



ISLAMIC DEVELOPMENT BANK

THIRTY-ONE YEARS
IN THE SERVICE OF DEVELOPMENT

Economic Policy and Strategic Planning Department

Jumad Awwal 1426H (June 2005)

- This document can be obtained from:
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HIGHLIGHTS		
	1395H	1425H
▶ Membership	22 countries	55 countries
▶ Authorized Capital	ID 2 billion	ID15 billion
▶ Issued Capital	ID 750 million	ID 8.1 billion
▶ Staff	78 persons	887 persons
<i>ID - Islamic Dinar is equivalent to one Special Drawing Right(SDR) of the International Monetary Fund</i>		

SUMMARY TABLE			
IDB GROUP FINANCING OPERATIONS*			
1396H-1425H (1 JAN. 1976 - 9 FEB. 2005)			
ACTIVITY	OPERATIONS	AMOUNT APPROVED	
		(No)	ID Million
Ordinary Operations			
- Project Financing	1397	10,574.27	14,239.08
- Technical Assistance	488	145.46	188.96
Total Ordinary Operations	1885	10,719.73	14,428.04
Trade Financing Operations	1,787	17,627.48	23,274.09
Special Assistance Operations	1084	464.61	586.00
Total Operations	4,756	28,811.82	38,288.13
* All figures on operations are net of cancellation.			
** \$: United States Dollar			

PREFACE

This annual publication provides a brief overview of the wide ranging activities of the Islamic Development Bank (IDB) Group as well as its achievements since its inception. New policy initiatives undertaken during 1425H (2004) and the key challenges facing the IDB Group are also reflected in the publication.

The publication “*Thirty-One Years in the Service of Development*” is divided into ten chapters: Chapter 1 covers the institutional framework of the IDB Group while, Chapter 2 provides information on its financial structure, and resource mobilization efforts. Chapters 3 through 8 take stock of the Group’s development activities in line with the objectives of newly approved Strategic Plan. Chapter 9 covers the initiatives for transforming the IDB Group into a knowledge-based institution and Chapter 10 conclude with challenges facing the Group and the way forward.

The Bank was established in the framework of South-South cooperation whereby it generates a large pool of capital from its relatively well off member countries and uses it to support the socio-economic development activities in less developed and low income members countries.

As a multilateral financial institution operating in accordance with the principles of the Shari’ah, IDB has the advantage of applying itself in a niche market of Islamic banking and finance. This enables it to develop new financing instruments that could be used to meet the diverse financing needs of its member countries. In this way the IDB complements global development efforts to promote economic development in developing countries in different parts of the World.

Since its inception, the IDB has kept its commitment of assisting member countries in their pursuit of achieving economic development and social progress, and in strengthening their position to effectively meet the emerging regional and global challenges.

The spirit of service towards socio-economic development of member countries has been the hallmark of the Bank’s activities during the past three decades. The recently approved Strategic Plan of the IDB Group provides a new direction for achieving specific targets of the Group’s strategic objectives.

It is hoped that this publication will prove to be useful for the readers interested in the activities of the IDB Group.

CONTENTS

INTRODUCTION	1
I. INSTITUTIONAL FRAMEWORK	1
1.1 Functions	1
1.2 Membership	1
1.3 Evolution into a Group	2
1.4 Strategic Plan	2
1.5 Organizational Structure and Regional/Country Offices	3
II. FINANCIAL STRUCTURE AND RESOURCE MOBILIZATION	4
2.1 Capital Base	4
2.2 Liquid Funds	4
2.3 Waqf Fund	5
2.4 Resource Mobilization	5
2.5 International Credit/Risk Rating	6
III. IDB GROUP MEMBERS, FUNDS AND INSTITUTIONS	6
3.1. Members of the IDB Group	6
3.2 Specialised Funds	8
3.3 Affiliated Institutions	11
IV. DEVELOPMENT ASSISTANCE TO MEMBER COUNTRIES	12
4.1 Resource Flows to Member Countries	12
4.2 Project Financing and Technical Assistance	13
4.3 Development Focus	14
4.4 Participation in International Initiatives	16
4.5 Financing Emergency Needs	18
4.6 Operations Evaluation and Lessons Learnt	18
V. PROMOTION OF COOPERATION AMONG MEMBER COUNTRIES	19
5.1 Trade Financing Operations	19
5.2 Trade Promotion	21
5.3 Promotion of Intra-Investment	22

VI. PROMOTION OF ISLAMIC FINANCIAL INDUSTRY AND INSTITUTIONS	23
6.1 Contribution to the Islamic Banking	23
6.2 Developing New Modes of Financing	23
6.3 Participation in the Equity of Islamic Banks	24
6.4 Integration of Islamic Banking and Finance	24
6.5 Research and Training	25
6.6 Other Contributions	25
VII. CO-OPERATION WITH INTERNATIONAL ORGANIZATIONS	25
7.1 Cooperation with the OIC and Its Affiliated Organs	26
7.2 Cooperation with Other Institutions/Organizations	27
VIII. SCIENCE & TECHNOLOGY AND HUMAN RESOURCE DEVELOPMENT	28
8.1 Science and Technology Operations	28
8.2 Technical Cooperation Programme	29
8.3 M.Sc. Scholarship Programme in Science and Technology	29
8.4 Merit Scholarship Programme for High Technology	30
8.5 Scholarship Programme for Muslim Communities in Non-Member Countries	30
IX. IDB AS A LEARNING INSTITUTION	31
9.1 Knowledge Acquisition and Management.....	31
9.2 Knowledge Dissemination	34
X. CHALLENGES AND THE WAY FORWARD	35

ABBREVIATIONS

ADFIMI	- Association of National Development Financing Institutions in Member Countries of the IDB
ALESCO	- Arab League Economic, Social and Cultural Organization
AMU	- Arab Maghreb Union
APIF	- Awqaf Properties Investment Fund
AsDB	- Asian Development Bank
AfDB	- African Development Bank
BADEA	- Arab Bank for Economic Development in Africa
BOG	- IDB Board of Governors
CILSS	- Comité Intergouvernemental de lutte Contre la Sécheresse au Sahel (Inter-State Committee for Drought Control in the Sahel)
CIS	- Commonwealth of Independent States
COMCEC	- OIC Standing Committee for Economic and Commercial Cooperation
COMSTECH	- OIC Standing Committee for Scientific and Technological Cooperation
EBRD	- European Bank for Reconstruction and Development
ECO	- Economic Co-operation Organization
EFS	- Export Financing Scheme
EIB	- European Investment Bank
EMTN	- Euro Medium-Term Note
ESCWA	- Economic and Social Commission for Western Asia
ECOWAS	- Economic Community for West African Countries
FDI	- Foreign Direct Investment
HIPC	- Heavily Indebted Poor Countries
IBP	- Islamic Banks Portfolio for Investment and Development
ICBA	- International Centre for Biosaline Agriculture
ICCI	- Islamic Chamber of Commerce and Industry
ICD	- Islamic Corporation for the Development of the Private Sector
ICDT	- Islamic Centre for the Development of Trade
ICIEC	- Islamic Corporation for Insurance of Investment and Export Credit

ID	- Islamic Dinar which is equivalent to one Special Drawing Right of the
IMF	- International Monetary Fund
IIF	- IDB Infrastructure Fund
IIRA	- International Islamic Rating Agency
IMF	- International Monetary Fund
IRTI	- Islamic Research and Training Institute of IDB
ISESCO	- Islamic Educational, Scientific and Cultural Organization
ITFO	- Import Trade Financing Operations of the IDB
LDMCs	- Least Developed Member Countries of the IDB
MDBs	- Multilateral Development Banks
MDGs	- Millennium Development Goals
NDFIs	- National Development Financing Institutions
MENA	- Middle East and North Africa
MFIs	- Multilateral Financing Institutions
NGOs	- Non-Governmental Organizations
OCR	- Ordinary Capital Resources
ODA	- Official Development Assistance
OIC	- Organization of the Islamic Conference
OICIS-NET	- OIC Information System Network
OPEC	- Organization of Petroleum Exporting Countries
SDR	- Special Drawing Right
S&T	- Science and Technology
SESRTCIC	- Statistical, Economic and Social Research and Training Centre for Islamic Countries
SMEs	- Small and Medium Enterprises
TCP	- Technical Cooperation Programme of IDB
TA	- Technical Assistance
TCP	- Technical Co-operation Programme of the IDB
UIF	- Unit Investment Fund of the IDB
UNESCO	- United Nations Educational, Scientific and Cultural Organization
WTO	- World Trade Organization
WWF	- World Waqf Foundation

INTRODUCTION

The Islamic Development Bank is an international financial institution established in pursuance of the Declaration of Intent issued by the Conference of the Finance Ministers of Muslim countries held in Jeddah in Dhul Qa'dah 1393H (December 1973). The Inaugural meeting of the IDB Board of Governors (BOG) took place in Rajab 1395H (July 1975) and the Bank was formally opened on 15 Shawwal 1395H (20 October 1975).

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

The following section briefly discusses the institutional framework of the IDB Group and introduces Group members, funds and affiliated institutions.

I. INSTITUTIONAL FRAMEWORK

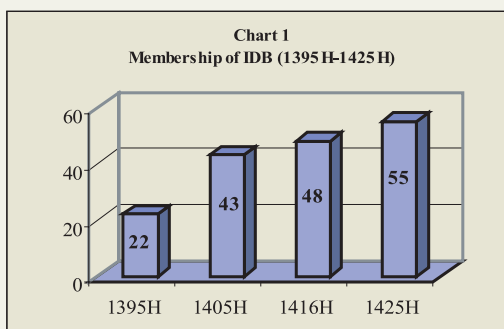
1.1 Functions

The functions of the Bank are to participate in equity capital and to grant loans for productive projects and enterprises besides providing financial assistance to member countries in other forms for their economic and social development. The Bank is also required to establish and operate special funds for specific purposes including a fund for assistance to Muslim communities in non-member countries, in addition to setting up trust funds.

