36 Years
In the Service of Development
THIRTY-SIX YEARS
IN THE SERVICE OF DEVELOPMENT

Jumad Thani 1431H (June 2010)
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### IDB Group Overview

#### Capital Structure

<table>
<thead>
<tr>
<th>Authorized Capital</th>
<th>1430H³</th>
<th>30,000</th>
<th>2,000</th>
<th>150</th>
<th>3,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>At Inception</td>
<td>2,000</td>
<td>1,000</td>
<td>100</td>
<td></td>
<td>3,000</td>
</tr>
<tr>
<td>Subscribed Capital</td>
<td>1430H</td>
<td>15,864</td>
<td>728.4</td>
<td>148.5</td>
<td>750</td>
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<tr>
<td>At Inception</td>
<td>750</td>
<td>350</td>
<td>68.8</td>
<td></td>
<td>500</td>
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<tr>
<td>Paid-In Capital</td>
<td>1430H</td>
<td>3,640</td>
<td>401.6</td>
<td>73.3</td>
<td>659.2</td>
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<tr>
<td>At Inception</td>
<td>280</td>
<td>88.1</td>
<td>63.8</td>
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<td>446.1</td>
</tr>
</tbody>
</table>

#### Net Approvals

**1396H-1430H (1976-17 December 2009)**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Number of Operations</th>
<th>Amount Approved (in million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(I) Project Financing from OCR⁴</td>
<td>2,416</td>
<td>15,138.6</td>
</tr>
<tr>
<td>Of which</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technical Assistance</td>
<td>929</td>
<td>212.7</td>
</tr>
<tr>
<td>(II) Project Financing by Funds/Entities</td>
<td>635</td>
<td>4,709.8</td>
</tr>
<tr>
<td>(UIF, IBP, APIF, ICD and Treasury Dept.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Project Financing (I + II)</strong></td>
<td>3,051</td>
<td>19,848.4</td>
</tr>
<tr>
<td>Trade Financing Operations</td>
<td>2,169</td>
<td>25,142.5</td>
</tr>
<tr>
<td>Special Assistance Operations</td>
<td>1,287</td>
<td>529.4</td>
</tr>
<tr>
<td><strong>Total Net Approvals</strong></td>
<td>6,507</td>
<td>45,520.3</td>
</tr>
</tbody>
</table>

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¹ Islamic Dinar (ID) is the unit of account of the IDB and is equivalent to one Special Drawing Right (SDR) of the IMF.
² As per Articles of Agreement, Authorized/Subscribed Capital for the ICD and ITFC are in US dollar ($).
³ 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.
⁴ OCR refers to Ordinary Capital Resources.
CONTENTS

EVOLUTION OF ISLAMIC DEVELOPMENT BANK GROUP .......... 1
  Transforming the IDB 1440H Vision into Reality .................. 1
  Institutional Development .................................................. 1
  Towards a World Class Development Institution .................. 2
  Increasing Financial Resource and Management ................... 3
  Strong Financial Position and Credit Worthiness ................... 3
  Enhancing Development Effectiveness .................................. 4

INCREASING DEVELOPMENT ASSISTANCE:
STRATEGIC FOCUS AREAS .................................................. 6
  Fostering Comprehensive Human Development .................... 6
  Poverty Reduction Initiatives .............................................. 9
  Supporting Infrastructure Development ................................ 11
  Enhancing Economic Cooperation ....................................... 12
  Supporting Islamic Financial Services Industry ................... 13

FOSTERING DEVELOPMENT ASSISTANCE:
CROSS-CUTTING AREAS .................................................. 14
  Private Sector Development .............................................. 14
  Enhancing Capacity Building for Development .................... 15
  Leveraging Development Partnerships ................................. 18

EMERGING CHALLENGES AND THE WAY FORWARD ............... 22

ANNEXES
  IDB Modes of Financing .................................................. 23
  Contact Details ............................................................... 24
EVOLUTION OF THE ISLAMIC DEVELOPMENT BANK GROUP

The Islamic Development Bank Group (IDB Group) is a multilateral development institution whose aim is to foster economic development and social progress of its member countries as well as Muslim communities in non-member countries. It operates in accordance with the principles of the Shari’ah (Islamic law). Over the past thirty-six years, the IDB Group has contributed immensely to the socio-economic development of its member countries and pioneered a unique alternative system of banking and finance that is based on the principles of the Shari’ah.

This booklet presents the achievements and initiatives of the IDB Group in key development areas since its inception in 1975.

Transforming the IDB 1440H Vision into Reality

Guided by Islamic principles, the IDB’s main objective is to help its member countries address development challenges in accordance with its Vision Statement of becoming a world-class south-south development institution by the year 1440H. As articulated in its 1440H Vision, the Bank aims to significantly transform the landscape of comprehensive human development in the Muslim world and restore the latter’s dignity by providing development assistance designed to reduce poverty and eliminate underdevelopment.

Institutional Development

The membership of the IDB has increased more than two-fold from 22 countries at its inception in 1395H to 56 countries in 1431H spanning four continents: Africa, Asia, Europe, and Latin America. It has also evolved from a single entity into a group composed of 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). An overview of these entities is as follows:

The Islamic Research and Training Institute was established in 1401H (1981) to conduct research and training and develop a practical method of applying Islamic banking and finance. Such activities are carried out to build capacity and promote dialogue among IDB member countries in order to ensure that their economic, financial and banking activities are conducted in conformity with Shari’ah principles.

