



**ISLAMIC DEVELOPMENT BANK**

# **THIRTY-FIVE YEARS IN THE SERVICE OF DEVELOPMENT**



**Jumad Awwal 1430H (May 2009)**

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IN THE SERVICE OF DEVELOPMENT**

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<b>IDB GROUP OVERVIEW</b>					
<b>CAPITAL STRUCTURE</b>					
<b>(in million)</b>					
		<b>IDB (ID)<sup>i</sup></b>	<b>ICD<sup>ii</sup> (\$)</b>	<b>ICIEC (ID)</b>	<b>ITFC (\$)</b>
Authorized Capital	<b>1429H<sup>iii</sup></b>	30,000	1,000	150	3,000
	At Inception	2,000	1,000	100	3,000
Subscribed Capital	<b>1429H</b>	15,076	500	148.2	750
	At Inception	750	350	68.8	500
Paid-In Capital	<b>1429H</b>	3,299	357.4	73.9	514.9
	At Inception	280	88.1	63.8	446.1
<b>NET APPROVALS</b>					
<b>1396H-1429H (1976-28 DECEMBER 2008)</b>					
Activity	Number of Operations	Amount Approved (in million)			
		(ID)	(\$)		
(I) Project Financing from OCR <sup>iv</sup>	2,281	13,129.4	18,370.7		
<i>Of which</i>					
Technical Assistance	857	228.0	268.8		
(II) Project Financing by Funds/Entities (UIF, IBP, APIF, ICD and Treasury Dept.)	463	3,736.7	5,399.2		
<b>Total Project Financing (I + II)</b>	<b>2,744</b>	<b>16,866.2</b>	<b>23,770.0</b>		
Trade Financing Operations	2,095	23,597.4	32,429.1		
Special Assistance Operations	1,264	520.8	669.4		
<b>Total Net Approvals</b>	<b>6,103</b>	<b>40,984.5</b>	<b>56,868.4</b>		

<sup>i</sup>Islamic Dinar (ID) is the unit of account of the IDB and is equivalent to one Special Drawing Right (SDR) of the IMF.

<sup>ii</sup>As per Articles of Agreement, Authorized/Subscribed Capital for the ICD is in US dollar (\$).

<sup>iii</sup>It stands for Hijra Year which is an Islamic Lunar calendar system comprising 12 months and contains 354 days, which is about 11 days less than the Gregorian calendar year.

<sup>iv</sup>OCR refers to Ordinary Capital Resources.



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## **SOUTH-SOUTH DEVELOPMENT INSTITUTION**

**T**he Islamic Development Bank Group (IDB Group) is a South-South<sup>1</sup> multilateral development institution which operates in accordance with the principles of Shari’ah (Islamic law) to foster economic development and social progress of its member countries as well as Muslim communities in non-member countries. Over the past thirty-five years, the IDB has contributed significantly to socio-economic development in its member countries, and pioneered an alternative system of banking and financing based on Shari’ah.

This publication intends to reflect the achievements of the Bank in key development areas as well as the initiatives it has undertaken over the past thirty-five years to enhance the impact of its development assistance in both member countries and Muslim communities in non-member countries.

### **Vision for Human Dignity**

In its endeavours to address the strategic challenges confronting the Muslim world, the IDB’s Vision is to become a world-class development institution by the year 1440H inspired by Islamic principles. In addition, it aims to significantly transform the landscape of comprehensive human development in the Muslim world and restore its dignity by addressing the problems of poverty, poor social indicators, and the degradation that accompanies them. The IDB 1440H Vision defines Bank’s role as “a leader in fostering socio-economic development” that is rooted in human development. The Vision is to play a central role in guiding future development activities of the IDB Group.

The IDB extends development assistance to both member countries and Muslim communities in non-member countries around the globe to enhance the capacity of institutions involved in education, health and other social activities. The IDB has grown remarkably since its establishment, its membership has more than doubled from 22 countries in 1395H to 56 countries in 1429H span over four continents: Africa, Asia, Europe, and Latin America.



IDB Staff Monthly Gathering, IDB Headquarters, Jeddah, Saudi Arabia.

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<sup>1</sup>All IDB member countries are developing countries, though they differ widely in terms of level of economic and human development.

## **Institutional Development**

Over time, the IDB has evolved from a single entity into a Group comprising five entities, namely, the Islamic Development Bank (IDB), the Islamic Research and Training Institute (IRTI), the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), the Islamic Corporation for the Development of the Private Sector (ICD), and the International Islamic Trade Finance Corporation (ITFC).

*The Islamic Research and Training Institute (IRTI)* was established in 1401H (1981) to undertake research, provide training, and develop practical application of Islamic banking and finance. These activities are undertaken with a view to building capacity and promoting dialogue among IDB member countries in order to bring their economic, financial and banking activities in conformity with Shari'ah.

*The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC)* was established in 1415H (1994). It aims at increasing the scope of trade transactions among OIC member countries by providing Shari'ah-compliant export credit and re-insurance facilities to exporters, banks, trade financiers and export credit agencies. Moreover, ICIEC seeks to support and encourage investment flows into its member countries by providing investors and financiers of investments Shari'ah-based political risk insurance policies.

*The Islamic Corporation for the Development of the Private Sector (ICD)* was established in 1420H (1999) to promote the private sector development in member countries. It provides a wide range of Shari'ah-compliant financial products and services with a view to expanding access to Islamic capital markets, mobilizing additional financing resources for the private sector, promoting entrepreneurship in member countries and encouraging cross-country investments.

*The International Islamic Trade Finance Corporation (ITFC)* was established in 1426H (2005) and started its operations in 1429H. The primary objective of the Corporation is to facilitate intra-trade among OIC member countries using Shari'ah-compliant instrument. The ITFC finances inter-regional trade and provides technical assistance to enhance capabilities of member countries with the overall objective of increasing the volume of trade. The ITFC is the sole entity in the IDB Group which offers programmes and activities related to trade finance.

## **IDB Reform**

The IDB has set ambitious targets to achieve socio-economic development of its member countries in line with their objectives and priorities. In order to realize these targets, the IDB 1440H Vision outlined nine strategic thrusts namely: reforming IDB; alleviating poverty; promoting health; universalising education; prospering the people; empowering the sisters of Islam; expanding the Islamic financial industry; facilitating integration of IDB member countries economies among themselves and with the world; and improving the image of the Muslim world.

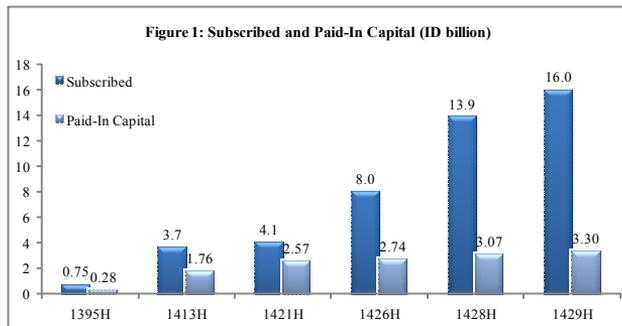
The first strategic thrust deals with the Bank's reform to ensure that the IDB is relevant in meeting the needs of its member countries, and is well-equipped to achieve the targets set by Vision 1440H. The reform process which started in 2007,

aims at realigning the focus and priorities of the Bank. The steps that the Bank is implementing as a part of the reform process is to change its organization structure, and to enhance its capacity and resources. This includes streamlining its business processes, realignment of its organizational structures, corporate governance, mission, and functions. The IDB will redesign its business processes in order to be closer to its customers, improve project and implementation to enhance overall impact. Success of this major initiative depends largely on the way the change is managed, hence, change management constitutes a major cornerstone of the reform process.

During the first phase of the reform, the following focal areas have been covered: Vision strategy (implementation framework), 3 year thematic strategic plans, governance and organizational design, and change management.