The Bank is authorized to accept deposits and to mobilize financial resources through Shari'ah compatible modes. It is also charged with the responsibility of assisting in the promotion of foreign trade, especially in capital goods, among member countries; providing technical assistance to member countries; and extending training facilities for personnel engaged in development activities in member countries to conform to the Shari'ah.

1.2 Membership

The membership of the Bank has increased over time from 22 founding member countries in 1395H (1975) to 55 countries by the end of 1425H (2004). Chart 1 reflects the gradual increase in the membership of IDB. The member countries of IDB are

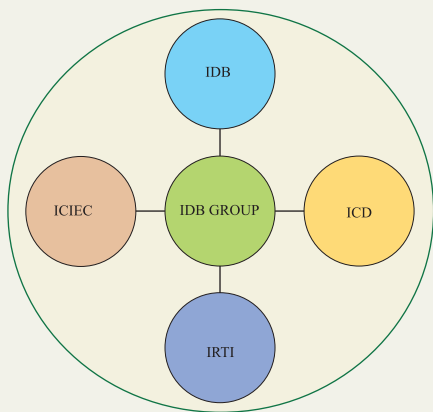


spread over four continents namely: Africa, Asia, Europe and South America. All of these countries are developing countries, with 22 member countries belonging to the category of the Least Developed Countries (LDCs)¹ as classified by the United Nations. In addition, as special cases, six other member countries are treated by IDB as the Least Developed Member Countries (LDMCs)².

All OIC member countries are eligible for membership of IDB. However, to become a member, a country must pay its contribution to the capital of the Bank and accept terms and conditions to be decided upon by IDB’s Board of Governors.

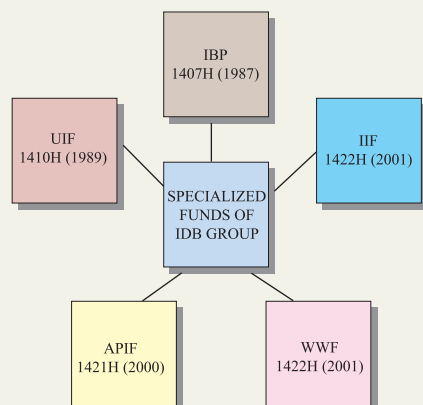
1.3 Evolution into a Group

IDB has evolved overtime from a single entity to a Group comprising four members namely, Islamic Development Bank (the flagship of the Group), Islamic Research and Training Institute (IRTI), Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), and Islamic Corporation for the Development of the Private Sector (ICD).



This expansion has enabled the Bank to perform wide ranging functions and to better serve its client’s needs. The entities in the IDB Group operate under distinct arrangements. Owing to expansion and diversification of activities, different schemes, funds and affiliated institutions have also been created.

The specialized funds of IDB are (i) Islamic Banks Portfolio for Investment and Development (IBP), (ii) Unit Investment Fund (UIF), (iii) IDB Infrastructure Fund (IIF), (iv) Awqaf Properties Investment Fund (APIF), and (v) World Waqf Foundation (WWF).



1.4 Strategic Plan

In order to achieve a greater focus in its activities and enhance the effectiveness

¹These countries are: Afghanistan, Bangladesh, Benin, Burkina Faso, Chad, Comoros, Djibouti, The Gambia, Guinea, Guinea-Bissau, Maldives, Mali, Mauritania, Mozambique, Niger, Senegal, Sierra Leone, Somalia, Sudan, Togo, Uganda and Yemen.

² Albania, Azerbaijan, Kyrgyz Republic, Palestine, Tajikistan and Uzbekistan.

of its operations, a new Strategic Framework was developed by the IDB Group. This Framework was developed after an elaborate process involving all major stakeholders.

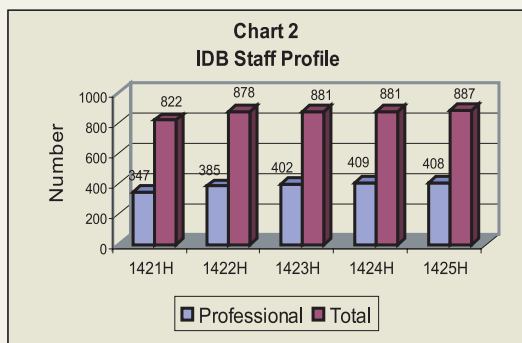
The Strategic Framework spelled out the Vision and Mission of the Group and identified its strategic objectives and priority areas. Based on this Framework the Five-Year Strategic Plan of the IDB Group was prepared and approved in 1425H (2004). The overriding purpose of the Strategic Plan is to set an overall strategic direction and approach for operations, identify/anticipate outcomes and contribute towards achieving the strategic objectives of the IDB Group. The Strategic Plan aims at reinforcing its development effectiveness as an integrated group of specialized institutions serving its member countries and Muslim communities in non-member countries through direct intervention and forging strategic alliances with other development partners.

To ensure proper implementation of the Strategic Plan, the IDB Group Strategic Planning Office was established. The functions of the Office include, among others, managing and facilitating the implementation of the IDB Group wide consolidated Strategic Plan in coordination with all members of the Group. All entities and departments/offices within the Group have accordingly prepared their annual business plans and budget requirements for realization of the respective targets of the Strategic Plan.

1.5 Organizational Structure and Regional/Country Offices

The strength of IDB staff, which stood at 78 in 1395H (1975) had increased to 887 by the end of 1425H (2004) comprising 408 Professionals, 69 Special category, 327 General category and 83 Manual category workers (Chart 2).

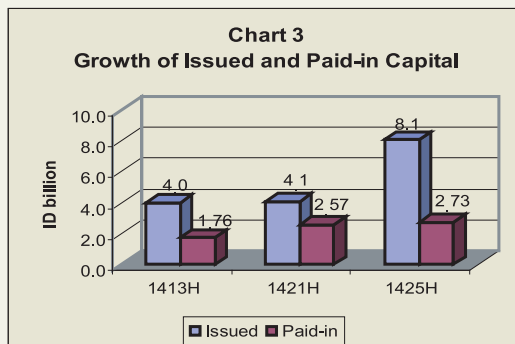
In line with the objectives of the Strategic Plan, the Country Operations Departments are now focusing on three key functions: country programming, poverty alleviation, and infrastructure development. In order to better identify development needs of the member countries in different regions and to coordinate the development activities, the Bank operates through three regional offices: Almaty (Kazakhstan), Kuala Lumpur (Malaysia) and Rabat (Morocco). In addition, the Bank has eight field representatives offices for ten member countries namely: Bangladesh, Indonesia, Guinea, Guinea Bissau, Mauritania, Libya, Pakistan, Senegal, Sierra Leone and Sudan. The regional/country offices facilitate implementation of projects and are expected to play a key role in achieving the objectives of the IDB Group Strategic Plan at regional and country levels.



II. FINANCIAL STRUCTURE AND RESOURCE MOBILIZATION

2.1 Capital Base

The capital base of IDB has witnessed significant expansion over the years. The authorized capital of IDB has increased over time from ID2 billion to ID15 billion (\$22.56 billion)³.

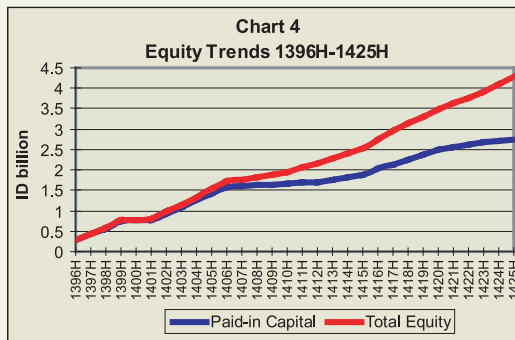


Similarly, the issued capital has been increased from ID 0.75 billion (\$1.1 billion) in 1395H to ID8.1 billion (\$12.18 billion) in 1425H. At the end of 1425H, the paid-in capital of the Bank stood at ID2.73 billion (\$5.42 billion) (Chart 3) and the ordinary capital resources consisting of member countries' funds (i.e. the paid-in capital, reserves and retained earnings) stood at ID4.27 billion (\$6.42 billion). The total equity of the

bank consisting of paid-in capital and reserve over the past thirty years has registered an increasing trend (Chart 4).

2.2 Liquid Funds

The liquid funds of IDB that are not needed for ordinary operations or trade financing are placed with financial institutions operating in international financial markets and also in member countries. The amount of Shari'ah compatible placement of liquid funds of the Bank has dropped from ID1.43 billion in 1421H to ID439 million in 1425H. The downturn in Liquid Funds was mainly



due to greater amount of financial resources are being used for ordinary operations and trade financing and also due to Murabaha financing which is considered as a part of Bank's liquid assets in managing liquidity requirements. During 1425H, Liquid funds placement yielded a net return of ID15.6 million (\$23.46 million) with an average annual rate of return 2.8 percent.

³Throughout this document '\$' denotes US dollar.