The Islamic Corporation for the Insurance of Investment and Export Credit was established in 1415H (1994). It seeks to boost trade among OIC member countries by providing exporters, banks, trade financiers and export credit agencies with Shari’ah-compliant export credit insurance and re-insurance facilities. ICIEC also supports and encourages investment flows into member countries by providing investors and financiers of investments with Shari’ah-based political risk insurance policies.
The Islamic Corporation for the Development of the Private Sector was established in 1420H (1999) to promote private sector development in member countries. It provides a wide range of Shari’ah-compliant financial products and services with a view to facilitating 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* started business on 1 Muharram, 1429H (10 January 2008) having inherited a vast experience in trade finance of over 30 years. The ITFC is thus in a vantage position to foster socio-economic development, set new benchmarks in ethical trade finance, enhance trade and develop innovative Shariah compliant trade financing instruments.

The ITFC helps to promote the IDB Group’s development objectives as a catalyst for trade enhancement among OIC Member Countries and other parts of the world. The ITFC also seeks to provide OIC Member Countries with trade solutions in line with its motto: ‘Advancing Trade, Improving Lives.’

**Towards a World Class Development Institution**

Having existed for over three and a half decades, the IDB thought it judicious to embark on a reform program to ensure its viability. The IDB Group Reform Programme was launched in 2007 and is designed to enable the IDB Group to remain viable and relevant and to respond effectively to challenges from within as well as challenges posed by member countries and Muslim communities worldwide.

Phase I of the Reform Program was completed in 1430H (2009); it is composed of: (i) the Medium-Term IDB Group Strategy; (ii) the Organizational Structure; and (iii) Staff Renewal.

Phase II of the Program is composed of (i) Operations Policies; (ii) Human Resource Development Policies (People and Skills); (iii) Business Processes; and (iv) Knowledge Management.

Under Phase I of the Reform, the IDB completed its Group’s medium-term strategy, financial targets, business plans and the strategy-driven annual budgeting for 1431H. In addition, the medium-term strategic themes (1431H-1433H) consist of four areas and two crosscutting themes. The four priority themes are Islamic financial services, poverty alleviation, human development and infrastructure.

In a bid to ensure organizational effectiveness, a new organizational structure was devised in conformity with the IDB’s strategic focus. Positions of Vice Presidents (Finance) and that of Chief Economist were established. New departments were also created in order to ensure greater efficiency when it comes to conducting operations in IDB member countries.
The new departments are: three sectoral departments at the Operations Complex (the Human Development, the Infrastructure and Urban Development, and the Agriculture and Rural Development Departments); two departments at the Finance Complex; they are the Partnership and Resource Mobilization and the Budget and Performance Management Departments; and at the Chief Economist Complex, the External Relations and Internal Communications and Data Resources and Statistics Departments.

More divisions were also created in the Country Department so that each division can focus on few countries bringing the Bank closer to its member countries and identifying their needs.

The new organizational structure and the new delegation of authority have helped to assess the Bank’s managerial strength and the training needs of the staff. Eligible staff members were assessed and interviewed for managerial positions. At the end of the exercise, two-thirds of the positions were filled. The remaining positions have been advertised for external and internal qualified candidates to apply.

**Increasing Financial Resources and Management**

The IDB’s capital comes from contributions paid by member countries. The Bank’s authorized capital increased from ID2 billion in 1395H (1975) to ID30 billion in 1430H (2009); the paid-up capital from ID0.28 billion in 1396H to ID3.6 billion in 1430H and the subscribed capital from ID0.75 billion in 1395H to ID16 billion in 1430H. As a result of the capital increases, the Bank has been able to satisfy the growth in its member counties’ requests for development assistance.

**Strong Financial Position and Credit Worthiness**

Over the years, the IDB has been able to maintain its strong financial position and credit worthiness. Notwithstanding the global financial crisis, the IDB has been able to maintain the strong financial position. For instance, it posted a net income of ID123 million in 1430H from its Ordinary Capital Resources.

**Maintaining Highest Credit Ratings**

The IDB continues to maintain the highest credit ratings awarded by the leading international rating agencies. The Bank was awarded ratings of “AAA” by Fitch for the long-term, “F1+” for the short-term foreign currency issuer with a “Stable” outlook. Furthermore, Standard & Poor’s confirmed for the eighth consecutive year its highest ratings for the IDB: “AAA” for long-term and “A-1+” for short-term with “stable” outlook. The Bank was awarded “Aaa” long term and P-1 short term foreign currency issuer rating with a “stable” outlook for the fourth consecutive year by Moody’s Investors Service. This makes the IDB one of the few multilateral development financial institutions rated by the three leading international rating agencies - Standard & Poor’s, Fitch and Moody’s with the highest possible rating (Triple-A). This confirms, inter alia, the Bank’s financial viability and very low risk.
profile. Moreover, the Basel Committee on Banking Supervision assigned the IDB a ‘Zero-Risk Weighted’ Multilateral Development Bank (MDB) and the Commission of the European Community designated the Bank as eligible for a zero-risk weight, as laid down in the provisions of the European Union.

**Enhancing Development Effectiveness**

**Scaling up Financing**

The IDB’s main objectives are to reduce poverty and foster development effectiveness in its member countries. In order to achieve these objectives and address the effects of the recent financial and economic crisis on its member countries, the Bank scaled-up its development assistance by increasing its Ordinary Capital Resources (OCR) financing in 1430H to help them achieve the Millennium Development Goals (MDGs) and the IDB 1440H Vision.

Since its inception, the Bank provided development assistance to both the public and private sectors of its member countries through three main operations: ordinary operations (comprising project financing and technical assistance); trade financing; and the Waqf Fund (Special Assistance) operations.

The IDB Group’s cumulative net financing for all the three types of operations at the end of 1430H stood at ID45.5 billion ($63.9 billion) for 6,507 operations. The IDB Group financing activities are dominated by trade financing which accounts for more than 54 percent of total financing, followed by project financing (44 percent), and Technical, and special assistance (1 percent each) (Figure 1).

