



***I*SLAMIC *D*EVELOPMENT *B*ANK *G*ROUP**
in Brief

JUMADAL-II 1424H (AUGUST 2003)



Islamic Development Bank Group in brief

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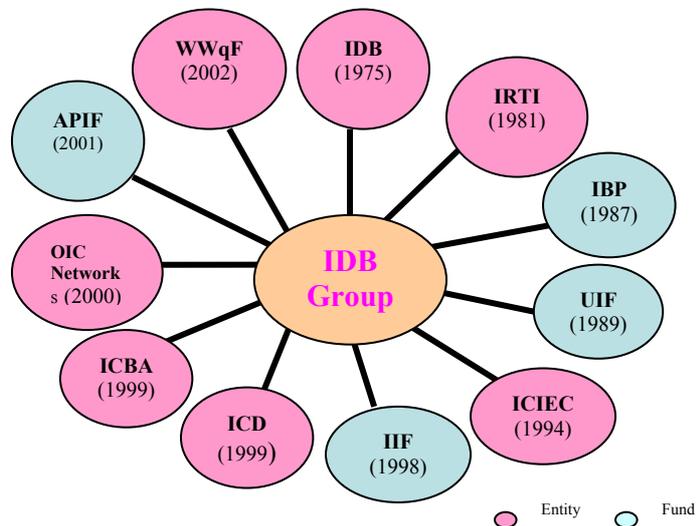
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1. INTRODUCTION TO IDB GROUP

The Islamic Development Bank (IDB) is a multilateral development financing institution engaged primarily in mobilizing and utilizing resources for the economic and social progress of its member countries as well as Muslim communities in non-member countries in accordance with the principles of *Shari'ah* (Islamic jurisprudence). It is headquartered in Jeddah (Saudi Arabia) with three regional offices in member countries: Almaty (Kazakhstan), Kuala Lumpur (Malaysia), and Rabat (Morocco). It also has field representatives in seven member countries: Indonesia, Iran, Kazakhstan, Libya, Pakistan, Senegal and Sudan.



The IDB was established in 1975 pursuant to the Articles of Agreement signed and ratified by 22 member countries. As of July 2003 (Jumadal-Thani 1424H), the membership has reached 54 countries. From a single entity at inception, the IDB has grown to become an **Islamic Development Bank Group (IDB Group)** comprising affiliated entities (including Sacrificial Meat Utilization Project of the Kingdom of Saudi Arabia) and funds with the IDB as the flagship.



These affiliated entities and trust funds were set up to address specific needs of the IDB member countries and to provide additional development banking solutions to the ever-changing conditions in the global economy and financial system. The IDB Group offers a wide range of specialized and integrated services such as:

Resource mobilization
Public and private sector finance
Investment finance
Trade (and intra-trade) finance
Insurance services
Social and Infrastructure sector finance
Research and training in Islamic economics and banking
Technical assistance support for capacity building
Technical co-operation among member countries
Scholarships for member countries and Muslim communities
Humanitarian assistance

1.1 SALIENT CHARACTERISTICS

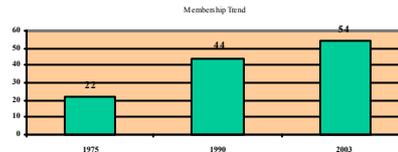
The IDB Group is a unique multilateral financial institution in the sense that:

- ☞ It uses only financing instruments that are compatible with *Shari'ah* for its operations.
- ☞ Its membership consists of developing countries and it uses the resources from the member countries that are better off to assist the less well off member countries, thus making the IDB Group a role model and an institution of true south-south cooperation.
- ☞ It raises resources from the financial markets through special modes such as *sukuk* (i.e. bonds that are in conformity with *Shari'ah*).

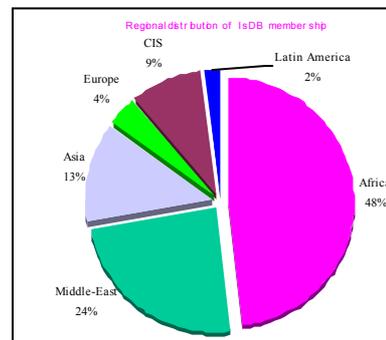
1.2 ACHIEVEMENTS

Some of the major achievements of the IDB Group since inception are as follows:

- Significant growth in membership: From 22 countries in 1975 to 54 countries in 2003 (end-July).