2.3 Waqf Fund

The Waqf Fund⁴ was established in 1399H (1997) by transfer of assets of the former “Special Account” established by IDB. This Waqf Fund provides a multi-functional resource base for the Bank to assist LDMCs and Muslim communities by financing Programme for Special Assistance, Scholarships, Research Grants and Technical Assistance. The Fund derives its income from (i) return from cash and cash equivalents and fixed deposits with conventional banks; (ii) profit on managed investment; (iii) net income from the IDB Unit Investment Fund (UIF) deposits, and (iv) investment in Murabaha and other funds, etc.

The initial size of the Waqf Fund was ID885 million (\$1.19 billion) but by the end of 1425H its net assets had reduced to ID879.73 million (\$1.32 billion). The total income of the Fund recorded a significant increase from ID11.23 (\$16.79 million) in 1424H to ID20.32 million (\$30.56 million) in 1425H whereas, the total expenses had decreased by 13.2 percent to ID1.18 million (\$1.77 million). As a result the net income of the Fund in 1425H had doubled to ID19.14 million (\$28.79 million).

2.4 Resource Mobilization

Since its inception, the Bank has developed several Shari’ah compatible schemes and financial instruments for mobilizing funds to supplement its ordinary capital resources. The first of this kind was the Investment Deposit Scheme introduced in 1400H (1980), which provided investors with a Shari’ah-compatible option for making investments through participation in the financing operations of the Bank. Under the scheme, the Bank accepted deposits from investors and used them to make short-term investment through participation in foreign trade financing operations.

Subsequently, IDB created Islamic Banks Portfolio for Investment and Development (IBP) as a window through which liquidity available with Islamic banks and financial institutions are channelled to finance projects in member countries. The IDB Unit Investment Fund (UIF), a private sector window, was introduced to raise additional resources from the market, as well as, to provide investors with a profitable channel of investment in conformity with Shari’ah. The Export Financing Scheme (EFS), on the other hand, was introduced to promote exports of goods from member countries. The Awqaf Properties Investment Fund (APIF) was established to develop and invest in the Awqaf real estate properties. Infrastructure Fund (IIF) was established as a private sector vehicle focusing on infrastructure development in member countries. By the end of 1425H, the funds raised from these schemes were as follows: Investment Deposit Scheme \$138.74 million, IBP \$100 million, UIF \$325 million, EFS \$201.03 million and APIF \$45.8 million. (These schemes are discussed in some detail in section-3.2).

⁴The Waqf is an endowment or a charitable trust devoted exclusively for Islamic purposes.

The IDB has recently introduced Sukuk (Islamic Bonds) as a vehicle for resource mobilization from international capital market. The first Sukuk, issued in 1424H, generated \$400 million which were utilized for project financing purposes. In order to meet the growing needs for additional resources, the Bank is planning to launch the second Sukuk under the Euro Medium Term Note (EMTN) programme of \$500 million during the second quarter of 2005 which has the potential to mobilize resources up to \$1 billion.

2.5 International Credit/Risk Rating

The Bank enjoys the highest long term credit rating (AAA) from Standard and Poor's Rating Agency. This rating was assigned to it in 2002 and again re-affirmed in 2004. This achievement was due to the strong balance sheet and high quality of the Bank's assets. The rating has given the Bank a stable outlook and has made it easier to tap resources from the international capital market. In June 2004, the Bank was also classified as a zero-risk weighted multilateral development bank by the Bank of International Settlements under the new Basel Capital Accord.

III. IDB GROUP MEMBERS, FUNDS AND INSTITUTIONS

3.1 Members of the IDB Group

The IDB Group were evolved over time with members having specific mandate and operational modalities but sharing a common vision and mission. The IDB Group performs a variety of activities through these institutions which conform with the Shari'ah. These activities include project financing, trade financing, investment insurance, private sector development, research, training, and capacity building through technical assistance. The members of the IDB Group are briefly discussed below.

3.1.1 Islamic Research and Training Institute

Islamic Research and Training Institute (IRTI) was established in 1401H (1981) with a mandate to undertake research and provide training and information services in the area of Islamic banking and finance.

In addition to these main functions, IRTI is also engaged in various other activities. Under its Encouragement and Promotion Programme, IRTI provides assistance to individuals and institutions to undertake research and training activities in the areas of Islamic economics, banking and finance. Since 1408H (1988), IRTI has been implementing an international prize, known as the IDB Prize, which was established to recognize, reward and encourage creative efforts of outstanding merit in the fields of Islamic economics, banking and finance. The prize, which alternates every year between Islamic economics and Islamic banking, consists of a citation carrying the Bank's emblem and a cash award of about \$40,000. IRTI also publishes journals and studies on Islamic economics.

During 1425H, IRTI prepared six research studies, eight seminar proceedings and presented 12 papers at various seminars and conferences. Over 150 research papers were also contributed by external scholars through seminars/conferences on various themes of Islamic economics, cooperation, and development. IRTI has also organized 16 seminars and 25 training programmes. Currently IRTI is developing three Database Systems on Experts/Scientists, Islamic Banking Information, and Awqaf Data bank along with a trilingual website. IRTI has also started producing an on-line monthly newsletter covering its activities. The total number of publications by IRTI till the end of 1425H stood at 243. The details of the activities and publications of IRTI are available at its website www.irti.org.

3.1.2 Islamic Corporation for the Insurance of Investment and Export Credit

The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) was established in 1415H (1994) with the objective of enlarging the scope of trade transactions and investment flows among the member countries of the OIC. Its mission is to encourage exports to and from member countries and to facilitate the flow of foreign investment to member countries by providing and encouraging the use of Shari'ah compatible export credit, investment insurance and political risk mitigation instruments.

The authorized capital of ICIEC is ID100 million (\$150 million) with 50 percent contribution by IDB and remaining 50 percent was made available for subscription by member countries of the OIC. So far, 34 countries are shareholders of ICIEC.

The ICIEC started its operational activities in 1416H (1995). By the end 1425H, the total number of policies reached 72 with its current commitments of \$475 million. The Corporation's business insured at the end of 1425H amounted to \$376 million and the total premium income and fees reached \$3.25 million. Detailed information on ICIEC is available at its website www.iciec.com.

3.1.3 Islamic Corporation for the Development of the Private Sector

The Islamic Corporation for the Development of the Private Sector (ICD) was established in Rajab 1420H (November 1999) with a mission to complement the role played by IDB for the development and promotion of the private sector as a vehicle for economic growth in member countries. The main objectives of the ICD are to; provide a wide range of Shari'ah compatible financial products and services and to expand the access to Islamic capital markets, increase the share of financing of the private sector, promote entrepreneurship in member countries and encourage cross country investments.

The ICD is an independent entity within the IDB Group with an authorized capital of \$1.0 billion. Of this amount, \$500 million was made available for subscription by member countries and other institutions and an amount of \$275 million has already been paid-in. The structure of the capital open for subscription is for IDB (50 percent), for member countries (30 percent) and for public financial institutions in the member countries (20

percent). At the end of 1425H, 44 countries and 5 public financial institutions had ratified the Articles of Agreement of the ICD and six member countries were in the ratification process.

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

During 1425H, the ICD approved 18 operations totalling \$105.13 million. Since its inception, the ICD has approved 47 projects with a total amount of \$270.19 million (net of cancellations). The details of the activities of the ICD are available at its website www.icd-idb.org.

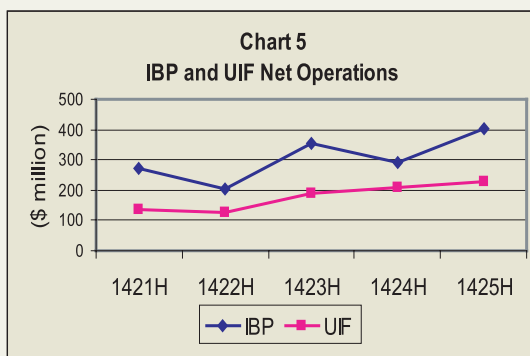
3.2 Specialised Funds

The following section provides a brief account of the Specialized Funds setup by the IDB:

3.2.1. Islamic Banks Portfolio for Investment and Development

The Islamic Banks Portfolio for Investment and Development (IBP) is a trust fund which was established by the IDB in 1407H (1987), in association with other Islamic banks and financial institutions. The IBP mobilizes the liquidity available with Islamic banks and financial institutions and channels it to promote trade and development in member countries in accordance with the principles of Shari’ah.

The IBP has a fixed paid-up capital of \$100 million and a variable capital of \$280 million. In addition, the IBP has access to the deposits of \$300 million placed by IDB. The Fund is administered by IDB, as Mudarib (Manager). Twenty Islamic Banks and financial institutions including IDB are shareholders of the IBP.



During the period 1408H (1983) to 1425H (2004), IBP approved 235 operations amounting to \$3.9 billion. In 1425H, the IBP conducted 21 operations, amounting to \$400 million, of which 15 operations were financed at a cost of \$308 million specifically in the area of trade (Chart 5).

3.2.2 IDB Unit Investment Fund

The IDB Unit Investment Fund (UIF) was established in 1410H (1989) as a private sector window of IDB to promote Foreign Direct Investment (FDI) in member countries. Its main purpose is to mobilize resources for IDB and provide Shari'ah compatible investment opportunity to investors.

The size of the UIF during the past fifteen years has increased from \$100 million to \$325 million with the participation of 27 institutional investors from 11 member countries. The Fund is listed on the Bahrain Stock Exchange, which has enhanced its liquidity position, making it possible to trade its units at any time without recourse to IDB for repurchase.

In 1425H, the UIF conducted 20 operations, amounting to \$228.85 million, while its cumulative financing reached \$1.52 billion.