![Figure 1: Types of IDB Group Financing (1396H-1430H)](image-url)
Between 1396H and 1430H, a total of ID15.1 billion ($21.5 billion) was disbursed for project finance from the OCR. The sectoral distribution of cumulative project and TA financing from the OCR during the 1396H-1430H period showed that the largest share of the funding was devoted to public utilities (33 percent), transport and communication (24.3 percent), and social services (17.1 percent) (Figure 2).

The modes of financing that the IDB uses for its operations are, among others, leasing, Istisna, loan, equity, profit sharing, instalment sale and combined lines of financing (Figure 3).

**Improving Project Portfolio**

The IDB regularly reviews its project portfolio to ensure that its projects for its member countries are viable, speedily implemented and effectively monitored. In the process of maintaining an active project portfolio, inactive projects that are not likely to be implemented within a reasonable period are cancelled. At the end of 1430H, the overall size of the active OCR-portfolio stood at ID8.5 billion for 899 operations.

**Introducing Project Implementation Assessment**

The Project Implementation Assessment Report (PIAR) was introduced as part of the IDB Reform in 1430H to improve the outcome of project supervision missions. The PIAR is expected to give an objective feedback, identify and document project impediments and thus help to timely achieve the development objectives of IDB projects. It should also help to formulate an action plan for a speedy implementation of projects.
Enhancing Operations Evaluation

The IDB evaluates its operations (both completed and on-going projects) in order to ensure efficiency and development. In a bid to improve its project evaluation process, the IDB forges partnership with evaluation entities of various international development institutions such as the European Bank for Reconstruction and Development, the World Bank, the African Development Bank and the Arab Bank for Economic Development in Africa. Findings made and lessons learnt are disseminated for feedback so that quality and efficiency can be ensured.

INCREASING DEVELOPMENT ASSISTANCE: STRATEGIC FOCUS AREAS

Fostering Comprehensive Human Development

Since its inception, the IDB has promoted human development in its member countries as one of its major objectives. The Bank has thus committed huge resources for the social sector (education and health) facilities in its member countries, especially the least developed member countries (LDMCs).
Supporting Education

Enhancing education is essential when it comes to achieving comprehensive human development. The IDB has focused on human resources development by financing education and implementing training programmes to reduce illiteracy in its member countries, especially the LDMCs. The Bank has greatly helped to increase access to education from the primary to the tertiary levels. By the end of 1430H, the IDB’s cumulative financing for the education sector stood at ID1.33 billion ($1.8 billion) for 362 operations. The Bank’s future intervention in the education sector will focus on (i) basic education, particularly bilingual education; (ii) vocational training and technical education; (iii) sciences and mathematics; and (iv) non-formal education.

The IDB Bilingual Education Initiative was launched in 2000 in an attempt to afford the disadvantaged youths in Sub-Saharan Africa the opportunity to further their education in Arabic.

In 2008, the IDB launched its Vocational Literacy for Poverty Reduction Programme (VOLIP) with the aim of reducing poverty among women and the youth in rural areas by providing them with skills and helping them have access to microfinance to improve their conditions. The programme focuses on (i) school drop-outs (ii) teenagers and young adults; (iii) working women; and (iv) adults.

In 1430H, the IDB also introduced the IDB Knowledge, Information and Communications Technologies for Development (KICT4D) Telecentre Programme (Box 1).

Box 1
IDB-Knowledge, Information and Communication Technologies for Development (KICT4D) Telecentre Programme

The IDB-Knowledge, Information and Communication Technologies for Development (KICT4D) Telecentre Programme provides services and disseminates knowledge and information in communities through information and communication technology in order to improve the living conditions of such communities. The programme is essentially a community development and empowerment initiative.

The IDB implemented the programme in Bangladesh and Egypt as pilot projects in 1430H with a view to making micro, small and medium enterprises (MSMEs) more efficient and sustainable. The projects were successfully implemented in six districts of Bangladesh and eight governorates of Egypt. The pilot projects focused on developing MSME support services called e-module such as simple accounting software, online MSME start up guide, online marketplace portal, and MSME support helpdesk. The e-modules of the projects can be extended to e-learning, medical services, microfinance, etc.
Supporting Health

Poor health hampers human well-being and existence. Health promotion is one of the Key Strategic Thrusts under the IDB Vision 1440H. Primary health care with a focus on delivery of health services to the rural poor as well as establishment of hospitals have been the IDB’s primary areas of financing. In cumulative terms, the IDB financing in the health sector up to the end of 1430H stood at IDC860.57 million ($1.18 billion) for 213 operations. The IDB has also been very active in anti-malaria programmes in African member countries in collaboration with the World Health Organization and the International Federation of the Red Cross and the Red Crescent Societies. The Bank allocated $50 million between 1428H and 1430H for the implementation of the Roll-Back Malaria “Quick Win” Programme in Indonesia, Burkina Faso, Chad, The Gambia, Guinea-Bissau, Mali, Mauritania, Niger, Senegal, and Sudan.

In 1429H, the IDB launched a partnership programme dubbed “Alliance to Fight Avoidable Blindness in Sub-Saharan Africa”, to fight against preventable or curable blindness in Sub-Saharan African member countries (Benin, Burkina Faso, Cameroon, Chad, Djibouti, Guinea, Mali, and Niger). The Programme provides free eye examination and restores sight to patients suffering from cataract.

Promoting Agriculture and Food Security

Agriculture is essential to overall economic growth in developing countries as it provides employment for a growing population and contributes largely to the national income. With over 70 percent of the population of developing countries living in rural areas, the agricultural sector provides about 25 percent of their GDP. The IDB, since its inception, recognized such a fact and had therefore given utmost importance to the development of the sector in its member countries. IDB financing for agricultural, agro-industrial and other related food security projects stood at IDC1.5 billion ($2.1 billion) by the end of 1430H for 427 operations in its member countries.