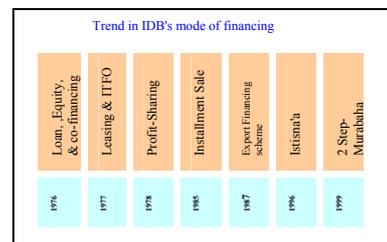


- Its membership is global, spreading across Africa, Asia, Europe and South America.

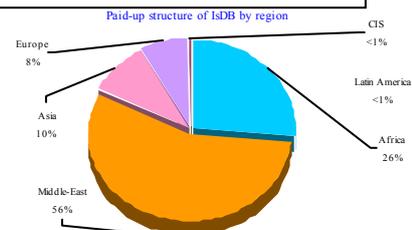


- Substantial growth in capital: Authorized capital increased to ID 15 billion (US\$ 20 billion), the subscribed capital increased to ID 8.1 billion (US\$ 11 billion), and the paid-up capital increased to ID 2.7 billion (US\$ 3.7 billion).

- Remarkable increase in number of Islamic modes of finance: From three instruments in 1975 to 10 by 2003.



- Exponential growth in operations/sectoral financing: Committed US\$ 35 billion for 4,611 operations in all sectors of member countries' economies, of which US\$ 21 billion was disbursed as at 3rd March 2003 (end-1423H).



- Assigned AAA long term rating with a stable outlook by Standard and Poor's in December 2002.
- Classified into zero-risk weighted multilateral development bank under the new Basel Capital Accord by the Bank for International Settlement in April 2003.
- Launched an International *Sukuk* to raise US\$ 400 million from the financial market.

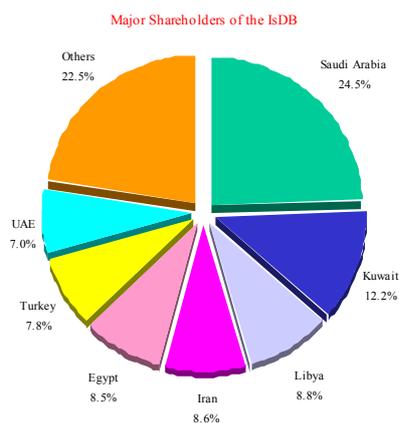
- ☞ Formulated new mission, vision statements, and strategic planning framework for the IDB Group
- ☞ Issued a Ouagadougou declaration on NEPAD and committed US\$2 billion to projects in African LDMCs over a five-year period.
- ☞ Increased collaborative financing with other development partners: Co-financed projects with the World Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the African Development Bank, and the Arab Coordination Group (OPEC Fund, Arab Funds, BADEA etc.)
- ☞ Assisted in the establishment of a number of institutions with the objective of enhancing regulatory framework and supervision of the Islamic Bank Industry such as (i) the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), (ii) the Islamic Financial Services Board (IFSB), (iii) the General Council of Islamic Banks and Financial Institutions (GCIBFI), (iv) the Islamic International Rating Agency (IIRA), (v) Liquidity Management Center (LMC), and (vi) the International Islamic Financial Market (IIFM).

2. ENTITIES AND WINDOWS IN THE IDB GROUP

2.1 ISLAMIC DEVELOPMENT BANK (IDB)

The IDB was established in 1975 and its Articles of agreement were adopted the same year by 22 countries. The inaugural meeting of its Board of Governors was held in Riyadh (Saudi Arabia) in July 1975, and the IDB commenced operation on 20 October 1975.

The purpose of the IDB is to foster the economic development and social progress of its member countries and Muslim communities in non-member countries individually as well as jointly in accordance with the principles of *Shari'ah* (Islamic jurisprudence).