### Support from Member Countries

The IDB receives continuous support from its member countries. There has been a significant increase in both the IDB Subscribed and Paid-In Capital. Over time, the Bank's Authorized Capital has increased fifteen-fold from ID2 billion in 1395H (1975) to ID30 billion in 1429H (2008). The Paid-In Capital of the Bank has increased from ID0.28 billion in 1396H to ID3.3 billion in 1429H. Similarly Subscribed Capital has increased from ID0.75 billion in 1395H to ID16 billion in 1429H (Figure 1). The size of the Member's Fund has also increased from ID0.28 billion in 1396H to ID5.5 billion in 1429H. The substantial increase in the Bank's capital over time has enabled it to provide additional resources to meet the growing needs for development assistance of its member countries.



The increase in both the Paid-In Capital and Members Funds over the past more than three decades has been due to continuous receipt of share capital instalments from member countries, transfer of profits to the general reserves, and increase in the fair value of reserves.

### Financial Position and Credit Worthiness

#### Maintaining Good Financial Results

IDB continues to maintain its strong financial results. Its net income from OCR reached to ID194.2 million, recording a growth of 18.8 percent in 1429H.

#### Prudent Risk Management

The IDB has a prudent risk management policy and put in place appropriate control mechanisms to manage major risks affecting its financial viability, including credit, currency, liquidity and country risks. It has established policies regarding capital adequacy, liquidity, loan provision, operational exposure and concentration

risks. Recognizing the increasing important role of the non-sovereign and private sector, guidelines on cooperate finance guarantee as well as project finance have been adopted to address the credit risk of these types of financing. In the light of the global financial crisis, the market risk management framework has been further strengthened. Furthermore, the Bank has formed a high level Global Financial Crisis Monitoring Team to regularly monitor the credit worthiness and repayment abilities of IDB member countries and other counterparts.

### *Retaining High International Credit Rating*

During 1429H, the IDB maintained Fitch Ratings of “AAA” for the long-term, “F1” for the short-term and a “Stable” outlook. Furthermore, Standard & Poor’s confirmed for the seventh consecutive year its highest ratings for the IDB: “AAA” for long-term and “A-1+” for short-term with “Stable” outlook. The Bank has also maintained for the third year the highest ratings of “Aaa” for long-term and “P-1” for short-term assigned by Moody’s. With the ratings upgrade assigned by Fitch Ratings, the IDB has become an “AAA” rated institution by the three leading international rating agencies. These ratings reflect, *inter alia*, the financial soundness of the IDB and its very low risk profile.

### **Enhancing Institutional Effectiveness**

To enhance the impact of its development assistance on member countries’ socio-economic development, the Bank continues to examine its institutional framework with a view to enhance its operational effectiveness. The core strategy of the Bank is to design projects that match the capacity of its member countries to sustain its activities into the future. In this regard, the Bank focuses on two interrelated aspects; first, post-evaluation of completed projects, and second, constant review of its portfolio of on-going projects.

### *Regular Review of Portfolio Assessment*

The IDB regularly reviews its portfolio to ensure timely completion of projects, in accordance with the projects’ stated objectives and in compliance with the Bank’s guidelines. At the end of 1429H, the overall size of active portfolio had reached ID6.8 billion for 821 operations. Out of this, 525 operations (representing 57 percent of the total amount) were disbursed, while the remaining 296 operations (representing 43 percent of total amount) are at the pre-disbursement stage.

In line with the new project implementation guidelines introduced in 1426H (2005) and with the current project portfolio quality improvement programme, strong focus is being placed on the quality-at-entry and efficient post-entry processing of projects. This has resulted in the completion of 153 operations amounting to ID1,050 million (\$1,460 million), representing around 14 percent of the active portfolio at the end of 1429H, while 9 operations amounting to ID17 million (\$23 million) were cancelled.

### *Improving Operational Efficiency*

In order to improve its operational efficiency to foster development, the IDB undertakes evaluation of its operations (both completed and on-going projects). During the period 1411H-1429H, the Bank has conducted 401 evaluations. These included 335

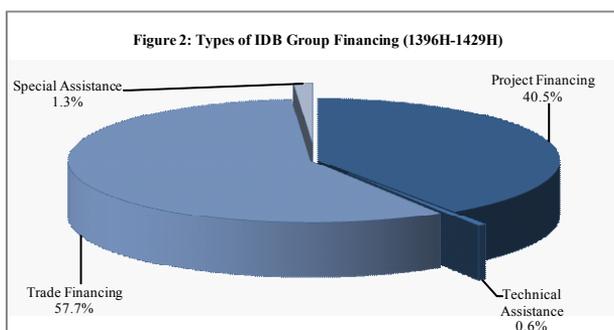
completed operations, 23 special assistance operations, and 12 on-going projects. It has also conducted eight Country Assistance Evaluations and 23 sector, thematic and programme evaluations.

Dissemination and feedback of the findings and lessons learnt constitute the backbone of the evaluation exercise. It aims at improving the quality, efficiency, and effectiveness of future IDB financing activities by drawing meaningful lessons from past experiences.

## ENHANCING DEVELOPMENT ASSISTANCE TO MEMBER COUNTRIES

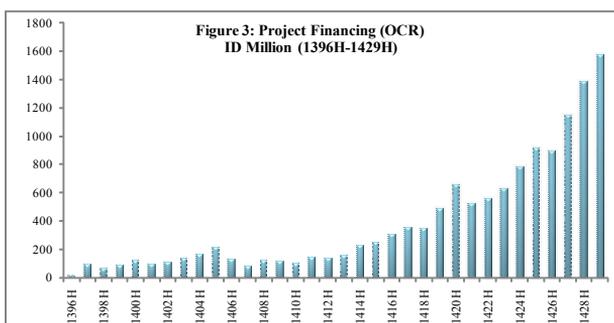
The IDB development assistance is geared to achieve targets of the Millennium Development Goals (MDGs) and the IDB 1440H Vision. In particular, the overriding purpose of development assistance is to alleviate poverty and achieve comprehensive human development. Over the past thirty-five years, the Bank provided development assistance to member countries for the key sectors of their economies such as public utilities, transport and communication, social services, agriculture, industry and mining and financial services.

The IDB Group provides development financing to both public and private sectors in member countries. The finance is channelled through three major types of operations: (i) ordinary operations (comprising project financing and technical assistance); (ii) trade financing; and (iii) Waqf Fund (Special Assistance) operations. The cumulative net financing of the IDB Group for all three types of operations at the end of 1429H reached ID41 billion (\$56.9 billion) for 6,103 operations.



The IDB Group financing activities are dominated by trade financing which accounts for approximately 58 percent of total financing, followed by project financing (40.5 percent) (Figure 2). Technical and special assistance (1.9 percent), is also a critical element of the development mandate of the IDB Group.

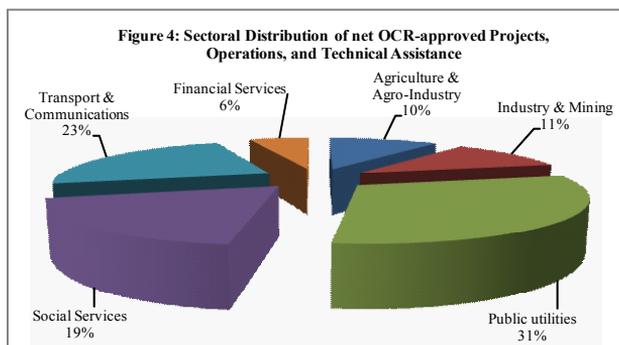
Total project financing from the OCR during 1396H-1429H reached ID13.2 billion (\$18.4 billion) upto the end of 1429H. Cumulative development assistance extended to the LDMC's reached ID9 billion (\$12.5 billion) which accounted



for about 28 percent of total IDB Group financing. The net approval from OCR for LDMC's by end of 1429H amounted to ID3.9 billion (\$5.3 billion) which was 29 percent of total OCR financing (Figure 3).

In cumulative terms, the IDB's total commitments to member countries in Africa and Asia reached \$7.8 billion (42.5 percent) and \$9.5 billion (51.8 percent), respectively, while the remaining 5 percent targeted member countries in Europe and Latin America, and international and regional organisations.