Implementing the Jeddah Declaration

As a result of the adverse effects that the high food prices in 2008 on IDB member countries, the IDB came up in June 2008 with an initiative dubbed the “Jeddah Declaration”. Under the Declaration, the IDB pledged a financing package of $1.5 billion designed to boost productivity in the agricultural sector in member countries. The program is divided into short, medium and long-term measures. The short-term measures include assistance to LDMCs, severely affected by the high food prices. It is aimed at helping them to acquire agricultural inputs and boost local production and in exceptional cases, to replenish food stocks. Under the short-term measures, the Bank earmarked the Waqf Fund a grant of US$ 30 million over the first three years. The medium- to long-term assistance is designed to enable the agricultural sector increase its overall productivity and rural incomes in member countries. In order to achieve such a goal, agricultural inputs and services would be made available, agricultural infrastructure improved and agricultural institutions enhanced.
The beneficiaries of this initiative are the 25 LDMCs of the Bank. The five-year program is now in its second year and by the end of 1430H, the IDB Group had approved a total of about $357 million i.e. 24 percent of the target amount. This comprises US$291.8 million for 20 short and medium to long term projects while 10 projects worth US$30.26 million are in the pipeline. The ITFC has approved $52 million for three projects and the ICD $12.5 million for one project.

**Poverty Reduction Initiatives**

**Increasing Assistance to LDMCs**

All IDB member countries are developing countries composed of 28 LDMCs, and 28 non-LDMCs. As stated in the IDB Vision 1440H, the Bank is committed to reducing poverty and improving the living standards of peoples in its member countries and Muslim communities in non-member countries. To achieve this objective, the IDB has increased development assistance to its LDMCs. By the end of 1430H, the cumulative development assistance extended to LDMCs stood at ID14.3 billion ($20.2 billion) including net approvals of ID4.3 billion ($6 billion) from the OCR i.e. 28 percent of total OCR financing.

**Increasing Special Assistance Operations**

The Special Assistance Programme was established in 1400H (1980) to extend emergency relief assistance to victims of disasters such as wars, earthquakes, floods. It also helps Muslim communities in non-member countries to improve their living conditions through capacity building in the social sector (education, health etc). The Special Assistance Programme also coordinates the implementation of many assistance projects in collaboration with other philanthropic organizations such as the Saudi Charity Campaign, the OIC Alliance for Tsunami Child Victims of in Indonesia, and the Fael Khair Relief Programme of Cyclone Victims in Bangladesh.

Cumulative approvals under the Special Assistance Programme by the end of 1430H stood at ID533.6 million ($689.4 million) for 1,315 operations, of which ID 345.9 million ($437.7 million) was approved for 492 operations in member countries and ID187.7 million ($251.7 million) for 823 operations in Muslim communities and organizations in non-member countries.

**Implementing the Special Programme for the Development of Africa**

The Bank launched the Special Programme for the Development of Africa (SPDA) in Rabi Awwal 1429H (March 2008) as the successor of the Ouagadougou Declaration (2002). The SPDA is a $ 4 billion five-year programme (2008-2012) for twenty-two LDMCs in Sub-Saharan Africa. This is twice the amount that was devoted to the Ouagadougou Declaration. The SPDA focuses on six critical areas for its operational activities:
- Improve productivity in agriculture to achieve food security;
- Support water and sanitation projects;
- Support national and regional transport infrastructure;
- Support power generation and distribution projects;
- Invest in education to build a skilled workforce; and
- Finance projects in the health sector focusing on the fight against major communicable diseases.

By the end of 2009, the IDB Group had made significant progress in the implementation of the program as approximately $1.5 billion was approved to finance projects, US$700 million disbursed and an additional external financing of US$2 billion mobilized for Sub-Saharan African countries only.

Furthermore, the IDB also initiated the Integrated Community-Driven Development Programme that, targets poor women (Box 2).

### Box 2

**Integrated Community Driven Development**

The Integrated Community Driven Development (ICDD) is a holistic approach that pro-actively targets the poor, especially women. The programme was developed by the IDB as an extension of the Community Driven Development (CDD) programme pioneered and promoted by the World Bank, which treats the poor as assets and partners in the development process. The ICDD seeks to boost the economic and living conditions of the community by providing vocational training for the poor, improve market and trade linkages and provide microfinance support to the community. Currently, the IDB is piloting two ICDD projects in Indonesia and Bangladesh. The cost of the Indonesia project is US$126.9 million with an IDB financing of $83 million while that of Bangladesh is $29.6 million, out of which the IDB is financing 19.9 million. If successfully implemented, opportunities will be provided to the marginalized and disadvantaged sections of the communities to emerge out of poverty.

### Islamic Solidarity Fund for Development

The Islamic Solidarity Fund for Development (ISFD) was launched in 1429H. Its objective is to help reduce poverty through capacity building in member countries. The ISFD’s target capital of US$10 billions will come from IDB member countries and the IDB. The ISFD is a Waqf meaning that operations will be financed from the returns on investment of its core resources. Other objectives of the ISFD are promoting literacy and eradicating diseases, particularly malaria, tuberculosis and AIDS.
By the end of 2009, 38 member countries had pledged contributions of $2.6 billion to the ISFD. An amount of $1.1 billion has already been received from 25 countries and an amount of $200 million from the IDB. The ISFD has so far funded 47 poverty reduction projects worth $548.9 million in 27 member countries. As part of its Five-Year Strategy (2008-2012), the ISFD has been focusing on two thematic programmes, namely VOLIP and the Microfinance Support Program (MFSP). The main purpose of the MFSP is to improve the living conditions of the poor. The cost of the programme is estimated at $500 million over a period of five years. It will play the role of a catalyst to provide $20 million annually from its resources and secure the remaining balance of $80 million annually from other development partners and the private sector.