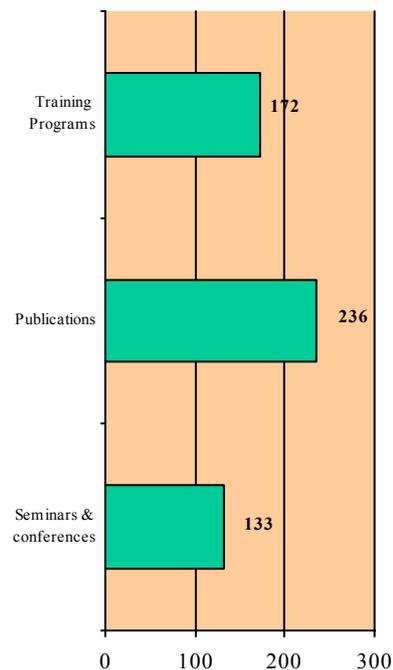
The IDB has seven major shareholders which are permanent members of the Board of Executive Directors.

2.2 ISLAMIC RESEARCH AND TRAINING INSTITUTE (IRTI)

Established in 1981 (1401H), the IRTI undertakes research, training and information activities on economic, financial and banking issues. It organizes seminars and conferences on various subjects in collaboration with national, regional and international institutions. It also undertakes information activities such as development of information systems for use in the field of Islamic economics, banking and finance; database on experts, trade information and promotion system, etc.

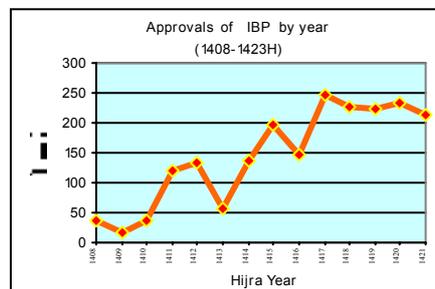
The research activities of IRTI include organizing and conducting basic and applied research with a view to developing models and methods for the application of *Shari'ah* in the fields of economics, banking and finance. IRTI also develops the capabilities of personnel in Islamic economics to meet the research and training needs of *Shari'ah* observing institutions in member countries. Its research output takes various forms, such as in-house research papers, background and discussion papers, seminar proceedings, books of readings, lectures, translations and articles published in IRTI journal "*Islamic Economic Studies*" which is a refereed bi-annual journal published in Arabic, English and French.

IRTI activities (1404H-1423H)
(1984-3/3/2003)



2.3 ISLAMIC BANKS PORTFOLIO FOR INVESTMENT AND DEVELOPMENT (IBP)

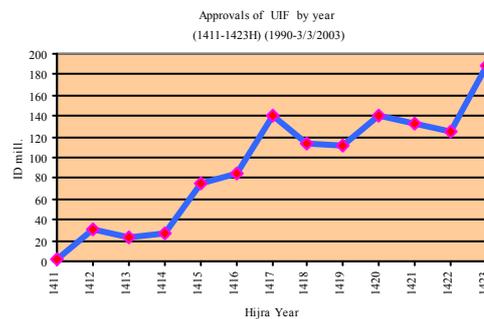
The Islamic Banks Portfolio for Investment and Development (IBP) was established in 1987 (1407H) in collaboration with 20 Islamic banks and Islamic financial institutions based in member countries. Its purpose is to mobilize funds from Islamic banks in order to promote investment and trade among the member countries and to serve as a nucleus for the development of an Islamic financial market.



The IDB manages the operations of the IBP which include trade, leasing, installment sale, equity, investment, profit-sharing, and syndication. The IBP has a fixed paid-up capital of US\$100 million and a variable capital of US\$280 million. In addition, it has access to funds of US\$300 million placed by the IDB as a specific deposit.

2.4 UNIT INVESTMENT FUND (UIF)

The Unit Investment Fund (UIF) was established in 1989 (1410H) with two main objectives: to mobilize resources for the IDB and to earn an adequate return on investment for its unit-holders. Unlike the IBP, the UIF mobilizes resources from both institutions and individuals, and then invests the resources in productive projects in member countries through direct financing, co-financing, and syndicated financing.



The capital of the UIF was increased from US\$ 100 million to US\$ 325 million in 1996. It was listed on the Bahrain Stock exchange in 1997. It uses various Islamic modes of financing with maturities ranging from 5 to 10 years for medium and long-term financing, and 6-24 months for short-term financing.