3.2.3 IDB Infrastructure Fund

The IDB Infrastructure Fund (IIF) was established in 1422H (2001). The Fund is the first private investment vehicle that focuses its operational activities on the infrastructure development in member countries. The IIF seeks long-term capital appreciation by making equity and equity-related investments in infrastructure projects and infrastructure-related industries in the IDB member countries. It also promotes the use of Islamic finance for infrastructure projects. The Fund provides access to substantial infrastructure investment opportunities in member countries. The main focus of the IIF is investment in sectors like power generation, telecommunication, transportation, energy, natural resources, development of water resources, and the Islamic financial and capital market institutions.

The Fund's size for investment in equities is \$730.5 million and that for the Complementary Finance Facility (CFF) is \$200 million. The CFF, which is a Shari'ah-compliant facility, is deployed only in conjunction with the Equity Capital. Up to the end of 1425H the Fund had committed a total amount of \$332 million in eight projects in five member countries. The IIF had received a total return of \$48.46 million on its investment till the end of 1425H, of which \$33.40 million were in the form of dividends and \$15.06 million in the form of realized capital gains. The management fee and other expenses paid thus far amounted to \$42.7 million.

3.2.4 Awqaf Properties Investment Fund

The Awqaf Properties Investment Fund (APIF) was launched in Dhul Qa'dah 1421H (February 2001) in accordance with the decision of the Sixth Awqaf Ministerial Meeting held in Indonesia in Jumad Thani 1418H (October, 1997). The Fund was established based on a MoU signed between IDB and nine other participants. The ultimate beneficiaries of the Funds are the needy, destitute, orphans, elderly, and the handicapped. The Fund is to develop and invest in Awqaf real-estate properties, in accordance with the principles

of Shari'ah. IDB is the Mudarib (Manager) of the Fund which seeks to ensure that the participants earn comparable return on their investment.

Upon the establishment of the Fund, an amount of \$51 million was subscribed towards its capital. Further requests for participation were received and the capital base of the Fund was increased to \$55 million in 1423H (2003). To support its activities, IDB has provided a line of financing of \$50 million to the Fund. In addition, the Bank has also approved an amount of \$250,000 for technical assistance to be used for preparing feasibility studies, project designs and concepts.

During 1425H, the Fund approved seven operations amounting to \$41.77 million. There were four operations for the development of Awqaf properties with a total APIF contribution of \$36.77 million while the remaining \$5 million were for three operations for liquidity management. Since its inception and up to the end 1425H, the Fund had approved 31 operations totalling \$135.1 million.

3.2.5 World Waqf Foundation

The World Waqf Foundation (WWF) was established in 1422H (2001) in collaboration with the Waqf organizations (governmental), NGOs, and philanthropists from the private sector. By the end of 1425H the contributions of the current 15 participants amounted to \$42 million, including IDB's share of \$25 million. The WWF is mandated to manage and invest its resources and to spend the income in accordance with the conditions of Waqifs (endowers) and in conformity with the principles of Shari'ah.

The role of Waqf as a socio-economic institution is to contribute to the plans and programmes of sustainable development that aim at uplifting Muslim people and communities and ending the suffering of the poor. The objectives of the WWF are: to support the establishment of a network of Waqf institutions, coordinate their activities, and provide expertise in relevant fields; contribute to the alleviation of poverty and human development through related activities such as supporting educational, health, social institutions development programmes, extending scholarships to students, providing relief in the form of goods and services, and to help IDB member countries enact uniform Waqf legislation.

The WWF, in cooperation with IRTI, has initiated a project for the development of "Waqf Data bank". The Fund is also collaborating with the Kuwait Public Awqaf Foundation and IRTI in preparing Waqf law. During 1425H, basic documents of the WWF's were concluded. The WWF launched a promotional campaign for marketing "The International Waqf for Serving the Holy Qur'an" during the Holy month of Ramadan in 1425H in cooperation with the International Organization for the Memorization of Holy Qur'an . The details of the activities of WWF are available on its Website www.worldwaqf.org.

3.3 Affiliated Institutions

The affiliated institutions of IDB are the International Centre for Biosaline Agriculture (ICBA), UAE and the OIC Networks in Malaysia. IDB also manages the Saudi Arabian Project for the Utilization of Hajj Meat. A brief overview of the activities of these institutions and the project are presented below.

3.3.1 International Centre for Biosaline Agriculture

The International Centre for Biosaline Agriculture (ICBA), established in 1420H (1999), is a non-profit international applied research and development centre specializing in the utilization of saline, brackish, and sea-water for agriculture in the countries of Gulf Cooperation Council. The objective of the ICBA is to demonstrate the value of saline water resources in producing environmentally and economically useful plants and to transfer the results to national research centres, as well as to provide services to communities in the Islamic World and elsewhere.

The ICBA secures financial support from various agencies and during 1425H it witnessed a great expansion in the resources mobilized by augmenting the funds provided by IDB for research and development on salinity issues in member countries. Funds committed by donor agencies for the period 1425H-1429H amount to \$3.66 million. The ICBA has undertaken consultancy projects for the International Atomic Energy Agency, the Municipality and the Public Works Department of Abu Dhabi and the National Prawn Company, Kingdom of Saudi Arabia.

In 1425H, the ICBA started working on the research scientists database and to prepare a Who's-Who in the field of biosaline agriculture in the OIC member countries. The ICBA was a co-sponsor of the one-day seminar on Biosaline Agriculture: Challenges and Opportunities for Products from Field to Markets, in Dubai, organized by the ICBA and Ministry of Agriculture and Fisheries, UAE. The ICBA has produced and distributed a range of publications, including a newsletter, which is published three times a year in English and Arabic languages.

3.3.2 OIC Networks SDN BHD

IDB started the OIC Information System Network (OICIS-NET) in pursuance of the Islamic Summit conference resolution to promote use of information and communication technology in member countries. The OICIS-NET (www.oicnetworks.com) is a joint-venture, which was established in Muharram 1421H (April, 2000) by the IDB and the MIMOS Sdn Bhd of Malaysia. The OICIS-NET is mainly involved in information services, e-commerce, internet connectivity and consultancy services. The main aim of the OICIS-NET is to improve exchange and sharing of information resources among the OIC member countries. The company operates two internet based systems namely, OIC-exchange (www.oicexchange.com) for OIC Education Network (OICEN) and OIC Trade Network (OICTN) (www.oictrade.com). The OICTN was established in 1422H (2001)

with the objective of facilitating exchange of business and trade related information between buyers and sellers in OIC countries and its services are membership-based targeting the corporate sectors.

IDB holds 51 percent of the shares in the joint-venture and has pledged with the MIMOS to provide a total investment of \$14.5 million over a period of four years. The authorised capital of the company stands at \$2.6 million, which is fully paid.

In June 2004, shareholders decided to scale-down the business operations of the Company, since the expected revenue and business growth, in particular from OICTN was not as expected. As such, the business plan was scaled-down while the shareholders re-strategize new business opportunities in the light of market realities and emerging trends in internet based economic activities.

3.3.3. Saudi Arabian Project for the Utilization of Hajj Meat

An important ritual of Hajj (Pilgrimage) is the slaughtering of the sacrificial animals. In order to assist Pilgrims to discharge the responsibility of ritual in a smooth, organized and orderly manner, the Government of Saudi Arabia, in 1403H (1983), gave the responsibility of managing this project to IDB. Information about the project is widely disseminated through pamphlets, booklets and posters which are published in many languages. In 1425H, the total number of sacrificial animals was 503,954. Out of these, carcass of 272,000 sheep were shipped to 23 Muslim countries, and remaining 231,954 sheep carcass and 4,495 carcass of camels and cows were distributed locally among the poor and needy in the Haram area in Makkah al Mukarramah.

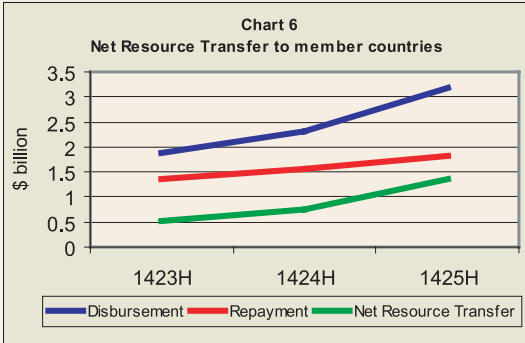
IV. DEVELOPMENT ASSISTANCE TO MEMBER COUNTRIES

4.1 Resource Flows to Member Countries

By virtue of its mandate, IDB provides financing to its member countries through three major types of operations, namely (i) ordinary operations (comprising project financing and technical assistance); (ii) trade financing operations; and (iii) Waqf Fund operations.

Most of the IDB member countries seek financing to bridge their resource gap arising due to their increasing development needs. IDB, like the other MDBs provides financial assistance to its member countries to overcome their resource gaps which go a long way in contributing to their economic growth. The net resource flow to member countries by IDB has increased over time and by the end of 1425H cumulative total had reached \$7.2 billion. The net resource flow recorded a sizeable increase from \$0.52 billion in 1423H to \$1.35 billion in 1425H (Chart 6). These increased resource transfers to member countries are expected to have played an important role in their development process.