Supporting Infrastructure Development

The major impediment of many developing countries in their quest for sustained economic growth and development is the poor infrastructure that characterises their economies. Lack of necessary infrastructure prevents economies from reaping the benefits and opportunities brought about by globalization. Moreover, there is a need for infrastructure development in developing countries for them to reap the benefits and advantages of the growth available in the post-crisis era. It is in recognition of this fact that the IDB, since its inception, has been providing development assistance to LDMCs for better basic rural and urban infrastructure. The IDB has also diversified its assistance for infrastructure projects to the private sector of its member countries through the ICD and ICIEC.

The recent financial and economic crisis directly and indirectly affected developing countries including IDB member countries. The effects of the crisis were severely felt by poor countries that lack basic infrastructure. The IDB Group nearly doubled its financing for infrastructure project in 1430H by providing ID1.8 billion (US$ 2.8 billion) to help member countries recover from the effects of the crisis.

Supporting Energy, Information Technology, Transport, and Water and Sanitation Infrastructure

The IDB gives priority to renewable energy and energy efficiency when it comes to financing projects. In 1430H, the Bank invested ID675 million (US$ 1,047 million) i.e. more than double the amount it invested in 1429H in energy and ICT related projects. A large portion of the investment was devoted to power generation projects based on hydro-power and thermal (combined cycle) power stations. In addition, pro-poor energy projects such as mini-hydropower stations and solar housing systems are also given priority as they can reach very remote rural areas. The IDB’s focus in the energy sector is also to develop local as well as regional power transmission infrastructure and thus facilitate trade in electricity among IDB member countries.

The Bank also finances transport infrastructure projects such as roads and railway networks. These form of infrastructure facilitate trade by reducing the costs of the movement of goods and persons. Some regional road projects that are currently
financed by the Bank are the Kulyab-Kalaikhum Road in Tajikistan, which is part of the East-West corridor connecting Tajikistan with China. This project will cost US$ 92.9 million with the IDB contributing $20 million. Another regional road project is the Western Europe-Western China (WE-WC) Road Project, which is designed to boost trade among Central Asian member countries.

The IDB also participates in the Program for Infrastructure Development in Africa (PIDA), which seeks to establish, among others, a strategic framework for the development of regional and continental infrastructure for energy, transport, ICT, cross-border trade, water resources. The project will be implemented in collaboration with other multilateral development banks and development partners.

As access to safe drinking water and sanitation has become a major issue of concern for member countries, the IDB 1440H Vision considers the provision of safe drinking water and sanitation one of its key strategic themes. The Bank has been financing water and sanitation projects since its inception. By the end of 1430H, the Bank had financed projects worth over US$ 3.0 billion i.e. about 15 percent of the IDB’s entire project financing.

**Enhancing Economic Cooperation**

One of the IDB’s strategic objectives is to promote economic cooperation and development among IDB member countries. Consequently, the IDB strengthens cooperation with all stakeholders at the national, regional and international levels, promotes intra-trade and intra-investment among member countries, encourages co-financed operations with other multilateral development banks and international organizations. It also funds special assistance projects in collaboration with non-governmental organizations.

**Supporting Trade Finance, Intra-Trade and Intra-Investment**

Having realized the importance of trade as an engine of economic growth and development, the IDB was the first multilateral financial institution to have introduced trade finance among its operations. Consequently, the IDB Group’s overall trade finance operations, since its inception, stands at ID25.1 billion (US$ 34.8 billion).

The trade financing window of the IDB Group is the ITFC which rapidly responds to customer needs in a market-driven business environment. It is promoting IDB Group’s objectives by contributing to the development of markets and trading capacities to help member countries do business more effectively. The IDB Group’s cumulative trade finance currently stands at US$ 34.5 billion; intra-OIC trade finance accounting for 75 percent of the total. The ITFC has approved so far 146 trade finance operations including four operations under the BADEA Scheme in 31 OIC member countries at an aggregate amount of $5.2 billion.

The ITFC’s trade promotion and cooperation arm (TCPP) promotes trade cooperation and private/public sector development by sponsoring and organizing collective
participation of trade promotion organizations (TPOs) and/or small and medium size enterprises (SMEs) of member countries in international exhibitions, buyer-seller meetings and trade missions. The ITFC also helps to build the human and institutional capacity of trade support organizations so that member countries can work out and implement a sustainable national trade development strategy for trade integration. In 2008, intra-OIC exports stood at $265 billion while intra-OIC imports soared to $285 billion, which together stood at $550 billion i.e. a 31 percent increase in trade among OIC countries.

Aid for Trade (AfT) is another development-related regional initiative of the United Nations Special Program for the Economies of Central Asia and Afghanistan (SPECA region), which was jointly launched with the Governments of Azerbaijan and Kyrgyzstan and supported by international organizations, namely, the WTO, the UNDP, the ITC, UNECE, UNIDO, the World Bank and the EBRD. AfT helps to build the capacity of developing member countries so that they can address internal problems such as production capacity, and trade-related infrastructure and thus make use of open markets. Apart from trade finance and promotion, the IDB also provides insurance services designed to enhance intra-trade, and boost exports from member countries to non-member countries. The IDB’s arm that carries out such a task is called the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC). By the end of 1430H, ICIEC had insured exports worth US$6.09 billion from its member countries covering sectors such as, manufacturing, cables, petrochemical products, textiles, etc.