2.5 ISLAMIC CORPORATION FOR THE INSURANCE OF INVESTMENT AND EXPORT CREDIT (ICIEC)

The ICIEC was established in 1994 (1415H) to enlarge the scope of trade transactions and the flow of investments among member countries. In fulfilling this objective, the ICIEC provides, in accordance with the principles of *shari'ah*, export credit insurance and reinsurance to cover non-payment of export receivables resulting from commercial (buyer) and non-commercial (country) risks. It also provides investment insurance and reinsurance against country risk, mainly the risks of exchange transfer restrictions, expropriation, war and civil disturbance and breach of contract by the host government.

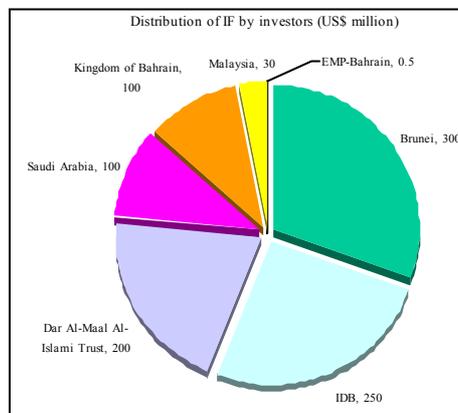


The authorized capital of ICIEC is ID 100 million (about US\$ 130 million), of which IDB owns 50%. The remaining 50% are available for OIC member states to subscribe on a voluntary basis. As of July 2003, ICIEC has 33 countries as shareholders in addition to IDB which is the founder.

- INSURANCE POLICIES**
- Comprehensive Short-Term Policy (1 year maximum)
 - Supplemental Medium Term Policy (5 years standard, 7 years maximum)
 - Bank Master Policy (5 years standard, 7 years maximum)
 - Documentary Credit Insurance Policy
 - Specific Transaction Policy

2.6 INFRASTRUCTURE FUND (IIF)

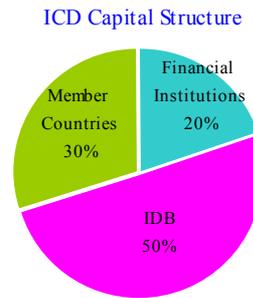
Based in Bahrain, the Infrastructure Fund (IIF) was established in 1998 as the first-of-its kind private investment vehicle that focuses on infrastructure development in IDB member countries. Its objectives are to seek long-term capital appreciation by making equity and equity-related investments in infrastructure projects and infrastructure-related industries in IDB member countries and to promote the use of Islamic finance in infrastructure projects. The IIF provides attractive opportunity for governments and private investors to participate in a diversified group of profitable infrastructure projects.



The IIF is a limited partnership with equity capital targeted at US\$1 billion and complementary finance facility (CFF) targeted at US\$ 500 million. Its first closing took place in December, 2001 with equity at US\$ 780 million and CFF at 200 million. It also aims at constituting a Syndication Group of US\$1-2 billion for the CFF. The IDB, which is the principal sponsor of the IIF, has committed US\$100 million each to equity component and CFF, and US\$50 million to Special Projects Pool to be used in companies that are 100% financed by Shari'ah-compatible modes of financing.

2.7 ISLAMIC CORPORATION FOR THE DEVELOPMENT OF THE PRIVATE SECTOR (ICD)

Established in 1999 (1420H), the Islamic Corporation for the Development of the Private Sector (ICD) deals with the private sector in member countries. Its objectives are to identify opportunities in the private sector that could function as engines of growth; to provide a wide range of *Shari'ah* compatible financial products and services; and to expand access to Islamic capital markets by private companies in member countries.



The ICD provides its clients with a wide variety of financial products such as direct financing, asset management, structured financing and advisory services. It utilizes *Shari'ah*-compatible modes of financing/financial products, such as equity, term financing (leasing, installment sale and *Istisna'a*), and quasi-equity in the form of term financing convertible into equity at some stage of the project life cycle.