Since its inception, the cumulative net financing of the IDB Group amounted to ID28.8



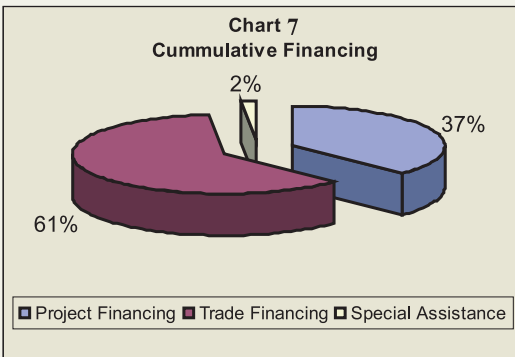
billion (\$38.3 billion). The breakdown of net financing of the IDB Group is given in Table-1. In terms of distribution of IDB operations, trade financing remains predominant with 61 percent share, followed by project financing 37 percent, and special assistance of 2 percent (Chart 7).

Side by side with the Bank, other members of the IDB Group and affiliated institutions/schemes also participate in co-financing/syndication activities. During the period 1396H-1425H the IDB Group had approved a total of 4754 operations including 1883 projects (1143 from OCR, 14 from Sukuk Resources, 486 Technical Assistance operations and 240 projects from the resources of the Affiliated Funds/Entities), 1787 Trade financing operations and 1084 Special Assistance operations.

Side by side with the Bank, other members of the IDB Group and

Table 1
IDB Financing Operations (1396H-1425H)

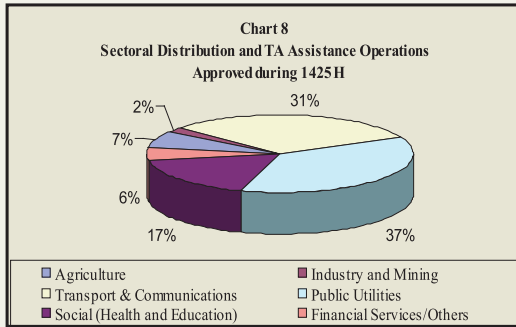
IDB Financing Operations	Total cumulative Approval
Total Project Financing (Project Financing from OCR, Financing from Sukuk resources & Technical Assistance)	ID 10.7 billion (\$ 14.4 billion)
Trade Financing	ID 17.6 billion (\$ 23.3 billion)
Special Assistance Operations	ID 0.5 billion (\$ 0.6 billion)
Total:	ID 28.8 (\$38.3 billion)



The sectoral distribution of approved Project and TA financing from IDB OCR (excluding Sukuk) during 1425H, was for public utilities (37%) and social services (17%) (Chart 8). The social sectors are not only considered vital for economic growth but also contribute to a great extent for poverty alleviation. Increasing investment in these sectors is the key element of IDB's future development strategy for member countries.

4.2 Project Financing and Technical Assistance

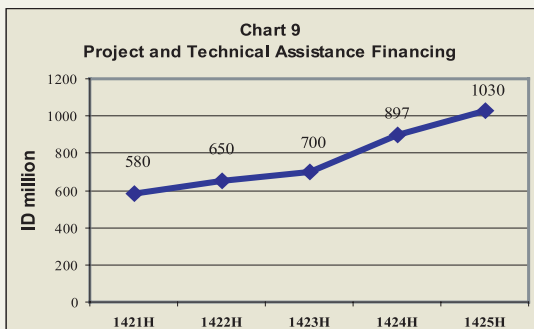
Project financing extended under various modes plays an important role in building up



of new productive capacity in the member countries, as well as in expanding and/or rehabilitating the existing ones. As part of its efforts to optimize its project financing strategy, the Bank seeks to maintain an adequate project pipeline for each member country. Over the years, project financing has shown tremendous growth due to the efforts made by the Bank to increase its medium and long-term

development-oriented financial assistance to its member countries.

In 1425H, the total IDB approvals for ordinary operations (Projects and Technical Assistance including Sukuk) amounted to ID1.03 billion (\$1.5 billion) (Chart 9). The total Project financing of the IDB Group during 1425H was ID 1.38 billion (\$2.04 billion).



The net cumulative project financing approvals of the IDB Group (excluding Sukuk) at the end of 1425H (2004) has reached ID10.7 billion (\$14.4 billion). Project financing under Sukuk increased considerable from ID106 million (\$153 million) in 1424H to ID192 million (\$285 million) in 1425H, recording an increase of 83 percent.

4.3 Development Focus

The Strategic Plan of the IDB Group identifies three major strategic objectives that will drive the Group's development activities during the next five years. These are: (a) poverty alleviation, (b) the promotion of cooperation among Member Countries, and (c) the promotion of Islamic financial industry and institutions. The following section presents a brief account of the activities of the IDB Group in achieving these objectives.

4.3.1 Poverty Alleviation

IDB provides assistance to member countries especially to LDMCs in implementing programmes aimed at poverty alleviation, boosting economic growth and strengthening institutional capacity. As envisaged in the Strategic Plan, IDB's future assistance to member countries will be for social sectors development by financing projects in health, education, water supply, sanitation and agriculture sectors. The Bank also plans to increase investment in human resources, basic infrastructure, employment generating agriculture

sector and private sector development as main enablers for poverty alleviation.

The LDMCs receive special attention in the operational activities of the Bank. The total net approval of the IDB Group in 1425H, for 93 operations in favour of LDMCs amounted to ID566.63 million (\$835.52 million). Up to the end of 1425H, the total assistance provided by the IDB Group for all operations to LDMCs amounted to ID5.23 billion (\$6.8 billion) for 1312 operations. The major share of Concessional financing⁵ of the Bank (61 percent) also goes to LDMCs.

The IDB Group has also established funds, schemes and programme aiming at poverty reduction in member countries, particularly in LDMCs. The IDB has established a Special LDMCs Account to finance projects for providing primary services, such as basic schooling and health care, provision of adequate and safe drinking water, and micro projects in rural areas. An amount of ID13.29 million (\$19.04 million) was approved for 8 operations from this account during 1425H. The total amount approved under the Special LDMCs Account till the end of 1425H was ID 193.35 million (\$263.73 million) for 127 operations.

The Technical Assistance (TA) is funded from the ordinary capital resources of the Bank as well as from the Waqf Fund. The TA is provided in the form of loan, grant or a combination of both and priority is given to the projects for the LDMCs and for regional projects. The IDB Group also helps member countries in their capacity building through TA, particularly for feasibility studies, to identify viable projects, preparation of bankable project documents, supervision during the implementation phases of a project and for knowledge management and transfer. The amount approved for 55 TA operations in 1425H amounted to ID13.58 million (\$19.63 million). Up to the end of 1425H total cumulative approvals for 486 TA operations amounted to ID145.5 million (\$189 million).

The projects financed under Special Assistance Programme (SAP) are also mainly for the socio-economic development of LDMCs and for the uplift of Muslim communities in non-member countries. In 1425H the Bank approved 67 operations amounting ID13.82 million (\$20.51) from the IDB Waqf Funds. By the end of 1425H, the IDB approved a total of ID465 million (\$586 million) for 1,084 special assistance operations. Out of this, 406 operations amounting to \$382.2 million were for member countries and 678 operations amounting to \$203.8 million were for Muslim communities and organizations in non-member countries.

The IDB recognises the vital contribution of women and non-governmental organizations (NGOs) in poverty reduction and the socio-economic development of its member countries. Therefore, the Bank provides funding for poverty alleviation projects designed

⁵Concessional Financing refers to financing extended by the Bank under soft terms of Ordinary Loan (including TA) or LDMC Loan facility.

by NGOs for improving the quality of life of the poor living in both rural and urban areas, to empower women and to build the capacity of communities at grass root levels. In achieving these objectives, the Bank support micro projects of NGOs aimed at poverty reduction and capacity building. The IDB also organizes regional workshops to interact with NGOs/women organizations, learn from their field experiences and identify new development partners. Between 1421H and 1425H, the cumulative amount of approvals for the Programme stood at \$1.72 million for 82 operations. During 1425H an amount of \$0.53 million was approved for 20 micro-operations in 21 countries.

The Bank also published an Occasional paper on “Challenges of Poverty Alleviation in IDB member countries” which reviewed the incidence and causes of poverty in member countries, efforts made by the member countries to combat poverty and recommended ways and means to alleviate poverty. The paper provided useful analysis for developing strategic response to the challenges posed by poverty in member countries.

4.3.2 Capacity Building Programme for OIC Countries

In December 2004, 15 member countries of OIC, IDB and the OIC Secretariat established a Steering Committee for the “Capacity Building Programme for OIC Countries”. IDB has extended its support to this initiative which was proposed by the Government of Malaysia. In this regard, IDB has signed a MoU with the government of Malaysia in Jumad Awwal, 1425H (June 2004). The Programme intends to share/utilize rich and valuable experience of relatively more advanced countries with other members of the OIC, especially for the benefit of LDMCs for enhancing their institutional capacity and enabling them to develop rapidly. These initiatives are expected to enable LDMCs to improve the performance of their economies, and benefit from the positive aspects of globalization with the ultimate aim of poverty reduction and sustainable economic growth.

Implementation of the programme will start from 1426H. The IDB will strive to synergize an effective partnership among (a) the relatively developed OIC countries led by Malaysia; (b) financing institutions within the OIC led by the IDB, (c) recipients, that is, the OIC least developed countries, and (d) the private sector and civil society. The projects to be implemented under the Programme will be innovative in order to have a more profound developmental impact. The IDB has established a Standing Committee which will coordinate and raise financial resources for the implementation of the pilot project and also prepare a plan for the 2nd phase of the Project.

4.4 Participation in International Initiatives

The IDB is an active member of the multilateral development community and participates in a number of collaborative global initiatives aiming at promotion of economic growth and development. The following section provides a brief account of the role played by IDB in these initiatives.