The sectoral distribution of cumulative project and TA financing from the OCR during 1396H-1429H, showed that the majority of funding went to public utilities (31 percent), transport and communication (23 percent) and social services (19 percent) (Figure 4).



### **Enhancing Trade Financing**

Promoting intra-trade among member countries is one of the major objectives of the IDB Group to strengthen economic integration among them. Trade financing operations started in 1397H (1977), which was undertaken through two major schemes, Export Financing Scheme and Import Trade Financing Operation (ITFO). Other entities and Specialized Funds of IDB Group namely Unit Investment Fund (UIF), Islamic Banks Portfolio for Investment and Development (IBP), Awqaf Properties Investment Fund (APIF), Treasury Department, and Islamic Corporation for the Development of the Private Sector (ICD) until 1428H also undertook trade financing activities.

In response to call for an increase of intra-trade through a unified market driven corporation, operating autonomously under the IDB Group umbrella, the International Islamic Trade Finance Corporation (ITFC) was established. It became operational on 1<sup>st</sup> Muharram 1429H (January 2008) integrating activities and operations of all IDB Group various trade finance programmes into its overall operations.

The ITFC endeavors to increase the volume of trade of member countries by financing intra-trade. During 1429H, the IDB Group total trade financing operations amounted to ID1.7 billion (\$2.6 billion).

The net cumulative trade financing approvals for the IDB Group (including the trade activities of ICD, UIF, IBP, APIF and treasury operations) at the end of 1429H amounted to ID23.6 billion (\$32.4 billion) for 2095 operations.

### **Increasing Special Assistance Operations**

IDB established Special Assistance Programme in 1400H (1980) to assist Muslim communities in non-member countries to improve their living conditions, harness their

skills, and preserve their culture and identity. The programme focuses on strengthening the capacity of institutions involved in education, health and other social activities. Cumulative approvals under the Special Assistance Programme by the end of 1429H amounted to ID520.8 million (\$669.4 million) for 1,264 operations, of which ID 340.4 million (\$429.8 million) was approved for 484 operations in member countries and ID180.4 million (\$239.6 million) for 780 operations in Muslim communities and organizations in non-member countries.

The IDB also provides assistance for emergency relief and natural disasters in its member countries as well as for Muslim communities worldwide. According to the recent World Bank (2005) report entitled “Natural Disaster Hotspots”, twenty-nine IDB member countries are located in the disaster prone areas. The IDB has provided assistance to several member countries affected by natural disasters.

In addition to its own Special Assistance Operations, the IDB is coordinating the implementation of several reconstruction and rehabilitation projects with the Saudi Charity Campaign for about \$46.4 million. It is also implementing an Orphan Sponsorship Programme under the OIC Alliance for Child Victims of Tsunami in Indonesia, by sponsoring approximately 25000 orphan children for a period of 15 years. Furthermore, the IDB in partnership with United Nations Development Programme has provided assistance to conflict-affected countries such as Afghanistan and Palestine. It is also collaborating with the Global initiatives of the multilateral agencies including the World Bank and the UN to implement the “Hyogo Framework” which is a blue print for disaster reduction efforts for the period 2005-2015.

### **Participation in Debt Relief Initiatives**

Since 1997, the IDB has participated in the Heavily Indebted Poor Countries (HIPC) Programme of the World Bank/IMF in rescheduling debt of its eligible member countries. Out of 41 eligible HIPCs, 21 are IDB member countries. Of these, 11 countries (Benin, Burkina Faso, Cameroon, Mali, Mauritania, Mozambique, Niger, Senegal, Sierra Leone, Gambia, and Uganda) have reached completion point. Four member countries (Afghanistan, Chad, Guinea and Guinea Bissau) are at decision point stage, while another six countries (Comoros, Côte d’Ivoire, Kyrgyz Republic, Somalia, Sudan, and Togo) are at the pre-decision stage. The cost of the IDB’s share of debt-relief under the HIPC Initiative is projected at around \$155 million.

## **STRATEGIC AREAS**

The cumulative achievement of the IDB in providing development assistance over the last thirty-five years can be tracked under four strategic and two cross-cutting areas. The four strategic areas are: comprehensive human development and poverty reduction, economic cooperation (integration), infrastructure development, and Islamic financial services industry development. The two cross-cutting areas are: capacity building and private sector development.

### **Promoting Human Development and Reducing Poverty**

The Bank has been committed to the alleviation of poverty since inception. This has resulted in the commitment of considerable resources for poverty reduction efforts in member countries particularly LDMCs. Development assistance to LDMCs financed improving basic rural and urban infrastructure such as the supply of drinkable water, electricity, and expanding the social sectors (education and health) facilities. During 1396H-1429H, the IDB approved 1,761 operations for LDMCs amounting to ID9 billion (\$12.5 billion).

The core principle of the Bank strategy is to identify and implement projects and programmes that are capable of employment generation and sustained economic growth which are pre-requisite to reducing poverty.

#### *Jeddah Declaration for Poverty Reduction*

In a response to food crisis and in continuation of its efforts to strengthening the agriculture and rural sector, the IDB launched an initiative in 2008 under the Jeddah Declaration with a commitment of \$1.5 billion over a period of five years. The programme aims at supporting member countries affected by the global food crisis to strengthen their food security and revitalize the agricultural sector. It helps in providing agricultural inputs as well as fodder, agricultural machinery and equipment. It also identifies projects that enhance agricultural development in member countries through partnership between private and public sectors and support research institutes in the field of agriculture. The assistance under the package is in the form of grants, loans and ordinary financing under special concessionary terms. The programme covers both the immediate short term and medium to long-term measures.

#### *Launching Special Programme for the Development of Africa*

The Ouagadougou Declaration, which committed the IDB Group to a \$2 billion of development assistance to the LDMCs in Africa, was adopted in 1423H (2002) by the Board of Governors in response to the call by African leaders for support to the New Partnership for Africa's Development (NEPAD). The assistance was delivered over five years, starting from 1424H (2003-04). Under the Declaration, cumulative net approvals by the Group reached \$2.3 billion exceeding the target by 15 percent. On the basis of the success of the Ouagadougou Declaration initiative and in recognition of the socio-economic challenges facing member countries in Sub-Saharan Africa (SSA), the Bank launched the Special Programme for the Development of Africa (SPDA) in Rabi Awwal 1429H (March 2008). The SPDA is a five-year programme

spanning 2008-2012 with an amount of \$4 billion for the benefit of twenty-two LDMCs in SSA region. The IDB also scaled up its microfinance activities in Sub-Saharan Africa (Box 1).

**Box 1**  
**Microfinance Programme for African Member Countries**

In line with its Vision 1440H, the Bank has committed itself to scale up its support to the microfinance actors in Sub-Sahara African member countries to meet the financing needs of the poor in the society, specifically women and the youth. In 1429H, the Bank reviewed the on-going microfinance projects it has financed in Benin, Cameroon, Guinea, Mali and Senegal to draw on the lessons learned over the past seven years in order to improve the implementation of such projects. Following the assessment, the Bank approved in December 2008 a financing to the tune of ID4.5 million in a project in Chad to start what is considered as “second generation” microfinance projects. In the meantime, a “Quick Win Microfinance Programme” initiative is being developed. If successful, this programme will adopt a holistic approach in establishing the first Islamic Microfinance House in Senegal as a pilot project with the possibility of replicating it in other Sub-Sahara African member countries. The objective of the project is to uplift the poor out of poverty through micro credit, insurance, saving schemes, health care, education, pension, and housing.

The SPDA has identified the following five critical sectors for its operational activities:

- Improve productivity in agriculture to achieve food security;
- Invest in education to generate skilled workforce;
- Financing projects in health sector focusing on the fight against major communicable diseases;
- Assist water and sanitation projects to improve quality of life; and
- Focus on power generation and distribution projects.

The SPDA aims at providing affordable access to services used by the poor through twinning with regional infrastructure networking. During 1429H, 94 operations with the total cost of ID 629.7 million (\$994.3 million) were approved for member countries of SSA under SPDA.