The authorized capital of the ICD is US\$1 billion, of which US\$500 million is available for subscription. US\$ 263.4 million are already paid-in. During 1421H-1423H, the ICD financed 22 projects (6 equity, 1 *murabaha*, 6 Installment sale, 7 leasing, and 2 *Istisna'a*) for US\$ 132.94 million.

2.8 INTERNATIONAL CENTER FOR BIOSALINE AGRICULTURE (ICBA)

The ICBA was established in September 1999 in Dubai (United Arab Emirates) to develop and promote the use of sustainable agricultural systems that use saline water to grow forages, field crops, vegetables, fruit and trees. Its ultimate objective is to provide a resource of salt-tolerant plants species for agriculture development in arid, semi-arid and salt-affected areas in member countries as well as non-member countries world-wide.

The ICBA has been making significant progress in research and development activities in biosaline agriculture as well as in its outreach programs, capacity building, communication, networking and resource mobilization. It has also been organizing seminars, workshops, and training courses with financial support from international, regional, and host-country organizations.

ICBA is a recognized international institution: a partner of the Consultative Group on

International Agricultural Research (CGIAR) which is a global agricultural research body based at the World Bank; a consulting partner of the Global Water Partnership (GWP) based in Stockholm, Sweden; and an associate member of the Asia-Pacific Association of Agricultural Research Institutions (APAARI) based in Thailand.

2.9 AWQAF PROPERTIES INVESTMENT FUND (APIF)

The Awqaf Properties Investment Fund (APIF) was established in 1421H (2001) based on a decision of the sixth Awqaf Ministerial Meeting held in Jakarta, Indonesia, on 28 Jumada-II 1418H (29 October 1997). A Memorandum of Understanding was signed between the IDB and nine participating countries on 9/11/1421H (3/2/2001). The objective of the APIF is to promote the role of Awqaf and revive the Waqf Sunna and thus regain its function as an effective tool in the economic, social and cultural development of the Islamic society, by developing, investing in and managing Awqaf real estate properties in member and non-member countries of the IDB.

The APIF capital has recently been increased to US\$ 200 million, of which US\$55 million has been subscribed. It has 12 participants which include ministries of Awqaf, Waqf organizations and Islamic banks. Since inception, the Fund has been focusing on consolidating its strategy and building up its pipeline of potential investments. By end-1423H, seven projects for US\$16.7 million have been appraised and approved in favour of Indonesia, Kuwait, Malaysia, Saudi Arabia, and United Arab Emirates.

2.10 WORLD WAQF FOUNDATION (WWqF)

The World Waqf Foundation, whose by-laws were adopted by the IDB's Board of Executive Directors at its 204th session held in Jumada II 1422H (September 2001), was created with the following objectives: (i) To boost the IDB's efforts to promote Waqf, (ii) To support Waqf and enhance the economic and social development of Muslim communities and alleviate poverty, (iii) To satisfy the aspiration of philanthropists and charity organizations all over the world in order to set up an international Waqf entity, and (iv) to manage Waqf properties entrusted to the Foundation for safekeeping, and investment, and using the proceeds in accordance with the *Shari'ah*.

Membership of the Foundation comprises individual donors (*Waqifs*) with at least a Waqf contribution of one million US dollars. The IDB has allocated US\$ 25 million as an initial Waqf contribution to the Foundation's resources. The proceeds from the contribution would be utilized to fund education.

The Foundation's Executive Committee composed of the President of the IDB and a number of specialists within and outside the Bank, held 18 meetings in 1423H to consider several issues.

Milestone:

- Promotional meeting was organized on 17-2-1423H (30-4-2003)
- Consultative meeting to consider the Foundation's 10-yrs strategy held on 11 Rajab 1423H (18-9-2003)
- Another consultative meeting with the public authorities was held.

2.11 OICNETWORKS

The OICnetworks SDN BHD (OICnetworks) was incorporated in Muharram 1421H (April 2000) as a joint venture company owned by IDB (51 per cent) and the MIMOS Bhd of Malaysia. The company became operational in Dhul-Qada 1421H (February 2001).

The mission of the OICnetworks is to become a global internetworking company stimulating the growth and development of the OIC member countries as well as the Ummah globally.