4.4.1 Cooperation with Africa (Ouagadougou Declaration)

The IDB has decided to substantially increase its volume of financing to the African member countries with a view to assisting them in their development efforts. IDB extended support to the initiative of African Union called Economic Partnership for New African Development (NEPAD). The objectives of the NEPAD initiative were stipulated in the Ouagadougou Declaration, adopted by the IDB Board of Governors at the annual meeting, held in Ouagadougou (Burkina Faso) in October 2002. In that Declaration, the IDB Governors reaffirmed the commitment of the IDB Group to accord specific attention to the African LDMCs under its operational activities. IDB Group has committed financing of \$2 billion during next five years to be invested in key sectors in African LDMCs. It was declared that the main objective of intervention would be to accelerate economic growth and contribute in fighting poverty in those countries. Later, an ‘Action Plan’ was adopted by the IDB Group, providing a tentative yearly break-down of operations by mode of financing. Under the Action Plan, the cumulative approval during past two years (1424H-1425H) amounted to \$849.76 million, which is well above the specified yearly targets.

4.4.2 Participation in the HIPC Debt Initiative

The International Development Community and donor countries in 1996 initiated Heavily Indebted Poor Countries (HIPC) Programme to provide debt relief to poor countries under rescheduling option. Since 1997, IDB along with other MDBs has committed itself to the objectives of HIPIC and actively contributed to provide debt relief by rescheduling the debt of eligible member countries. So far, thirty-seven countries have been declared eligible to receive debt relief amounting to \$54.5 billion in 2003 Net Present Value (NPV) terms. As of September 2004, twenty-seven countries were potentially eligible to receive debt relief under HIPIC initiative of which nineteen countries⁶ were members of IDB. Out of these nineteen; eight countries⁷ have reached completion point, six countries⁸ are at the decision point and five other countries⁹ are at pre-decision stage. IDB member countries that have reached the completion point have either received the debt relief or are in the process of receiving it. As of 1425H, the IDB debt relief packages had been implemented for Benin, Burkina Faso, Chad, Uganda, Mauritania and Niger. The implementation of IDB’s debt relief for Mali is currently in progress, while for Guinea Bissau, the Bank is in the process of establishing a mechanism to deliver the debt relief.

4.4.3 Co-financing Arrangements with MDBs and Other Organizations

Co-financing¹⁰ of projects is one of the principal mechanisms through which the Bank maintains and forges alliance/collaboration with other donors, MDBs and international

⁶These countries are: Benin, Burkina Faso, Cameroon, Chad, Gambia, Guinea, Guinea Bissau, Mali, Mauritania, Mozambique, Niger, Senegal, Sierra Leone Comoros, Cote d'Ivoire, Somalia, Sudan, Uganda and Yemen.

⁷Benin, Burkina Faso, Mali, Mauritania, Mozambique, Niger, Senegal, and Uganda.

⁸Cameroon, Chad, Guinea, Guinea Bissau, Gambia and Sierra Leon

⁹Cote d'Ivoire, Comoros, Somalia, Sudan and Togo.

¹⁰Co-financing refers to a financing arrangement in which more than one lender contributes to funding a project under the same or different terms and conditions.

financing institutions. In this connection, the IDB maintains a special partnership with the Arab Co-ordination Group, Islamic banks and national development financing institutions (NDFIs).

During 1425H, the IDB co-financed 18 projects in 13 member countries amounting to \$1.1 billion, of which the Bank's contribution was \$292 million (27 percent). The co-financing partners included the African Development Bank, the Arab Bank for Economic Development in Africa, the Arab Fund for Economic and Social Development, the Kuwait Fund for Arab Economic Development, the European Investment Bank, the OPEC Fund, the Saudi Fund for Development and the West African Development Bank.

The IDB Group, over the years, has also participated in other initiatives that would eventually benefit its African member countries, particularly in support of the social sectors. The IDB has already started a program of bilingual education in Chad and Niger, where its investments so far have reached \$33 million. An international conference on the subject was held in N'Djamena, Chad, in June 2004, pledging a total amount of about \$450 million, with \$300 million pledge by the IDB Group to support the governments of Sub-Saharan African countries interested in developing the bilingual education.

4.4.4 Participation in Other Programmes

The Bank is a member of the tripartite committee along with the Permanent Inter-State Committee on Drought Control in the Sahel (CILSS) and the OIC. The committee is responsible for accelerating the implementation of the CILSS Programme which aims at combating the effects of chronic drought in the Sahel region. The Bank has already committed \$20 million for this Programme.

The Bank also manages the AL-Aqsa Fund and the Al-Quds Fund, which were established by the Arab Summit Conference held in Rajab 1421H (October 2000). The main objective of the funds is to provide assistance to the people of Palestine in education and health sectors.

4.5 Financing Emergency Needs

IDB has always provided relief assistance to its member countries as well as the Muslim communities worldwide, in case of emergencies or natural disasters. In the recent past, the IDB has extended financial aid to the victims of earthquake in Iran and Turkey. The IDB Group also approved an Emergency Assistance Package of \$500 million for the countries affected by Tsunami disaster. This assistance package is essentially for the three IDB member countries that were affected, i.e. Indonesia, Maldives and Somalia and three non-member countries, i.e. India, Sri Lanka and Thailand. In addition, the Bank has also approved a grant financing of \$5.0 million for providing relief, as well as re-construction of essential health and education facilities, and to protect the most vulnerable segments of the affected communities. IDB is also the co-sponsor of the Programme "OIC Alliance to assist the Child Victims of Tsunami with the OIC and the Islamic Relief Organization.

4.6 Operations Evaluation and Lessons Learnt

The Bank's Operation Evaluation Office (OEO) which was established in 1411H (1990) conducts evaluation of both completed and ongoing projects. Since its inception, the OEO has evaluated 260 operations, comprising 235 completed projects, 22 special evaluation and 3 country assistance evaluations which were conducted jointly with the World Bank.

The lessons learned from the operations evaluation are usually of two types: (i) operational lessons that aim at improving efficiency, effectiveness and rationale of the IDB's financing activities; and (ii) developmental lessons which focus on the socio-economic impact of the Bank's contribution to the development of the beneficiary countries. Appropriate recommendations are usually made on the basis of the lessons learned in order to enhance the quality and impact of the future operations of the Bank. The lessons learnt are also disseminated within and outside the Bank to ensure improved project management.

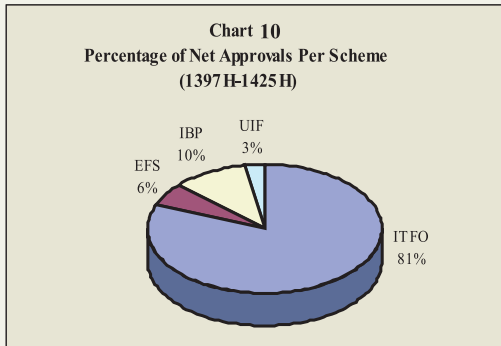
During 1425H, IDB organized a workshop on "Strengthening Evaluation Capacity of Arab and Regional Development Institutions" at its Headquarters in collaboration with the World Bank, Asian Development Bank and the African Development Bank. The workshop was organized with a view to enhancing knowledge and skills of the staff in the area of operations evaluation through sharing experience of IDB and other MDBs.

V. PROMOTION OF COOPERATION AMONG MEMBER COUNTRIES

Since its inception, the IDB has pursued promotion of economic cooperation among its member countries as an important objective. This commitment has also been re-affirmed in its Strategic Plan, under which promotion of cooperation is stated to be as one of the three strategic objectives of the IDB Group. Towards this end, the Group has developed a range of activities that include promotion of intra-trade and investment, enhancement of technical cooperation, support for private sector and its involvement in national development, strengthening cooperation with national financing institutions, and forging close links and working relationships with other sub-regional, regional and international organizations. A self-conscious effort has been made to design a Programme and projects in a manner which can lead to greater inter-linking among member countries. In order to enhance the level of cooperation, increasing trade and investment are considered as crucial elements which can play a significant role and therefore, these activities remain high on the development agenda of the IDB Group.

5.1 Trade Financing Operations

The principal objective of trade financing operations of IDB is to foster economic cooperation through promotion of intra-trade. The objective is achieved by supporting development efforts of member countries through financing vital imports of much needed intermediate and capital goods .



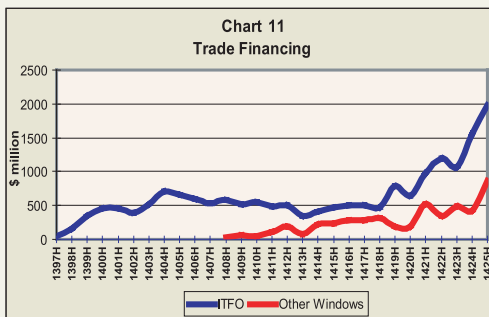
The trade financing operations started in 1397H (1977) and are conducted mainly through two major schemes: Import Trade Financing Operation (ITFO) and the Export Financing Scheme (EFS). In addition, trade financing is also undertaken through specialized funds, namely UIF and IBP. Distribution of Trade financing for different schemes are shown in Chart 10. Moreover, the ICD, the APIF, and the Treasury Department of the Bank also participate in trade

financing operations. Furthermore, the ICIEC provides export credit insurance for exports from the member countries.

The trade financing operations showed a sharp increase, as by the end 1425H the net cumulative approvals had risen to ID17.63 billion (\$23.27 billion). The total trade financing approvals for IDB Group during 1425H amounted to ID1.91 billion (\$2.8 billion). Cumulative gross trade financing approvals for all schemes till the end of 1425H amounted to ID20.06 billion (\$26.55 billion).