*Islamic Solidarity Fund for Development*

The Islamic Solidarity Fund for Development (ISFD) was launched in 1429H. The principal targeted capital of the Fund is a Waqf of \$10 billion, which implies that operations will be financed from the returns on investment of its core resources. It aims at reducing poverty, building the productive capacities of member states, reducing illiteracy, and eradicating diseases and epidemics, particularly Malaria, Tuberculosis (TB) and AIDS.

To speed up the operation of the Fund, the IDB has agreed to meet the financing requirements of projects approved under the ISFD from its own capital resources up to \$357 million per year in concessional financing until the proceeds from the ISFD



Meeting of the High-Level Advisory Panel of Islamic Solidarity Fund for Development held in Manama, Kingdom of Bahrain (5 February 2008).

resources grow enough to meet its commitments. In addition to voluntary contributions from member countries, the Fund is expected to embark on co-financing from both the private and public sector. During its first year of operation, ISFD's Board of Directors approved 26 projects for \$320.3 million in different sectors in 20 member countries.

### *Investing in Social Development*

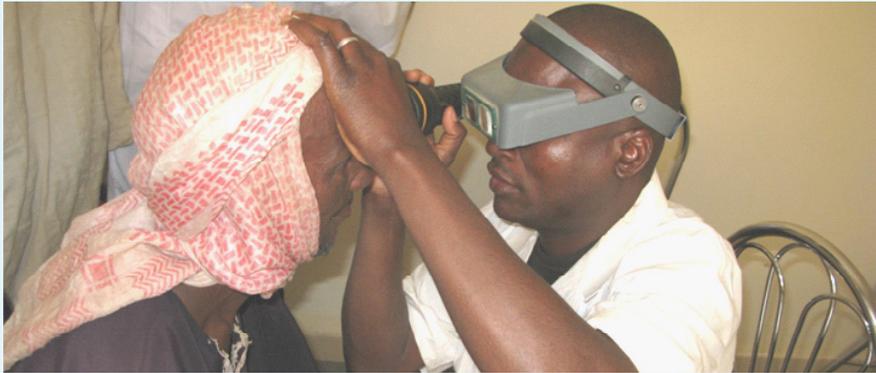
Sustainable development requires an investment in human capital. The IDB efforts in the social sector have intensified with the aim of improving educational and health-related infrastructure in order to meet the targets envisaged in the MDGs and IDB 1440H Vision. By the end of 1429H, IDB's total interventions in the social sector amounted to ID 2.5 billion (\$3.4 billion) which was 18.5 percent of total OCR project financing.

The IDB interventions in the education sector focus on developing human resources by financing education and training programmes, reducing illiteracy rate in the LDMCs and increasing access to the primary education. Cumulative financing for the education sector amounted to ID1.3 billion (\$1.8 billion). This represents over 52.3 percent of the total allocation to the social sector. Moreover, in order to promote school enrolment, the IDB in partnership with United Nations Educational, Scientific and Cultural Organization, allocated in 1428H \$300 million over five years for the implementation of the Bilingual Education Programme in African LDMCs.

The IDB assistance to the health sector is mainly for primary health care focusing on delivery of health services to the rural poor as well as for the establishment of hospitals. In terms of its interventions in the health sector, cumulative financing up to the end of 1429H amounted to ID.8 billion (\$1.1 billion) for 199 operations. This accounted for 31.1 percent of the overall allocation for the social sector, and 5.7 percent of OCR project financing. The IDB has also been active with the World Health Organization and International Federation of the Red Cross and Red Crescent Societies in their anti-

malaria programmes in African member countries. The IDB also initiated Alliance to Fight Avoidable Blindness in Sub-Saharan Africa (Box 2).

**Box 2**  
**Alliance to Fight Avoidable Blindness in Sub-Saharan Africa**



In 2003, IDB conducted the first blindness control campaign with the NGO Nadi Al Bassar, which resulted in performing 350 cataract operations (the major cause of blindness) over one week. This led the Bank to strengthen this intervention and from 2003 to 2007 14,304 patients were treated, 3,394 persons recovered sight, trainings provided to 48 ophthalmologists and technicians in Benin, Burkina Faso, Cameroon, Chad, Djibouti, Mali and Niger where the problem of cataract is significant. The campaign cost IDB \$0.42 million. Based on the foregoing success, the Bank launched the “Alliance to Fight Avoidable Blindness” in February 2008 for Sub-Saharan Africa member countries. Under this programme, 50,000 cataract operations will be performed; 250,000 persons will receive eye consultation; 16 new ophthalmologists will be available, and training will be provided to 50 ophthalmologists and technicians over the 5 years. The Alliance also includes the purchase of equipments and grant for scholarships. IDB is working to attract donors in order to collect \$9.5 million grant for the programme. So far, \$4 million has been pledged: \$2 million from IDB, \$1 million from Arab Bank for Economic Development in Africa, and \$1 million from Egyptian Fund for Technical Cooperation with Africa.

*Mainstreaming Women in Development Process*

Mainstreaming women in the development process of a country is fundamental for poverty alleviation. Since 1419H (1998), the Bank has been supporting initiatives aimed at bringing women into the forefront of development process by supporting and financing projects focused on women. In terms of capacity building, the IDB has in collaboration with NGOs initiated training programmes.

A Women’s Advisory Panel was established to assist in formulating appropriate programmes in conformity with Islamic values and to mainstreaming women issues in the operations of the Bank. Based on the panel’s recommendation the IDB established an annual prize for “Women’s Contribution in Development” in 1427H. The prize is awarded to women, women’s group, or organizations in IDB member countries and in

Muslim communities in non-member countries. The prize acknowledges efforts aimed at integrating women in the development process and helps improving their human and social conditions. The prize comprises a cash award of \$50,000 for individual or a group and \$100,000 for an organization along with a citation recognizing the contributions of the recipient(s). The prize has been awarded three times.

### **Infrastructure Development**

A strong infrastructure is key to achieving sustainable development which in turn contributes towards the alleviation of poverty. Thus far, the IDB has provided development assistance to LDMCs for improving basic rural and urban infrastructure such as the supply of drinking water, electricity, roads and highways and education and health facilities. By the end of 1429H, the Bank had financed more than 2,041 infrastructure and related operations amounting to \$17.5 billion.

To respond to the higher growth rates in member countries and the increasing derived demand for infrastructural projects, the Bank's support to infrastructural development in member countries gradually increased over the years. IDB's assistance for infrastructure development increased from \$899 million in 1426H to \$1,680 million in 1429H, an increase of over 86 percent. This assistance focused mainly on power



IDB financed \$51.7 million to the Arab Natural Gas Pipeline Project in Egypt, Syria and Jordan.

generation, transmission and distribution, sea, air & land transport, including the construction and expansion of road networks, and water supply and sanitation. The highest support went to member countries in Central Asia and Sub-Saharan Africa.

Until recently, the IDB support for infrastructure projects has mainly been to public sector projects in its member countries through its own capital resources. The Islamic Corporation for Development of Private Sector has also been involved in investing and financing of infrastructure projects. As of January 2009, ICD had approved 149 projects amounting to \$997 million, of which \$157 million were for infrastructure projects. The Islamic Corporation For the Insurance of Investment and Export

Credit has also been active in providing Export Credit Insurance and Political Risk Reinsurance cover to a number of infrastructure projects in member countries. In the last two years, ICIEC has provided insurance cover for infrastructure projects amounting to approximately \$279 million.

### **Fostering Economic Cooperation**

In its thirty-five years of operation, the IDB has recognised the integral role of economic cooperation for fostering economic development in member countries. The Bank is strengthening its cooperation with national financial institutions, forging close links and working relationships with the OIC and its affiliated institutions, and other sub-regional, regional and international organizations. Given the importance of trade in economic cooperation, the IDB expanded its trade financing operations in 1429H including the commencement of ITFC operations on 1<sup>st</sup> Muharram 1429H. ITFC is dedicated to enhancing intra-trade among OIC countries.