Together, the IDB and MIMOS have pledged a total investment of US\$14.5 million over a period of 4 years. Currently, authorized and paid-up capitals of the company are US\$2.6 million.

The OICnetworks is currently implementing two projects namely:

1. [OIC Exchange](#)

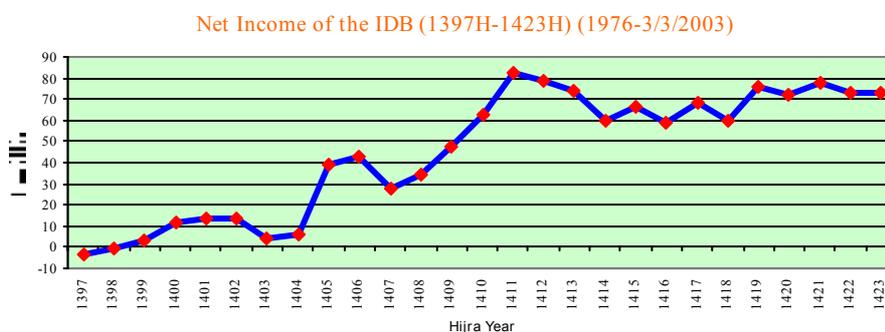
The OICexchange.com was launched in Jummad-I 1422H (August 2001) as a community portal to provide information and services to the OIC member countries.

2. [OIC Trade](#)

This was set-up on Sha'baan 1422H to enhance and facilitate trading between buyers and sellers, especially within the OIC market, via the Internet platform.

3. FINANCIAL POSITION OF THE IDB

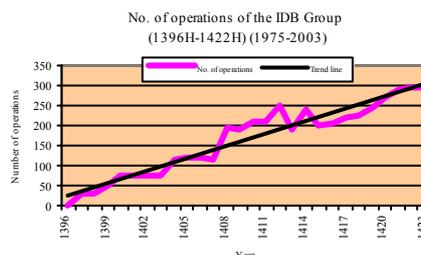
- Like other international development financing institutions, profit making is not an overriding objective of the IDB Group. Nevertheless, the IDB has recorded an upward trend in its net income since 1399H reaching its highest peak in 1411H.



- The total assets of the IDB have increased significantly from ID 445 million in 1396H to ID 4.1 billion in 1423H.

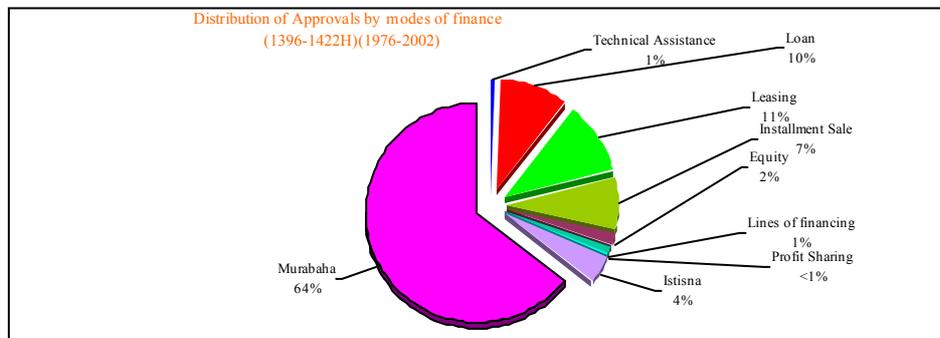
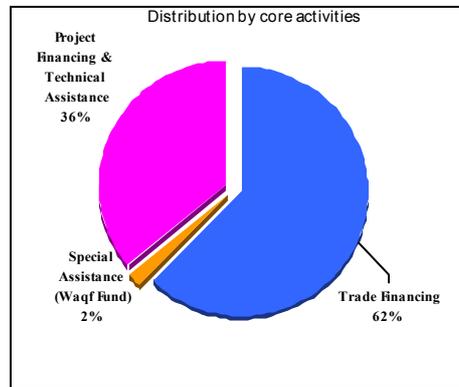
4. OPERATIONAL ACTIVITIES OF THE IDB GROUP

- Over the period 1396-1423H, the IDB Group committed US\$ 35 (or ID 27) billion for 4,611 projects; of which, in monetary terms, IDB (OCR) accounted for 87 percent (or US\$ 30 billion), the IBP 9 percent (or US\$ 3.2 billion), UIF 4 per cent (or US\$ 1.2 billion), ICD (US\$ 136 million) and APIF (16 million).