5.1.1 Import Trade Financing Operations

The Import Trade Financing Operations (ITFO) is by far the largest scheme for trade financing. The funds of the ITFO mainly come from the Bank's own resources and are extended to the member countries for the import of essential goods. To supplement these resources, funds are also mobilized from the market through syndication and Two-Step Murabaha (2SMF)¹¹ Financing mechanisms. Funds are generally extended for the import of commodities like crude oil, refined petroleum products, fertilizer, etc. A total amount of \$546 million was approved under the two mechanisms in 1425H.



The ITFO approvals in 1425H amounted to ID 1.34 billion (\$1.97 billion) for 83 operations for 21 member countries. The ITFO approvals have shown (Chart 11) a tremendous increase over the years going up from only ID43.61 million (\$50.52 million) in 1397H

¹¹Two-Step Murabaha Financing is a mode of financing used by the Bank to provide funds to other banks/financial institutions for the purpose of their trade financing operations and/or the Bank mobilizes funds from other banks/financial institutions for its trade financing operations.

to a cumulative total of ID14.14 billion (\$18.42 billion) at the end of 1425H. Out of this amount \$13.94 billion (76 percent) were used to finance intra-trade mainly for the import of crude oil and refined petrochemical products (49 percent), industrial intermediate goods (26 percent) and vegetable oil (5 percent).

5.1.2 Export Financing Scheme

The Export Financing Scheme (EFS) aims at promoting exports of both traditional and non-traditional commodities, and also capital goods from the participating member states. As a suppliers' credit scheme, it aims at promoting exports from the member countries through the provision of short- and long-term financing for the exports destined to both the member and non-member countries.

The EFS has its own membership, capital, budget and resources, and its accounts are maintained separately. Currently, the scheme has 26 participating countries¹² as its members with a total contribution of ID170 million. This amount together with the IDB's contribution of ID150 million, brings the total subscribed capital to ID320 million. The paid-in capital of the scheme is ID134 million, of which ID75 million was paid by the Bank. The aggregate amount approved under the scheme by the end of 1425H was ID1.03 billion (\$1.41 billion) for 230 operations benefiting 19 exporting member countries. The approvals under the EFS scheme during the year 1425H amounted to ID181.3 million (\$270 million) for 18 operations.

5.1.3 BADEA Export Financing Scheme

This is a special Programme which emerged as the outcome of a MoU signed in 1418H (1998) between the IDB and the Khartoum-based Arab Bank for Economic Development in Africa (BADEA). Initially, a MoU was signed for a period of three years beginning from 1419H (2001) but at the expiry of the initial period it was extended for another three years. Under the MoU, the Bank manages \$50 million Fund as a Mudarib to finance exports from the Arab League member countries to the non-Arab League member countries of the African Union. So far, under the scheme 20 operations in favour of importers from ten African countries (namely Angola, Gambia, Guinea, Kenya, Mauritius, Senegal, Seychelles, Tanzania, Uganda, and Zimbabwe) have been conducted involving an amount of \$110.8 million. For the year 1425H an amount of \$14.80 million was approved in favour of Angola (\$5.00 million), Tanzania (\$4.80 million) and Seychelles (\$5.00 million).

5.2 Trade Promotion

In addition to the trade financing schemes mentioned above, the Bank has special programmes designed specifically for promotion of trade among the member countries.

¹²These countries are: Algeria, Bahrain, Bangladesh, Brunei, Cameroon, Egypt, Gabon, Indonesia, Iran, Jordan, Kuwait, Lebanon, Libya, Malaysia, Morocco, Pakistan, Palestine, Saudi Arabia, Senegal, Somalia, Sudan, Syria, Tunisia, Turkey, Uganda and United Arab Emirates.

5.2.1 Trade Cooperation and Promotion Programme

The IDB has a Trade Cooperation and Promotion Programme (TCPP) which was established in 1414H (1994) with the aim of supplementing the Bank's efforts in promoting intra-trade. The main objective of the Programme is to strengthen the capacity of export promotion agencies in member countries. In 1425H, under the TCPP, the Bank has organized 5 trade fairs, 4 seminars/workshops and 3 training courses.

5.2.2 Assistance on WTO-Related Matters

In 1997, IDB established an intensive Technical Assistance Programme to help the OIC member countries to upgrade their institutional and manpower resources related to WTO¹³ activities with a view to enhancing the capability of member countries. IDB extends assistance to member countries to negotiate WTO trade rules, understand and meaningfully applying the WTO rules, participate effectively in the WTO processes, promote common interests of member countries in any future trade talks and provide upon request, technical support and advice on accession-related issues to member countries acceding to WTO. The IDB delivers its WTO-related Technical Assistance through organizing consultative meetings, training courses on trade policy, seminars and workshops, studies and also by providing country-specific technical assistance.

Up to the end of 1425H, the IDB has organised 19 consultative meetings, 8 trade policy courses, 21 seminars, and 11 workshops. In addition it has also undertaken 5 studies, and financed 13 country-specific WTO-related Technical Assistance projects.

5.3 Promotion of Intra-Investment

Promotion of investment is another area for forging greater economic cooperation amongst the member countries. Being well aware of its role to enhance economic growth of member countries, the IDB Group lays special emphasis on facilitating intra-investment flows to member countries. In realizing the strategic objective, the IDB Group promotes economic cooperation, supports organization of investment conferences, facilitates joint ventures among member countries, and gives priority to projects serving two or more member countries.

The IDB has organized a number of investment conferences for creating awareness among the prospective investors about the existing opportunities. IDB has also organized experts group meeting to identify major impediments in promotion of investment cooperation amongst its member countries. In this connection, Experts from twelve institutions (securities commission, stock exchanges and international Islamic financial institutions) from member countries of the IDB met on 26-27 June 2004, at IDB Headquarters, Jeddah, to brainstorm on "Enhancing the Capacity of Financial Markets to Promote Intra-Investment in IDB Member Countries". The Task Force proposed by the experts was later

¹³Currently, 37 IDB member countries are members of the WTO, whose total membership stands at 148.

invited to a meeting by IDB in Jeddah on 6-7 November 2004. An Action Plan prepared by the Task force was presented to the OIC Economic Conference held in Istanbul on 23-27 November 2004.

The ICD and the ICIEC also play an important role in promoting investment. In addition IDB provide lines of financing to the NDFIs, cooperates with the Association of NDFIs in member countries, cooperates with the ICCI as well as with other Islamic banks, for promoting intra-investment flows. IDB has made efforts to facilitate the enactment of an appropriate legal framework which will further improve prospects for attracting investment into member countries.

VI. PROMOTION OF ISLAMIC FINANCIAL INDUSTRY AND INSTITUTIONS

6.1 Contribution to the Islamic Banking

The Strategic Plan of the IDB Group has identified the promotion of Islamic financial industry and institutions as one of its main strategic objectives. In this connection, the IDB has continued to play a leading catalytic role in promoting and strengthening Islamic Banks both in member and non-member countries. As a result Islamic banking is now viewed as a viable alternative system for mobilizing saving and investments in different parts of the World.

The IDB has contributed to developing a mechanism for producing internationally acceptable regulatory standards for the Islamic banking industry that will strengthen its relationships with the central banks in the member countries, and help bring Islamic banks to a stature comparable with that of the conventional mainstream banks.

In order to help the Islamic banks become more competitive in the new global environment, the IDB continues to assist them with new initiatives and development of codified prudential framework for the Islamic banking industry. The purpose of these initiatives is to contribute to the standardization of the Islamic financial products and to make the Islamic industry competitive, transparent and viable.

It is expected that these efforts will contribute to the competitive growth of the Islamic financial institutions and also facilitate smooth functioning of the Islamic banks, side by side with the conventional banking institutions. A brief summary of the developments is provided as under:

6.2 Developing New Modes of Financing

The modes used by IDB for project financing include, loan, equity, leasing, profit-sharing, instalment sale, and Istisna'a. In order to mobilize additional resources, the Bank developed a number of schemes which include ITFO, EFS, IBP and UIF. Through these

schemes, trade financing is carried out by Murabaha. Recently the Bank has introduced Sukuk, an asset-based Islamic bond for mobilizing resources from international market.

6.3 Participation in the Equity of Islamic Banks

The IDB has assisted in establishing number of Islamic banks in the member countries and particularly by way of equity investment. The IDB has an equity investment in the share capital of 28 Islamic banks and financial institutions.

6.4 Integration of Islamic Banking and Finance

The IDB has assisted in the establishment of the following Islamic Banking institutions to further enhance the level of transparency, prudence, standard of corporate governance and risk management.

6.4.1 The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI): Established in 1992, the AAOIFI serves as an institutional arrangement for self-regulation in the public disclosure of financial statements by the Islamic financial institutions and for the implementation of auditing practices by external auditors.

6.4.2 The Islamic Financial Services Board (IFSB): The IFSB was established in Kuala Lumpur, Malaysia in 2002 as a regulatory and internationally acceptable standard setting institution for the Islamic banks. The initiative for the establishment of IFSB was taken by the IDB, in cooperation with the IMF and selected central banks. The IFSB will help in establishing internationally acceptable standards like prudential regulations and supervision standards in the key areas of the Islamic banking industry.

6.4.3 International Islamic Finance Market (IIFM) and International Islamic Rating Agency (IIRA): The Bank has also been actively engaged in the establishment of the IIFM as well as in the creation of the IIRA. Emanating from the need of IIFM, the Bank has assisted in the establishment of an institution for conciliation and commercial arbitration for Islamic financial institutions which provides framework and mechanism for settlement of disputes. The institution is being established in cooperation with the General Council of Islamic Banks and Financial Institutions and will be based in Dubai. The IIFM is expected to start its functions from mid of 2005.