### *Promoting Trade Cooperation*

Besides trade financing, the Bank has Trade Cooperation and Promotion Programme, which aims at facilitating greater economic cooperation for promoting intra-trade between OIC member countries through trade promotion, trade facilitation, capacity building, and development of strategic products. Under the programme, trade fairs, seminars, workshops, meetings, and specialized training courses are organized. Since its establishment, the programme, on average, undertakes 30 such activities annually.

Moreover, the Islamic Corporation for the Insurance of Investment and Export Credit provides insurance services aimed at enhancing intra-trade cooperation as well as supporting exports of member countries to the rest of the world. The objective of ICIEC's trade-related activities is to cover risk related to non-payment of exporter proceeds in member countries.

### *Assistance on WTO-Related Matters*

After the establishment of the World Trade Organization (WTO)<sup>2</sup> in 1995, the IDB lunched a Technical Assistance and capacity building Programme on WTO related issues in 1997. The programme aims primarily at strengthening the human and institutional capacity of OIC member countries and enabling them to participate meaningfully in the multilateral trading system. It extends technical assistance to member countries in the areas of negotiating WTO trade rules, understanding the WTO agreements, promoting and facilitating cooperation on WTO issues of common interests among OIC countries, and providing support and advice on accession-related issues.

The IDB delivers its WTO-related TA through organizing consultative meetings, training courses on trade policy, seminars and workshops, studies, and assistance to member countries intending to join WTO. By the end of 1429H, the Bank had organised 24 consultative meetings, 16 trade policy courses, 60 seminars/symposiums on different WTO-related topics, and 15 workshops on the impact of some WTO

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<sup>2</sup>Currently, 40 IDB member countries are members of the WTO, whose total membership stands at 153.

agreements on member countries. Additionally, the IDB also conducted five sectoral studies and financed 13 country-specific WTO-related TA operations. It also collaborated with international trade-related institutions such as the WTO, United Nations Conference on Trade and Development, International Trade Centre and World Intellectual Property Organization in the design, development, and implementation of its Technical Assistance Programme.

### Strengthening Development Partnerships

As an important part of the multilateral development community, the IDB participates in a number of collaborative global initiatives aimed at promoting economic growth and development in member countries. To support the development activities in member countries, the Bank collaborates with development partners, Islamic Banks, National Development Financing Institutions, donors, and UN institutions.

### Co-Financing Arrangements

The IDB enhances its development role by co-financing projects in member countries with other development partners. Co-financing<sup>3</sup> remains the primary mechanism for collaboration with other donors. Besides strengthening cooperation, co-financing enhances the catalytic role of the IDB to complement its development efforts for its member countries. In addition, the Bank shares knowledge through staff exchange, participation in joint field visits, advocacy and outreach activities with other donors. The Bank is also involved in the harmonization programme of the Multilateral Development Banks (MDBs), which aims at enhancing delivery of assistance to beneficiaries by adopting identical policies, procedures and practices. During the period 1396H-1429H, the IDB co-financed 438 projects with donors and MDBs amounting to \$52 billion; of which the IDB contribution was \$5.8 billion, representing 11.1 percent of the total cost.

### Arab Coordination Group

The IDB maintains strong ties with the Arab Coordination Group<sup>4</sup> (ACG) which has been in existence for over 30 years. The ACG remains a successful model of cooperation for development assistance. The Bank has contributed to its activities and participated in its round table meetings to strengthen dialogue and collaboration. It has organized round table meetings of the Coordination Group, and member countries of the Countries in Transition (CIT) and the African region to identify projects for co-financing by the members of the Group. Out of the 21 operations co-financed with other donors in 1429H, 9 (35 percent) were with the ACG, who financed collectively \$540 million (26 percent of total project cost). The IDB's contribution was \$510 million, which was equivalent to 24 percent of total project cost.

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<sup>3</sup>Co-financing refers to a financing arrangement in which two or more lenders contribute to funding a project under the same or different terms and conditions.

<sup>4</sup>In addition to the IDB and the OPEC Fund for International Development, the Coordination Group comprises of Arab National and Regional Development Institutions, which are: Abu Dhabi Fund for Development, Arab Fund for Economic and Social Development, Arab Bank for Economic Development in Africa, Arab Gulf Programme for United Nations Development Organization, Kuwait Fund for Arab Economic Development, and Saudi Fund for Development.

## National Development Financing Institutions

The IDB also develops synergies and alliances with major financing institutions and organizations of member countries to support their contributions to the development process. The cooperation with financial institutions includes joint activities, capacity building and extending lines of financing.

The IDB has developed close working relationship with the NDFIs to contribute effectively to the promotion of the private sector in member countries and the development of Small and Medium Enterprises. The Bank provides Shari'ah-compliant lines of financing in the form of Leasing, Instalment Sale and Istisna'a to NDFIs in member countries for employment generation activities of SMEs. By the end of 1429H, the IDB had provided 40 lines of financing to 15 member countries amounting to \$501.6 million. In order to further increase the utilization of lines of financing, the Bank has made provision of 'free limit', authorizing the NDFIs to approve sub-projects up to 32 percent of the overall approved amount of the lines, and providing the NDFIs with a margin of 3-5 percent, on top of the Bank's mark-up. The IDB holds meetings with the NDFIs every year, on the occasion of the Annual Meeting of its Board of Governors, to discuss issues and challenges facing the SMEs and identify ways to support these enterprises with innovative and modern banking products.

## OIC and its Affiliated Organs

The IDB and the General Secretariat of the OIC, its subsidiary organs, specialized institutions and affiliated organizations work in close collaboration. Over the years, the Bank has developed a strong working relationship with the OIC institutions including Statistical, Economic, and Social Research and Training Centre for Islamic Countries, Islamic Centre for the Development of Trade, Islamic Chamber of Commerce and Industry and the Islamic University of Technology (Dhaka, Bangladesh). The cooperation with these institutions involves collaboration in the areas of research, training, information exchange and joint working groups. Additionally, the IDB participates and holds consultative meetings on the periphery of the annual meetings of OIC Standing Committee for Economic and Commercial Cooperation, Islamic Commission for Economic, Cultural and Social Affairs and Islamic Conference of Foreign Ministers to share ideas and develop collaborative programmes.

The IDB also signed an MoU with the World Islamic Economic Forum in Ramadan 1428H (September 2007). Under the MoU, fields of mutual cooperation included discussions on development issues aimed at better understanding of global economic challenges, promotion of strategic alliances and partnerships, promotion of economic growth through increased intra-trade investment and contribution to the integration of the Muslim economies among themselves and with the world.

## Regional Organizations

The IDB promotes regional economic cooperation by working closely with regional organizations especially those with common membership and objectives. The Bank has signed MoUs with several regional organizations including Arab Maghreb Union,

Economic Cooperation Organization, The Cooperation Council for the Arab States of the Gulf, and Economic Community of West African States. Under these MoUs, the IDB extends assistance for promoting economic and social development. In 1429H, IDB approved technical assistance to implement the Transit Transport Framework in the ECO region. Total assistance provided to the ECO by 1429H amounted to \$1.6 million. So far, the IDB has financed technical assistance operations for GCC totalling \$2.3 million for studies in areas such as establishment of railway network, gas distribution network, information and communication technology infrastructure, promotion of private sector, genetics and biodiversity, fisheries and globalization. The Bank has also strengthened relationships with several other regional organizations such as the African Economic and Monetary Union, the Common Market for Eastern and the Southern Africa and the Association of South East Asian Nations.

### **International Organizations**

The IDB forges strategic alliance with other development partners to leverage additional development assistance to its member countries. It also maintains a close working relationship with specialized bodies of the UN and participates in relevant initiatives of global and regional institutions which include the Asian Development Bank, World Bank, IMF, African Development Bank, and the European Bank for Reconstruction and Development.