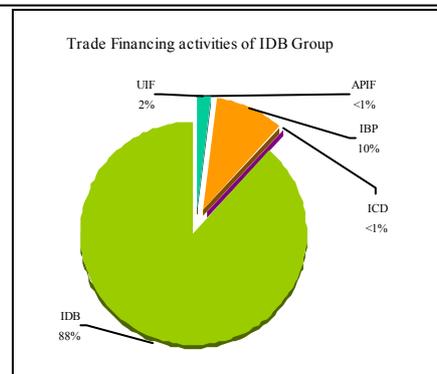


- In terms of broad category of operational activities of the IDB Group, trade financing operations represented 62 per cent of the cumulative approvals, followed by the project financing and technical assistance--36 per cent, and then special assistance operations-- 2 per cent.

- ▶ Since inception, the number of modes of financing used by the IDB Group has increased significantly. *Murabaha* is the single most important mode of finance accounting for 64 per cent of cumulative approvals of the IDB Group, followed by Leasing with 11 per cent, followed by loan 10 per cent, Installment Sale with a share of 7 per cent; *Istisna'a* 4 per cent, and Equity 2 per cent. The share of Technical Assistance financing, Lines of financing, and Profit Sharing is about 1 per cent each.



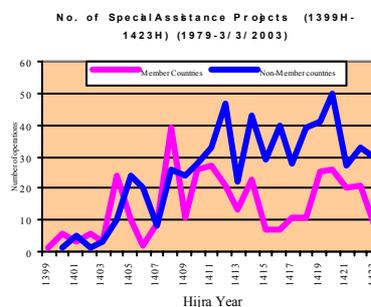
- ▶ Promoting intra-trade among member countries is one of the overarching objectives of the IDB Group. The trade financing schemes of the IDB Group date back to 1397H. Between 1397H and 1423H, the trade financing approvals of the IDB Group amounted to US\$ 21.6 (ID 16.6) billion for 1,896 operations. Of this, IDB (i.e ITFO, EFS and Treasury Operations) accounted for 88 per cent of the cumulative approvals, followed by IBP 9.7 per cent, UIF 1.9 per cent and ICD and APIF the remainder.



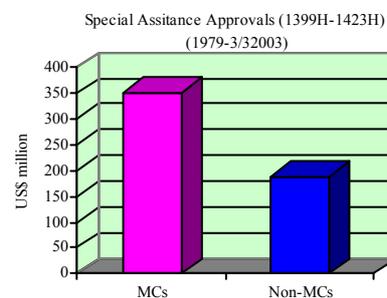
5. SPECIAL ASSISTANCE OPERATIONS (WAQF FUND)

The Waqf Fund was set up in 1399H as a trust fund. Its total resources amount to ID 882 million, consisting of the Principal (ID 729 million), the Special Assistance (ID 76 million) and LDMCs Special Account (ID 95 million) as at the end of 1423H (March, 2003). The income generated from the Waqf Fund is used for social development programme (mainly to finance the Special Assistance Programme, the Scholarship Programme, and the Technical Cooperation Programme (TCP)) as well as for financing the Islamic Research and Training Institute (IRTI).

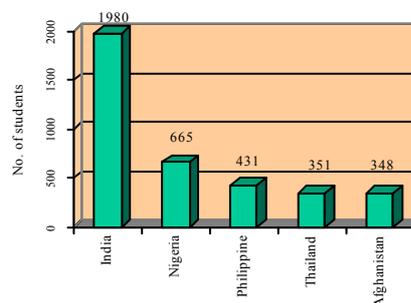
- The activities of the Special Assistance Programme from the Waqf Fund primarily cater to the needs of Muslim communities in non-member countries (Non-MCs) with particular emphasis on the social sectors mainly education and health. The Programme also aims at alleviating the suffering of communities afflicted by natural disasters or wars in both member and non-member countries.