Moreover, the IDB also accords top priority to intra-investments among its member countries because of its importance for economic growth and development. The Bank promotes investment through the ICD and ICIEC by providing lines of financing to development financing institutions and Islamic banks. In addition, ICIEC provides export credit and investment insurance services to encourage exports from its member countries and the investment flows into its member countries. By the end of 1430H, ICIEC’s insurance commitments were estimated at $7.96 billion and total business insured at US$6.09 billion mostly covering private sector operations in manufacturing, petrochemicals, electric cables, etc. The Bank also established the Investment Technical Assistance Programme (ITAP) under ICIEC to promote intra-investment among its member countries.

Supporting Islamic Financial Services Industry

Global Financial Crisis and Islamic Finance

The Islamic Financial Services Industry has witnessed significant expansion globally and emerged as a viable system and acceptable alternative to conventional finance.

Moreover, the Islamic capital market is fast emerging with tradable securities thus providing greater liquidity for institutional investors. Although, the rate of growth of the Islamic financial services industry cannot be quantified precisely, it is estimated to be growing at the rate of 15-20 percent annually with total assets estimated at more
The recent financial crisis further popularized Islamic finance as an alternative to the conventional finance, which is very risky and disconnected from the real economy. What is unique about Islamic finance is that financial transactions must be linked to an underlying productive economic activity that generates legitimate income. Islamic finance is also more resilient and minimizes the exposure of Islamic financial institutions (IFIs) during financial crises.

**IDB Group Support for Islamic Finance**

The IDB Group has been in the forefront of promoting and strengthening Islamic financial institutions globally. It develops and uses innovative instruments of Islamic finance to mobilize resources; helps the financial industry identify future needs; promotes dialogue among its stakeholders; establishes the requisite financial infrastructure and supports standardization; and extends technical assistance for capacity building.

The IDB also supports the establishment of standard making bodies such as the Islamic Financial Services Board (IFSB) and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and assists in the establishment of specialized institutions such as the General Council for Islamic Banks and Financial Institutions (CIBAFI) and the International Islamic Financial Market (IIFM).

Apart from supporting regulatory bodies and assisting in the development of specialized Islamic Financial Institutions, the IDB also makes equity investments in Islamic financial institutions.

By end of 1430H, the IDB had equity investments worth about ID149 million in 27 Islamic financial institutions in 19 countries. The IDB also supports the revival of Awqaf given the latter’s development potential and poverty reduction capacity in member countries.

In line with the strategic objective of supporting the IFSI, the IDB has been providing technical assistance and promoting capacity building in member countries and financial institutions with regard to various aspects of Islamic finance such as Islamic microfinance, Zakat, Awqaf, Takaful, Sukuk, the Islamic Capital Market, and IFI-technical support development programmes.

**FOSTERING DEVELOPMENT ASSISTANCE: CROSS-CUTTING AREAS**

**Private Sector Development**

In recognition of the strategic importance of the private sector, the IDB promotes the development of the private sector in member countries through the activities of the ICD and ICIEC.

The main purpose of establishing the ICD is to support and promote private sector development in member countries. The ICD provides 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 finance and advisory services to private and public companies. Cumulative approvals of the ICD as at the end of 1430H stood at $1.6 billion for 184 projects (including cancelled projects) in 32 member countries. The bulk of the ICD’s financing targeted the industrial sector (32 percent); financial sector (28 percent); real estate (13 percent) and transportation sector (7 percent).

Since its inception up to the end of 1430H, ICIEC made insurance commitments of $7.9 billion while its total insured business stood at US$ 6 billion. This reflects its strong commitment to private sector development in member countries. The activities of ICIEC focused on manufacturing as well as petrochemical and electrical cables industries.

**Supporting Public Private Partnership**

Public Private Partnerships (PPP) evolved in the 1970s and 1980s as an alternative to the standard model of public procurement. The private sector was encouraged to invest infrastructure due to concern about rising public debt. The PPP model became a very popular mode of investment in major infrastructure projects requiring large investments internationally. In this way, the cost of providing infrastructure shifts from the public to the private sector allowing the former to focus on other services. Recognizing the growing importance of PPP projects and their potential impact on member countries, the IDB set up a new division in the newly established Infrastructure Department to focus on PPP projects through direct participation and acts as a catalyst in attracting similar investments into member countries.

**Enhancing Capacity Building for Development**

The IDB’s support for capacity building is designed to boost efficiency, transfer technology and expertise and enhance the overall capacity of public entities, private institutions and regional organizations in member countries. In this regard, the IDB makes use of the experiences of more advanced member countries in key sectors for the benefit of least developed member countries. The capacity building operations are financed through various programmes manned by IDB entities and departments.

**Enhancing Technical Assistance for Capacity Building**

As far as the IDB is concerned, technical assistance should be in the form of expertise that can help prepare or implement a policy or project or to help develop the capacity of institutions, organizations and individuals. By the end of 1430H, the IDB provided ID212.7 million (US$ 293.8 million) for 929 technical assistance operations in member countries out of which 474 operations worth ID119.3 million (US$160 million) were conducted in LDMCs.
**Enhancing Capacity in Science and Technology**

Science and Technology (S&T) are necessary for the development of various sectors of the economy. Development of S&T is essential to corporate productivity and competitiveness. The IDB acknowledges the positive impact of S&T on economic development and pays special attention to human and institutional capacity building in its S&T financing activities. The IDB capacity-building programme in S&T focuses on South-South cooperation for knowledge and technology transfer and partnership in scientific research among member countries of the IDB. Since the program’s inception in 1425H to the end of 1430H, the Bank has approved 122 operations/sub-programmes worth $4.8 million. The IDB also awards prizes for S&T in an attempt to promote excellence in science education, research and development. Three prizes are awarded annually on (i) outstanding science and technology contribution to social and economic development; (ii) excellence in a given scientific speciality; and (iii) best performing research and development centre in a least developed member country.