The IDB collaborative activities with the UN agencies are aimed at assisting member countries in achieving the MDGs, developing agriculture and industries, and integrating their economics into the multilateral trading system. Consequently, the IDB has broadened its relationship with the UN affiliated organizations and specialized institutions including the United Nations Development Programme, United Nations Industrial Development Organisation, World Health Organisation, Food and Agricultural Organization, International Fund for Agricultural Development, United Nations Conference on Trade and Development, International Trade Centre, World Intellectual Property Organization, Organisation for Economic Co-operation and



The President of the Asian Development Bank, Mr. Haruhiko Kuroda visited the IDB Headquarters, 23 November 2008.

Development, World Customs Organization and World Trade Organization. Recently, the IDB has concluded new institutional collaborative arrangements, with a special focus on operational matters, with the Asian Development Bank, Japan Bank for International Cooperation, United Nations Industrial Development Organization and the World Bank. So far, IDB and the World Bank have co-financed over 60 projects in 26 countries in Africa, Asia, and the Middle East totalling \$3.2 billion. IDB also signed a co-financing agreement with the Asian Development Bank (September 2008). This agreement calls upon both institutions to provide financing up to \$2 billion each over three years targeting mainly infrastructure, public utilities and the urban sector.



The President of World Bank, Mr. Robert Zoellick visited the IDB Headquarters (May 2008).

### **Promoting Islamic Financial Services Industry**

The Islamic Financial Services Industry has witnessed significant expansion globally and has emerged as a viable system and acceptable alternative to traditional finance for mobilizing savings and financing investment. Additionally, the Islamic capital market is fast emerging with tradable securities creating greater liquidity for institutional investors.

The IDB Group plays a leading role in promoting and strengthening Islamic financial institutions worldwide. It focuses on a five pronged strategy: developing and using innovative instruments of Islamic finance to mobilize resources; helping the financial industry identify future needs; promoting dialogue among its stakeholders; creating necessary financial infrastructure institutions and supporting adoption of harmonized standards; and extending technical assistance for capacity building.

Over the years, IDB has played a vital role by providing equity capital as seed money for setting up new ventures including Islamic banks and financial institutions. At the end of 1429H, the IDB had equity investments in 26 Islamic banks and financial institutions in 19 countries, which amounted to ID131 million. Investments in 57 manufacturing and other companies amounted to ID170.1 million in 19 countries. These equity investments are in the cement, engineering, pharmaceutical, healthcare, mining, and agriculture sectors.

## **Capacity Building For Development**

The Bank capacity building efforts in member countries are intended to strengthen and increase efficiency, transfer technology and expertise and enhance overall capacity of public entities, private institutions and regional organizations. For capacity building, the Bank focuses on utilizing the experiences of relatively more advanced countries for the benefit of least developed member countries in key sectors specifically project management; institutional and human development; and research and development. The Bank utilizes various modalities to finance capacity-building operations through Islamic Research & Training Institute, Technical Cooperation Programme, and Science and Technology as the most pertinent.

### *Islamic Research & Training Institute*

IRTI offers courses on Islamic economics and finance through its Distance Learning Programme, which has been established in collaboration with leading universities. IRTI has also established an internet-based Islamic finance research network as Islamic Banks Information System (IBIS).

Key activities of IRTI include:

- organising, conducting, and publishing fundamental and applied research in the field of Islamic economics, banking and finance. In this regard, IRTI, produced 280 publications since inception;
- overseeing the annual international IDB Prize of approximately \$40,000, which alternates every year between Islamic economics and Islamic banking;
- producing text books on Islamic economics. In this context, a workshop was organized to explore the modalities of writing the text books with the involvement of some universities. The 1<sup>st</sup> volume of a series of handbooks entitled “Anthology of Islamic Economics, Exploring the Essence of Islamic Economics” has been prepared and is currently under review of the Academic Committee; and a handbook of Islamic Economics entitled “Anthology of Islamic Economics” Vol.3 Contemporary Issues and Applications has been in progress.
- between 1401H and 1429H, IRTI organized 246 seminars/conferences/workshops/forums, attended by over 16,000 persons, and 370 training courses, attended by over 11,000 persons.

### *Technical Cooperation Programme*

The Technical Cooperation Programme (TCP), which was established in 1403H (1983), highlights the Bank commitment to enhancing the quality of human resources and building institutional capacity for achieving socio-economic development. It provides on-the-job training, conducts familiarization visits, recruits experts, finances studies and organises seminars and workshops. The priority areas identified for the programme are finance, education, agriculture and environment, with special consideration given to Countries In Transition and LDMCs.

Up to the end of 1429H, 1,622 operations amounting to \$36.6 million had been approved under the programme. These comprised 285 operations (\$5.1 million) for



IDB organized Trade Policy Course for Arab Countries in collaboration with World Trade Organization (WTO) on 11-29 October 2008 in Muscat, Oman.

recruitment of experts, 719 operations (\$13.4 million) for on-the-job training activities, and 618 operations (\$18.1 million) for seminars & workshops. The programme has co-sponsored several activities with international agencies including UN agencies.

### *Science and Technology*

Science and Technology are among the key drivers of competitiveness, and form integral parts of any knowledge driven economy. This recognition is evident in the OIC 10-Year Programme of Action which sets out a vision for enhancement of human capital by leveraging Science & Technology to achieve economic development. Over the past 5 years, the Bank has approved 44 projects in the area of S&T amounting to \$393.9 million and 25 TA operations amounting to \$5.3 million for member countries.

### *Scholarship Programmes*

The IDB programme for human resource development is undertaken through providing assistance to scientists, and offering scholarships for higher studies and research. The scholarship programme of the IDB aims at building scientific and technological capabilities of the human capital in both member and non-member countries. The Bank has developed the following three scholarship programmes for outstanding students:

*Scholarship Programme for Muslim Communities (SPMC):* The programme was established in 1404H (1983) to support academically meritorious and needy Muslim students in non-member countries to pursue higher studies in universities in their countries or in other IDB member countries in specified professional disciplines. The annual intake of students has been increased from 450 to 900 effective from 1429H. By the end of 1429H, the total number of students selected for the programme reached 9,219 and the total financing for the programme amounted to ID53 million (\$70 million).

*Merit Scholarship Programme for High Technology (MSP):* The programme was introduced in 1411H (1991). It provides scholarships for advanced studies and research

in science and applied technology. The programme aims at developing technically qualified human resources and enhancing scientific and technological capabilities of institutions in member countries. Under the programme, scholars can undertake doctoral or postdoctoral research in designated universities. Since 1429H, the annual intake of students has been increased from 50 to 100. By the end of 1429H, total number of students selected for the programme reached 470 and the total financing for the programme amounted to ID12 million (\$16 million).

*M.Sc. Scholarship Programme for Science and Technology:* The programme was initiated in 1419H (1998) to provide the students of LDMCs with access to scientific and technological education. The focus of the programme is to develop human resources in twenty LDMCs<sup>5</sup>. The programme places selected students in various universities and centres of excellence in member countries in courses related to their national needs and requirement of their development programmes. A new feature of the programme allows students from LDMCs to register for doctoral research and qualify for the IDB Merit Scholarship Programme for High Technology. The annual intake of students has been increased from 20 to 50. By the end of 1429H, total number of students selected for the programme reached 255 and the total financing for the programme amounted to ID1 million (\$1.3 million).

#### *Investment Promotion Technical Assistance Programme*

In 2005, the IDB Group established its Investment Promotion Technical Assistance Programme (ITAP) for implementing various investment promotion activities in member countries. The objective of the programme is to assist member countries attract FDI. The ITAP Programme aims to address three inter-related challenges namely: institutional development by facilitating appropriate training; sharing best practices from successful member countries; and dissemination of information on investment opportunities in member countries. By the end of 1429H, ITAP funded technical assistance projects in Libya, Maldives, Oman, Sudan, Uganda, Yemen, Comoros, Mauritania, Djibouti, Syria and Afghanistan. It held Conferences for investment promotion in Malaysia and Jordan. During 1429H, ITAP also organized two workshops for the promotion of investment in member countries.