- Between 1399H and 1423H, ID 433 million (US\$540 million) was approved for 972 special assistance operations: of which 360 operations for US\$ 351 million were for member countries and 612 operations for US\$ 189 million for Muslim communities in non-member countries. In terms of number of special assistance operations, 63 per cent were for non-member countries and 37 per cent for member countries.



- Since inception of the Scholarship Programme in 1404H, the IDB has awarded scholarships to financially needy students in fifty-six (56) countries including eight member countries. So far, the IDB has spent ID 34 million for scholarship programme in favour of 6467 students. The largest recipients of IDB scholarship are India (31%), Nigeria (10%), Philippine (7%), Thailand (5.4%), and Afghanistan (5.3%).



GLOSSARY

Equity: In this mode of financing, the IDB Group participates up to a maximum of one-third of the share capital of projects or enterprises.

Export Financing Scheme (EFS): Formerly known as Longer-Term Trade Financing Scheme, the scheme was initiated by COMCEC and launched by IDB in 1408H(1987) as a Special Fund to promote export trade of OIC member countries. Currently, IDB and 23 member states of the OIC are participating in the Scheme.

Islamic Dinar (ID): It is the accounting unit of the IDB which is equivalent to one Special Drawing Rights of the International Monetary Fund (IMF).

Import Trade Financing Operations (ITFO): This is a short-term financing scheme, which provides foreign exchange for import of commodities of developmental nature required by member countries, for promoting the flow of trade among them. These Operations are conducted on *Murabahah* basis (see below for definition).

Installment Sale: As a medium-term financing, this involves purchase of machinery and equipment, and sale to the beneficiary at a higher price. Repayment is made in installments and the ownership of the asset is transferred to the purchaser on delivery.

Istisna'a: In this medium-term contract for manufacturing (or construction), a manufacturer (seller) agrees to provide the buyer with goods identified by description after they have been manufactured/constructed in conformity with that description at an agreed price for a specified time.

Leasing: A medium-term mode of financing, which involves purchasing and subsequently transferring 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.

Lines of Equity, Leasing, Installment Sale & Combined Lines: In these respective modes, funds are allocated through the National Development Financing Institution(s) in each member country. These lines are meant for financing small and medium enterprises (SMEs) (presently not exceeding ID 3.5 million) in the private sector.

Loan: It is a mode of financing used to finance mainly social projects in member countries, particularly the least developed. It is interest-free, carrying only a service fee intended to cover the actual administrative costs. Normally, the repayment period ranges from 15 to 25 years, including a grace period of 3 - 7 years.

Murabahah: It is a contract of sale between a buyer and a seller at a higher price than the original price at which the seller bought the goods. As a financing technique, it involves the purchase by the seller (financier) of certain goods needed by the buyer and their resale to the buyer on cost-plus basis. Both the profit (mark-up) and the time of repayment (usually in installments) are specified in the initial contract.

Organization of the Islamic Conference (OIC): It is an inter-governmental organization comprising 57 States. It was established in pursuance of a decision taken during the First Summit Conference of Muslim Heads of State, held in Rabat (Morocco) in 1389H(1969). Its objective is to promote Islamic solidarity and cooperation.

Profit-sharing: It is a form of partnership which involves the pooling of funds between two or more parties in order to finance a particular venture, each partner obtaining, in accordance with the terms and conditions of partnership, a percentage of (net) profit accruing from the venture. The profit accruing to or loss incurred by each partner is proportional to each partner's share in the capital of the venture.

Shari'ah: It is the totality of beliefs and practical rules of conduct mandated by Islam.

Technical Assistance: This mode of financing is provided by the IDB for conducting feasibility studies, detailed design and preparation of tender documents, as well as consultancy services for the supervision of projects.

Waqf Fund: It is a trust fund used for providing scholarships to financially needy students, humanitarian assistance in the form of relief against natural disasters, and assistance for health and education projects in member countries and non-member countries.

For enquiry about this booklet, please write to:

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