**Capacity Building for Investment Promotion**

The IDB Group established a programme in 2005 called the Investment Technical Assistance Programme (ITAP) designed to tap the development potentials of the IDB’s 56 member countries through a comprehensive and integrated program of foreign investment promotion and technical assistance. ITAP’s focus areas are, among others, institutional development, best practices sharing, and investment opportunities dissemination. ITAP also organizes conferences and seminars to achieve its goals.

**IDB Statistical Capacity Building Initiative**

The IDB also launched in 1428H (2007) the Statistical Capacity Building (IDB-STATCAP) initiative. The initiative is designed to help member countries develop their statistical capacities and thus produce quality and reliable economic, social, demographic and financial data for policy formulation and decision-making in accordance with international standards.

STATCAP’s activities are, among others, post-graduate scholarships that it awards to the staff of national agencies of statistics, the technical assistance that it provides member countries and regional statistical institutions with to attend and organize training courses, workshops, and conferences, the exchange of staff between national statistical offices that it promotes and the financial support it gives to improve: (i) physical infrastructure and equipment, (ii) statistical infrastructure, (iii) statistical operations, and (iv) institutional framework for national statistics.

STATCAP has so far supported various statistical capacity building activities in member countries worth over $1.5 million. The programme cooperates with various regional and international statistical and development institutions.
Expanding Technical Cooperation

The IDB established its Technical Cooperation Programme (TCP) in 1403H (1983) to enhance the quality of human resources and build institutional capacity geared toward socio-economic development in member countries. The programme provides on-the-job training, conducts familiarization visits, recruits experts, finances studies and organizes seminars and workshops. The priority areas identified for the programme are finance, education, agriculture and the environment with special consideration given to Countries in Transition (CIT) and LDMCs. By the end of 1430H, 1,721 operations worth US$ 39.2 million were approved under the programme comprising 298 operations ($5.5 million) for recruitment of experts, 764 operations ($14.5 million) for on-the-job training activities, and 659 operations ($19.2 million) for seminars and workshops.

WTO-Related Technical Assistance Programme

In 1997, the IDB launched a program called the WTO-related Technical Assistance Program to help member countries build their human and institutional capacity and address challenges of international trade. The objectives of the Programme are: (i) to assist member countries in their negotiations to secure accession to the WTO; (ii) enhance the human and institutional capacities of member countries that are already members of the WTO so that they can implement the Uruguay Round Agreements, and (iii) help member countries to harmonize their positions and to be well prepared for negotiations on new trade-related issues.

The capacity building activities undertaken during 1430H were, among others, 6 seminars, 2 workshops, 3 trade policy courses, one consultative meeting, and a study on the “Impact of Tariff Reduction in NAMA and Agriculture WTO Negotiations on GCC Common External Tariff”.

Enhancing Scholarship Programmes

The IDB has three types of scholarship programmes for building science-based human capital in member countries and Muslim communities in non-member countries. These are:

(i) The Scholarship Programme for Muslim Communities in Non-Member Countries was launched in 1404H (1983) to enable outstanding Muslim students to pursue higher studies in universities in their countries or in other IDB member countries in various science and engineering related disciplines. The annual intake of students has increased since 1429H from 450 to 900. By the end of 1430H, 10,100 students received the awards.

(ii) The Merit Scholarship Programme for High Technology provides scholarships for advanced studies and research in science and applied technology. It 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 degrees in designated universities. In a move to enhance the quality of the Program, the IDB has signed Memorandum of Understanding (MoU) with 3 more universities in the UK: Cambridge University, University of Birmingham, and University of Nottingham. Under the agreement, the universities will admit IDB students and also share the tuition fees. The Bank is also in the process of signing similar MoUs with various universities in the UK, USA, Europe, and Australia. The annual intake of students has increased since 1429H from 50 to 100. By the end of 1430H, 558 students were awarded scholarships under the programme.

(iii) The M.Sc. Scholarship Programme for Science and Technology seeks to secure access to scientific and technological education. The focus of the programme is to develop human resources in twenty LDMCs. Students under this programme are placed in various universities and centres of excellence in member countries to enrol on courses related to their national needs. The Programme also allows students from LDMCs to qualify for the IDB Merit Scholarship Programme for High Technology. The annual intake of students has increased since 1429H from 20 to 50. By the end of 1430H, the total number of students selected under the Programme stood at 304.

Cumulatively, the total number of graduates from the member and non-member countries under the three scholarship programmes has exceeded 6,000.

**Leveraging Development Partnerships**

Building and strengthening partnerships with organizations in the multilateral development community is vital when it comes to facing collective development challenges that are too big to be handled effectively by a single organization. Development challenges facing the global community today such as poverty reduction, climate change, food security, water scarcity and poor sanitation can only be handled by the development partners collectively. The IDB participates in a number of collaborative global initiatives aimed at promoting economic growth and development in member countries. The Bank collaborates with various development partners such as Islamic banks, national development financing institutions, donors and UN institutions to support development activities in member countries.

**Co-Financing Arrangements**

Co-financing projects with other development partners is another means through which the IDB enhances its development role in member countries. Co-financing is the main way of collaborating with other donors to execute development projects that may be difficult to handle by a single institution. Co-financing strengthens cooperation and enhances the Bank’s catalytic role in connection with member countries’ development efforts. Furthermore, it facilitates knowledge sharing through staff exchange, joint field

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1Co-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
visits and advocacy with other donors. The Bank is also involved in the harmonization program of the MDBs, which aims at enhancing delivery of assistance to beneficiaries by adopting identical policies, procedures and practices.

The primary focus of co-financed operations is on infrastructure projects given their size and scope. During the period 1426H-1430H, the IDB co-financed 98 projects with donors and MDBs worth $23 billion, of which the IDB’s contribution was $3.6 billion.