#### *IDB Statistical Capacity Building Initiative*

The IDB launched a Statistical Capacity Building (IDB-STATCAP) Initiative in September 2007. The main objective of the initiative is to assist member countries in getting access to quality statistics to monitor their goals and targets. In 1429H, the first year of IDB-STATCAP implementation, Technical Assistance of \$0.4 million was provided to Guinea-Bissau, Morocco and Djibouti under this programme. In addition, Mauritania, Comoros and Guinea benefited from IDB-STATCAP scholarships in the area of statistics. The IDB-STATCAP, in collaboration with ITAP and UNCTAD, is working to develop an “intra-investment data base of OIC member countries” to provide potential investors, policy makers and researchers with accurate, reliable and consistent information. In this context, the IDB organized an Expert Group Meeting

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<sup>5</sup>These countries are: Afghanistan, Benin, Burkina Faso, Chad, Comoros, Djibouti, Gambia, Guinea, Guinea-Bissau, Maldives, Mali, Mauritania, Mozambique, Niger, Palestine, Sierra Leone, Somalia, Togo, Uganda, and Yemen.

in July 2008 at United Nations Conference on Trade and Development Headquarters and commissioned a study on the subject.

### **Private Sector Development**

The private sector plays key role in enhancing the functioning of markets, improving resource allocation and economic welfare. The private sector serves as the engine of economic growth by generating income and creating new jobs, thus leading to sustained poverty reduction. Private enterprises flourish when public policies and institutions provide attractive and equitable environment for private sector activities. IDB seeks to enhance the role of the private sector in member countries through the following:

#### *Islamic Corporation for the Development of the Private Sector*

The ICD is by far the only organization within the IDB Group with a clear and exclusive mandate to promote the development of the private sector in the IDB member countries.

The ICD provides its clients with a variety of financial products such as direct financing through equity participation, term-financing, lines of financing to commercial banks and National Development Financing Institutions, short-term corporate finance, asset management, structured financing, and advisory services to private and public companies.

Over the period 1421H-1429H, the ICD approved 132 projects (net of cancellations) for 28 member countries, amounting to ID462.4 million (\$987 million). ICD's financing went predominantly to the industrial sector (32 percent); financial sector (21 percent); real estate (18 percent) and transportation sector (10 percent).

#### *Islamic Corporation for the Insurance of Investment and Export Credit*

The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) during 1417H-1429H, made insurance commitments of approximately ID3.6 billion (\$7.1 billion). Since inception, the ICIEC activities have steadily increased, highlighting the growing importance of this aspect of IDB Group activities. The focus of the ICIEC's business operations has been on general manufacturing, petrochemical and electrical cables.

#### *Unit Investment Fund*

In order to mobilize resources to promote foreign investment in member countries, the IDB Unit Investment Fund (UIF) was established in 1410H (1989). The UIF provides Shari'ah compliant financing to investors, and complements the resources of the IDB through the securitisation of its lease and instalment sale assets to be used for project and trade financing operations.

In order to consolidate private sector activities under a single entity within the IDB Group, the resources and activities of the UIF were transferred to the Islamic Corporation for the Development of the Private Sector with effect from 1429H. Under the new arrangements, ICD would now act as a sub-Mudarib for the Fund while the IDB would remain the Mudarib, and extend the facility of full redemption guarantee to the Fund. This came as an initiative to utilize and capitalize the work of the ICD in

its interaction with its network of private sector institutions in more than 25 countries. In cumulative terms, up to the end of 1429H, the UIF had committed \$2,144 million in 225 operations.

#### *Awqaf Properties Investment Fund<sup>6</sup>*

Awqaf organizations are not-for-profit entities established to oversee, promote, manage, or carry out activities, facilities, projects or properties that are founded as endowments. The Awqaf Properties Investment Fund (APIF) was launched in Dhul Qa'dah 1421H (2001). Based on Shari'ah principles, the Fund aims to develop and invest in socially and economically viable real-estate properties. The IDB being the Mudarib (Manager) of the Fund provides an adequate return to participants on their investment. In 1426H, the APIF introduced Build, Operate and Transfer (BOT) investment guidelines for participation in real estate investment opportunities by charitable Awqaf organizations.

In addition to the APIF own capital resources of \$59.5 million, the IDB has provided access to a line of financing amounting to \$100 million. It has also provided \$250,000 as technical assistance to be utilized for supporting expansion of the APIF activities. By the end of 1429H, the Fund had approved 70 operations amounting to \$584 million, 70 percent of which was based on lease financing, 13 percent on profit-sharing and 9 percent on equity financing.

#### *IDB Infrastructure Fund*

The IDB Infrastructure Fund (IIF) is the first private equity investment vehicle to focus on the infrastructure development in member countries. The Fund objectives are to: seek long-term capital appreciation by making equity and equity-related investments in infrastructure projects and infrastructure related industries in IDB member countries and promote the use of Islamic finance in infrastructure projects.

By the end of 1429H, the Fund had invested a total amount of \$785 million in 20 projects in 12 countries. The Fund investment has primarily targeted the power, petrochemical, telecom, transport and mining sectors, which together attracted around 95 percent of the Fund's commitments, while the remaining 5 percent accounted for the oil and gas sector.

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<sup>6</sup> Awqaf, is a plural of Waqf, which means assets that are being purchased/held for charitable and socially beneficial purpose.

## **EMERGING CHALLENGES AND THE WAY FORWARD**

The global economy is in a deep recession which started with the financial crisis in the United States. This crisis occurred through a combination of low interest rate policy, deregulation of non-bank financial institutions, and the massive growth of the unregulated derivative markets. The spread of the crisis worldwide was due partially to globalization as well as to the exposure of multinational financial institutions to toxic US assets.

Because of the crisis and the resultant recession, member countries may face sizeable declines in their foreign capital inflows both from public and private sources. In addition, economic prospects for member countries appear uncertain as their growth is projected to drop from 4.9 percent in 2008 to 2.3 percent in 2009. It has been estimated that the fall in global demand brought on by the biggest economic downturn in decades will drive exports down by about 9 percent during 2009.

It is apparent that the global recession will seriously impact the ability of member countries to achieve the IDB 1440H Vision targets, OIC intra-trade targets, infrastructure and private sector development as well as the Millennium Development Goals (MDGs), especially those related to the reduction of poverty.

The IDB will try to assist its member countries in mitigating the negative impact of the crisis through participation in the strengthening the global financial stability. The fundamental lessons learnt from the ongoing financial crisis are to forge an explicit and consistent linkage between growth in international finance and the real sector, and to engender market-based discipline by promoting financial engineering in which intermediaries obtain returns and share in risk-taking with their borrowers. The IDB will continue to promote Islamic finance, which is based on the financing of real assets and risk sharing and offers a practical alternative around which the new global financial system can be redesigned.

The Bank will continue to support strengthening the existing Islamic financial infrastructure institutions, such as Accounting and Auditing Organization for Islamic Financial Institutions, Islamic Financial Services Board, International Islamic Financial Market, Council of Islamic Banks and Financial Institutions and Arbitration and Reconciliation Centre for Islamic Financial Institutions, which are important for the orderly, long-term development of the industry and the reformation of the global financial system. The G20 decision concerning improvements in the accounting standards for achieving high quality global accounting standards is an opportunity for the IDB to support and encourage member countries to adopt uniform standards set by the relevant institutions and collaborate with them.

The IDB is seeking to mainstream the Islamic Financial Services Industry by developing a vision for the Islamic financial sector that activates the entire spectrum of Islamic finance, including public finance, development finance, private philanthropy, microfinance, Zakat and Awqaf for developing poverty reduction safety nets thereby enhancing the impact of socio-economic development.

The IDB intends to focus its development assistance on important sectors of the economy, such as the agricultural sector. This will be done by promoting pro-poor

agriculture and rural growth for food and livelihood security and wealth creation, and engaging in regional cooperation in agriculture and rural development, such as by facilitating and scaling up the nascent cooperation programme between capital-surplus countries and the agricultural resource-surplus LDMCs. The IDB has already launched the Jeddah Declaration in 2008 with an assistance package of \$1.5 billion over a period of five years in response to the food crisis and in continuation of its efforts to strengthen the agriculture and rural sectors.

