank, 19 banks from Middle East took part in this project
- ❖ In September 2008, Kazakhstan and the Abu Dhabi government created a \$1bn fund to invest in energy and financial services in Kazakhstan and other CIS countries. The Falah Growth Fund will finance projects in oil and gas, insurance, and commercial property.
- ❖ Kazakhstan and private investors from UAE plan to build a \$2bn power plant in Kazakhstan.
- ❖ With the assistance of IDB, Kazakhstan intends to issue islamic bonds (sukuk) denominated in Kazakh tenge. Those sukuks would primarily serve to fund energy projects in the northern city of Ust-Kamenogorsk.
- ❖ The IDB is also involved in a number of industrial projects in Tajikistan, Uzbekistan and Turkmenistan.



First Islamic Finance deals in the region



- ❖ In February 2006, Kazakh Bank CenterCredit attracted \$38m of Islamic financing Murabaha for the period of one year.
- ❖ Bank TuranAlem (BTA) is the first bank that tested the principles of Islamic Finance in Kazakhstan. In 2006 it received Islamic loan worth of \$200m organized by Calyon Bank and Abu Dhabi Islamic Bank. The loan was used to finance BTA customers in accordance with Islamic principles.
- ❖ In August 2007, IDB opened a credit line to Kazakh banks BTA and People's bank (\$50m each). BTA plans to use IDB credit to finance small and medium enterprises through Ijarah and Istisna'.
- ❖ In 2007, BTA and Emirates Islamic Bank signed MoC on possible creation of the first Islamic bank in Kazakhstan that will promote Islamic Finance in the whole region.
- ❖ IDB and Kyrgyz government have launched a pilot project designed to introduce Islamic financing in Kyrgyzstan. Under the deal, EkoBank will be the country's first bank to offer financial products based on Shariah law to its clients.

Accessing attractive investment opportunities across asset classes



Enormous untapped national resources

Privatization and sell-off of state-owned assets

Strong domestic consumption and unsaturated demand

Strategic and Portfolio Investors

Fragmented local competition and low barriers to entry in certain industries

Access to low cost labor and raw materials (extension of global supply chains)

Integration into international commodities and financial markets (IPOs)

Eurasia Capital Management



- Currently manages US\$100m plus another US\$100m in advisory mandates
- Intends to increase its assets under management to US\$300m by the end of 2008

Eurasia Capital Management

❖ Existing five conventional funds:

- Central Asia Opportunity Fund
- Eurasian Financial Institutions Fund
- Central Asia Real Estate Fund
- Mongolia Discovery Fund
- Uzbekistan Growth Fund

❖ Launching first shariah-compliant funds:

- Eurasia Islamic Fund
 - Sukuk investments
 - Screened public equities
 - Private equity
 - Property
- Silk Road Property Fund

Eurasia Islamic Fund



- ❖ **Eurasia Islamic Fund (EIF)** is a Cayman-domiciled investment fund which will be the first shariah-compliant fund focusing on Central Asia, the Caucasus, Russia, China and Turkey (“region”). The Fund will invest in public equities, sukuk, private equity and real estate asset classes in the region.
- ❖ EIF will invest in securities of internationally listed companies with operations in the region and selectively in other CIS countries and Mongolia as well.
- ❖ The investment objective is to seek to achieve long-term capital appreciation primarily through an actively managed portfolio of securities and assets in the region.
- ❖ While other emerging markets are increasingly overvalued, the region is abundant with numerous undervalued securities and assets.
- ❖ As one of the most untapped and earlier frontier markets, undervalued local capital markets have yet to see significant investments by islamic finance players and thus have major upside potential.
- ❖ The Fund may opportunistically invest in companies that are members of indices such as Dow Jones Islamic Market Index, FTSE SGX Asia Shariah 100 Index and S&P Global Shariah Index.
- ❖ Apart from public securities, the Fund will invest in privatization, private placement and pre-IPO transactions.

Silk Road Properties Fund



- ❖ **Silk Road Properties Fund I (SRPF)** is a Cayman-domiciled investment partnership fund which will be the first shariah-compliant property fund focusing on Central Asia, the Caucasus and Mongolia.
- ❖ The Fund provides a unique and first-time opportunity for investors to gain exposure to the Central Asian property market, particularly in Uzbekistan and Mongolia.
- ❖ The property market represents one of the best investment opportunities in Central Asia and is starting to attract significant attention from international investors. Endowed with world class natural resources, the region is experiencing strong economic growth on the back of commodities boom. Uzbekistan and Mongolia host one of the cheapest property assets among frontier markets.
- ❖ The Fund will focus on the development of new real estate projects and on the opportunistic acquisition of developed properties for the purpose of enhancing their value through renovation, repositioning and/or improved property management.
- ❖ The Fund may opportunistically invest in real estate assets that can be acquired at attractive discounts due to the shortage of capital that prevails across the region.

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