**The Arab Coordination Group**

The IDB maintains strong ties with the Arab Coordination Group (ACG). The Bank has contributed to its activities and participated in its round table meetings to promote dialogue and collaboration (Table 1). It has organized round table meetings bringing together the Coordination Group member countries of the CIT and the African region to identify projects for co-financing by the members of the Group. As a member of the Coordination Group, the IDB also plays a vital role in the new strategic partnership between the Coordination Group and the World Bank Group, especially within the framework of the Arab World Initiative. The aim of the initiative is to reinforce World Bank Group activities in Arab countries.

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2In 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.
<table>
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<tr>
<th>Name of Organization</th>
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<th>Total Amount</th>
<th>Location of Projects</th>
<th>Sector</th>
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<td>Infrastructure</td>
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<td>Africa &amp; the MENA</td>
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<td>Power, Transport, and Water</td>
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<td>LDMCs</td>
<td>Power, Transport, Agric and Rural Development, and Health</td>
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</table>

**Table 1**

**IDB Co-financing Operations with Members of the Coordination Group ($billions)**

-Strengthening Collaboration with other Development Partners-

Strengthening partnerships with other funding agencies is vital as it enables the IDB to leverage additional development assistance to its member countries. The IDB 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, the European Investment Bank, and other important development organizations.

The aim of the collaborative activities with these organizations is to assist member countries achieve the MDGs, develop their strategic sectors, and integrate their economies into the multilateral trading system. In this context, the IDB has broadened its relationship with the UN affiliated organizations and specialized institutions such as 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 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 24 countries in Africa, Asia, and the Middle East with IDB’s contributions totalling $3.3 billion.

<table>
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<th>Name of Organization</th>
<th>No. of Projects/Operations</th>
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<th>Sector</th>
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<td>60</td>
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<td>20</td>
<td>$5</td>
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<td>46</td>
<td>$9</td>
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<td>European Investment Bank</td>
<td>24</td>
<td>$11</td>
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<td>Infrastructure and Industrial</td>
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In 1430H, the IDB and the Asian Development Bank established a joint Islamic Infrastructure Fund. The Fund will offer Shariah compliant instruments in equity and equity-related investments. Also in response to the recent food crisis, the IDB Group has reached a $1 billion agreement with the FAO to fund agricultural development in common poor countries of the two organizations over the next 3 years (2010-2012). Under the agreement, the IDB will provide the financing while the FAO will provide the necessary technical support. The IDB Group also established in November 2009, a US$ 1.5 billion co-financing agreement with the International Fund for Agricultural Development (IFAD) to jointly finance priority projects in most of their member countries between 2010 and 2012 in a bid to boost productivity, processing capacities and markets access.

**Working with Non-governmental Organizations (NGOs)**

One of the key elements of the recently established Islamic Solidarity Fund for Development (ISFD) is partnership and networking, which are the best way of leveraging resources and scaling up projects. The IDB, through the ISFD, has identified a number of partnership avenues with NGOs. It is presently in the process of developing an IDB/ISFD- Grameen Bank Social Business whereby the investments are made in key sectors with a clear social objective; the profits generated are reinvested into the business. It has also forged partnership with the International Islamic Charitable Organization (IICO) with the aim of directly supporting needy women in some member countries at an initial cost of $15 million of which the IDB will provide $11 million. The IDB has signed a Framework Agreement with the Prince Salman Centre for Disability Research (PSCDR) and the Saudi Credit and Saving Bank with the aim of helping disabled persons in Saudi Arabia.
EMERGING CHALLENGES AND THE WAY FORWARD

The recent global financial and economic crisis has compounded the existing challenges facing the global economy. Due to the crisis, the world economy experienced slow growth, decreased trade volume, reversed capital flows, decreased flows of remittances and high unemployment. These issues pose serious challenges to the world economy, in general and to the regional and national economies, in particular. Like other developing countries, to which the IDB member countries belong, the three major development challenges facing them are: (i) Climate Change, (ii) Unemployment, and (iii) Achievement of the Millennium Development Goals (MDGs).

On climate change, the IDB in collaboration with other development partners is working closely with its member countries to assist in the implementation and formulation of effective national adaptation and mitigation programs such as water and food security, disaster risk management, energy efficiency, and clean energy development. The Bank also shifts its focus to environmentally friendly projects such as hydroelectricity for generating energy with less environmental effects.

The IDB is also responding to rising youth unemployment in member countries through its Thematic Strategy for Poverty Reduction and Comprehensive Human Development which has, as one of its four main pillars, growth for employment generation and income earning capabilities for the poor people in rural areas. Accordingly, the Bank is focusing on sectors directly related to the poor such as the agricultural sector, non-farming rural activities as well as microenterprises and small and medium enterprises (SMEs). It is also enhancing human development by building human capabilities through education and capacity development programs as well as improving health services to the people thereby increasing employment opportunities and reducing poverty.

To effectively help member countries overcome the adverse effects of the crisis and enable them attain the MDGs and address other development issues, the IDB has significantly scaled up its development assistance to member countries, continued to introduce new initiatives and programmes and supported the implementation of existing ones with the aim of alleviating the plight of the poor. The IDB continues to aggressively implement the ISFD, the SPDA, the Microfinance Support Programme, the ICDD and to channel humanitarian aid to victims of disasters and conflicts.
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 IDBs 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: Contact Details

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<tr>
<th>Institutions</th>
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<th>Facsimile No.</th>
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<tr>
<td>IDB</td>
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<td>+966-2-6366871</td>
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<td><a href="mailto:idbarchives@isdb.org">idbarchives@isdb.org</a></td>
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<td>ICIEC</td>
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