While the IDB plans to tap the international capital market by raising market-based funds against its balance sheet through the issuance of corporate or project-based sukuk. By adopting this as a policy and accelerating this process, the Bank plans to achieve three objectives: scaling up of development assistance in priority areas thus leading to enhanced developmental impact; developing the Islamic capital markets; and optimizing the capital resources.

The achievements of the IDB over the past thirty-five years highlight its clear commitment to the promotion of comprehensive human development and progress in member countries, thus leading the way as a key development partner.

### **Annex-I IDB Modes of Financing**

**Instalment Sale:** Under this mode of financing, introduced in 1405H (1985), the IDB purchases assets (machinery and equipment) and then sells them to the beneficiary at a higher price, the repayment being in instalments. Unlike leasing, the ownership of the asset is transferred to the purchaser on delivery.

**Istisna'a:** This is a medium-term mode of financing, introduced in 1416H (1996). It is a contract for manufacturing (or construction) whereby the manufacturer (seller) agrees to provide the buyer with the goods identified by description, after they have been manufactured/constructed, in conformity with that description, within a certain time-frame and for an agreed price.

**Leasing:** It is a medium- to long-term mode of financing introduced in 1397H (1978), which involves purchasing and subsequently transferring of the right of use of the equipment and machinery to the beneficiary for a specific period of time, during which the Bank retains the ownership of the asset.

**Loan:** This mode, introduced in 1396H (1976), is concessionary in nature and different from that of other MFIs, extended to the member countries for financing projects. It carries only a service fee intended to cover the actual cost of administering the loan.

**Mudaraba:** A form of partnership where one party provides the funds and the other provides the expertise and management. Any profits accruing are shared between the two parties on a pre-agreed ratio, while the capital loss is borne by the fund provider.

**Murabaha:** A contract of sale between a buyer and a seller in which a seller purchases the goods needed by a buyer and sells the goods to the buyer on a cost-plus basis. Both the profit (mark-up) and the time of repayment (usually in instalments) are specified in an initial contract.

**Equity Participation:** Through this mode of financing, introduced in 1396H (1976), the Bank participates in the share capital of various companies. However, the level of IDB's participation does not exceed one-third of the equity capital of the project.

**Musharaka Mutanaqisa:** An "equity sharing" Islamic financing technique used for financing projects. It uses different types of profit and loss sharing partnerships. The partners (entrepreneurs, bankers, etc) share both the capital and the management of a project while the profits are distributed between them according to pre-determined ratios based on their equity participation.

Annex-II						
IDB Member Countries Subscribed Capital and Membership Date						
		Par Value of Shares <sup>1</sup>		Voting	Membership Date	
		Total (ID million)	(%)	(%)	Hijri	Gregorian
1	Afghanistan	9.93	0.07	0.11	26/10/1396	20/10/1986
2	Albania	9.23	0.06	0.11	04/03/1414	21/08/1994
3	Algeria	459.22	3.05	3.02	24/07/1394	12/08/1974
4	Azerbaijan	18.19	0.12	0.16	04/01/1413	04/07/1992
5	Bahrain	25.88	0.17	0.22	06/10/1394	21/10/1974
6	Bangladesh	182.16	1.21	1.21	24/07/1394	12/08/1974
7	Benin	18.19	0.12	0.16	01/06/1404	03/03/1984
8	Brunei	45.85	0.30	0.34	24/07/1406	03/04/1986
9	Burkina Faso	24.63	0.16	0.23	06/04/1398	15/03/1978
10	Cameroon	45.85	0.30	0.32	09/04/1397	28/03/1977
11	Chad	9.77	0.06	0.11	06/04/1397	26/03/1977
12	Comoros	4.65	0.03	0.08	24/04/1400	11/03/1980
13	Côte d'Ivoire	4.65	0.03	0.08	29/04/1423	10/07/2002
14	Djibouti	4.96	0.03	0.09	24/04/1400	11/03/1980
15	Egypt	1,278.67	8.48	8.31	24/07/1394	12/08/1974
16	Gabon	54.58	0.36	0.39	27/04/1401	03/03/1981
17	Gambia	9.23	0.06	0.11	24/04/1400	11/03/1980
18	Guinea	45.85	0.30	0.32	24/07/1394	12/08/1974
19	Guinea Bissau	4.96	0.03	0.09	16/12/1398	16/11/1978
20	Indonesia	406.48	2.70	2.78	24/07/1394	12/08/1974
21	Iran	1,293.34	8.58	8.42	16/07/1409	22/02/1989
22	Iraq	48.24	0.32	0.38	19/10/1398	23/09/1978
23	Jordan	73.50	0.49	0.52	24/07/1394	12/08/1974
24	Kazakhstan	19.29	0.13	0.17	08/07/1416	30/11/1995
25	Kuwait	985.88	6.54	7.97	24/07/1394	12/08/1974
26	Kyrgyz	9.23	0.06	0.11	19/05/1414	03/11/1993
27	Lebanon	9.77	0.06	0.12	09/04/1397	28/03/1977
28	Libya	1,478.24	9.81	9.97	06/08/1394	24/08/1974
29	Malaysia	294.01	1.95	1.95	24/07/1394	12/08/1974
30	Maldives	9.23	0.06	0.11	24/04/1400	11/03/1980
31	Mali	18.19	0.12	0.16	06/04/1398	15/03/1978
32	Mauritania	9.77	0.06	0.12	24/07/1394	12/08/1974
33	Morocco	91.69	0.61	0.64	24/07/1394	12/08/1974
34	Mozambique	9.23	0.06	0.11	08/07/1416	30/11/1995
35	Niger	24.63	0.16	0.22	24/07/1394	12/08/1974
36	Nigeria	4.65	0.03	0.08	08/05/1426	15/06/2005
37	Oman	50.92	0.34	0.37	24/07/1394	12/08/1974
38	Pakistan	459.22	3.05	3.02	24/07/1394	12/08/1974
39	Palestine	19.55	0.13	0.18	07/07/1397	23/06/1977
40	Qatar	1,297.50	8.61	6.66	24/07/1394	12/08/1974
41	Saudi Arabia	3,685.13	24.44	23.9	24/07/1394	12/08/1974
42	Senegal	45.89	0.30	0.32	28/11/1396	20/11/1976
43	Sierra Leone	4.96	0.03	0.09	01/08/1402	24/05/1982
44	Somalia	4.96	0.03	0.09	24/07/1394	12/08/1974
45	Sudan	72.77	0.48	0.49	24/07/1394	12/08/1974
46	Suriname	9.23	0.06	0.11	02/01/1418	08/05/1997
47	Syria	18.49	0.12	0.16	04/09/1395	09/09/1975
48	Tajikistan	4.96	0.03	0.09	16/07/1417	27/11/1996
49	Togo	4.96	0.03	0.09	29/07/1419	18/11/1998
50	Tunisia	19.55	0.13	0.20	24/07/1394	12/08/1974
51	Turkey	1,165.86	7.73	7.10	24/07/1394	12/08/1974
52	Turkmenistan	4.96	0.03	0.09	12/06/1415	15/11/1994
53	UAE	882.84	5.85	6.82	24/07/1394	12/08/1974
54	Uganda	187.75	1.25	0.23	09/04/1397	28/03/1977
55	Uzbekistan	2.50	0.02	0.07	06/07/1424	03/09/2003
56	Yemen	92.38	0.61	0.64	19/07/1395	28/07/1975
<b>Total</b>		<b>15,076.20</b>	<b>100</b>	<b>100</b>		

Note: Some difference may arise in the voting power due to rounding.  
<sup>1</sup>It is to be noted that percentage shareholdings indicated above will alter after implementing the confirmation from countries as per the Resolution No.BG/11-429 adopted during the 33<sup>rd</sup> Annual Meeting of the IDB Board of Governors held on 30 Jumad Awwal 1429H (4 June 2008).

<b>Annex-III Contact Details</b>				
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