6.4.4 Liquidity Management Centre (LMC): The Bank has also been instrumental in the establishment of the LMC in Bahrain. The LMC is a key element of a broader project to create an International Islamic Financial Market, which will help in resource mobilization and investment through the use of Shari'ah compliant financial instruments.

6.4.5 General Council of Islamic Banks and Financial Institutions (GCIBFI): The IDB played a special role in the establishment of the GCIBFI, which is an international autonomous non-profit corporate body representing institutions of the Islamic financial industry. It was incorporated in the Kingdom of Bahrain in 2001. The main objectives of the GCIBFI include, inter alia, the promotion of Islamic financial institutions,

dissemination of concepts, rules and provisions related to them; and development of the Islamic financial industry.

6.4.6 International Islamic Centre for Reconciliation and Commercial Arbitration (IICRCA): The IDB played a catalytic role in the establishment of the IICRCA. The Centre is based in Dubai, UAE, and was established in 2003. The main purpose of the establishment of the centre is to mediate and decide on all financial and commercial disputes which arise between financial and commercial institutions, and between these institutions and/or third parties.

6.5 Research and Training

Islamic Research and Training Institute (IRTI) was established by the IDB in 1410H (1981) with the mandate to undertake research, networking, provide training and information services in the fields of Islamic economics, banking and finance (Activities of IRTI are covered in section 3.1.1). In the area of research, IRTI conducts basic and applied research with a view to develop models and methods for the application of Shari'ah in the fields of economics, banking and finance.

The training activities of IRTI are undertaken to build skills and human capacity of member countries. These activities involve conducting specialized training courses, and workshops mainly in the field of Islamic economics, banking and finance, private sector development and macro-economic management.

6.6 Other Contributions

IDB plays an important role in coordinating and organizing annual meetings of the Islamic banks which provide an opportunity for consultations on subjects of common interest and finding ways for further enhancing cooperation and identifying opportunities. These meetings are held at two different levels: (i) at the level of Directors of Operations/Investments held once a year, and (ii) at the level of the Heads of institutions, held on the occasion of the annual meeting of the IDB Board of Governors.

The Bank provides technical assistance to the Islamic banks for capacity building and also extends lines of finance, which strengthen their operational capacity. In an effort to create awareness of Islamic banking and finance, numerous papers are prepared and presented by the IDB Group at international forums.

VII. COOPERATION WITH INTERNATIONAL ORGANIZATIONS

IDB has developed cooperation and working relationship with several organizations sharing common vision and objectives. The Strategic Plan also highlights the importance of forging co-ordination and strategic alliance with other development partners in order to enhance the level of development in member countries. The following is the brief account of such cooperation:

7.1 Cooperation with the OIC and its Affiliated Organs

IDB maintain closer Cooperation with the OIC and its Affiliated Organs. The Bank always supports the relevant agenda of the OIC and seeks close working relationship with its General Secretariat, subsidiary organs, specialized institutions and affiliated organizations, especially with the Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRTCIC) (Ankara, Turkey), the Islamic Centre for Development of Trade (ICDT) (Casablanca, Morocco); the Islamic Chamber of Commerce and Industry (ICCI) (Karachi, Pakistan) and the Islamic University of Technology (IUT) (Dhaka, Bangladesh). The cooperation between the Bank and these institutions involves collaboration in the areas of research, training, and information exchange.

IDB provides financial support to some organizations established under the aegis of the OIC. For instance, the Bank provided financing for the study on the “Restructuring of the OIC General Secretariat and its Role in Facing the Challenges of the New Millennium”. Moreover, the Bank is actively involved in the work being done under the task forces (Intra-trade, Training, Literacy and Health) which were established pursuant to the summit resolution on ‘Preparing the Ummah for the 21st Century.’

The Bank regularly attends the annual meetings of the Follow-up Committee as well as of the ministerial meetings of the OIC Standing Committee for Economic and Commercial Cooperation (COMCEC). Through these meetings the possibilities of joint action in the areas of common interest are explored and the forum also recommends specific measures for promotion of economic cooperation. The Bank, under the auspices of the COMCEC, undertook a number of studies that resulted in the development of the EFS and the ICIEC. During 1425H, IDB participated in the 20th session of the COMCEC. Important issues that were considered during the session included: Promotion of cooperation amongst the Stock Exchanges of member countries, Expansion of Intra-trade, Gold-Based Trade Payment Agreement and launching of the first round of Trade Negotiations on the Framework Agreement on Trade Preferential System among the OIC member countries. The main theme of the exchange of views session was trade and transport facilitation among the OIC member countries which was duly supported by the Bank. On the occasion of 20th anniversary of COMCEC, the IDB in collaboration with the COMCEC Coordination Office organized the OIC Economic Conference. The conference had three main components (i) Business Forum, (ii) Panel Discussions and (iii) Ministerial Brain Storming Session. The Ministerial Session considered the outcome of the Business Forum and Panel discussion on “Framework for promotion of Intra-OIC Trade and Investment” and “Enhancing the Institutional Setup and Mechanisms for the OIC Economic and Commercial Cooperation”.

The OIC Standing Committee for Scientific and Technological Co-operation (COMSTECH) is another important forum, with which the Bank maintains close working relations. The co-operation involves a number of projects designed to enhance scientific and technological development in the OIC member countries. The Bank in cooperation with the COMSTECH, organized numerous conferences during 1425H, including (i) An

International Workshop on Satellite Imaging Technology and Applications in Pakistan, (ii) Technological Advances in Seawater Desalination, UAE (iii) Training Workshop on the Reuse of Marginal Water in Irrigation, UAE, and (iv) Training Workshop on Bioethics and Bio-safety.

7.2 Cooperation with other Institutions/Organizations

7.2.1 Major Financing Institutions of the Member Countries

In order to support its development efforts, the IDB develops synergy, coordination and alliances with major financing institutions of member countries. Some of the Arab national and regional developments financing institutions are playing a very significant role in offering development financing. These institutions along with the OPEC Fund for International Development and IDB, together form the Arab Co-ordination Group¹⁴. Since its inception in 1976, IDB has maintained a good working relationship with the Arab Co-ordination Group. IDB enhances its development role by co-financing projects in member countries jointly with other development partners. During the recent years, the Bank has organized round table meetings of the Co-ordination Group and a number of its member countries in the Commonwealth of Independent States (CIS) region to identify projects for co-financing by the members of the Group. The meetings are generally held at two levels; one at the level of Directors of Operations, which is held twice a year, and the other at the level of the heads of institutions which is held once a year.

7.2.2 National Development Financing Institutions

IDB has developed close working relations with the NDFIs in order to contribute effectively for the promotion of private sector. The main objective of cooperation with NDFIs is to reach the private sector in the member countries and to contribute in financing SMEs. To this end, the Bank provides financing facilities in the form of lines of leasing, lines of instalment sale or combined lines. Provision of line of financing makes the Bank's operations cost-effective and can extend its coverage to a large number of projects.

A meeting is held with the NDFIs, every year, on the occasion of the annual meeting of the IDB Board of Governors. The meeting discusses the issues related to cooperation and co-ordination among the NDFIs, operational relationship and needs for extending technical assistance for capacity building of these institutions. In order to further increase the utilization of the lines of finance, IDB has made provision of 'free limit', authorizing the NDFIs for approval of sub-projects up to 25 percent of the overall approved amount of the lines, and providing the NDFIs with a margin of 3-5 percent, on top of the Bank's mark-up. The 26th Annual Meeting of IDB with the NDFIs, held in Tehran, Iran, in 2004

¹⁴The members of the Arab Co-ordination Group are: Abu Dhabi Fund for Development; Arab Bank for Economic Development in Africa; Arab Fund for Economic and Social Development; Arab Gulf Programme for United Nations Development Organizations (AGFUND); Kuwait Fund for Arab Economic Development; OPEC Fund for International Development; Saudi Fund for Development; and Islamic Development Bank.

discussed challenges facing the SMEs and emphasized the need for supporting these enterprises with innovative and modern banking products in their quest to help alleviate poverty by generating wealth in the rural areas.

7.2.3. Regional Organizations in Member Countries

The Bank maintains close working relations with regional organizations especially those which have common membership with IDB. The Bank has signed MoUs with several of these organizations including the Arab Maghreb Union (AMU), the Economic Cooperation Organization (ECO), the Gulf Cooperation Council (GCC), and the Economic Community of West African States (ECOWAS). These MoUs provide general framework for facilitating cooperation amongst these organizations and with the IDB for promoting economic and social development of the common member countries. The Bank also provides financial and technical assistance to regional organizations for implementing projects in various fields. The IDB has also taken initiative to facilitate cooperation among two or more regional grouping in Asia and Africa in collaboration with the Asian Development Bank and the African Development Bank.

7.2.4 Other Regional and International Organizations

The IDB maintains a close working relationship with the multilateral financing institution (MFIs), regional financing institutions as well as with the specialized bodies of the United Nations. It also collaborates and participates in the relevant initiatives taken at global and/or regional level. The MFIs and regional financing organizations with which the Bank maintains collaborative relationships include the World Bank, the International Monetary Fund, the African Development Bank, the Asian Development Bank and the European Bank for Reconstruction and Development.

VIII. SCIENCE, TECHNOLOGY AND HUMAN RESOURCE DEVELOPMENT

8.1 Science and Technology Operations

IDB is aware of the low level of development of Science and Technology (S&T) in its member countries and accordingly encourages its use for achieving economic progress. The IDB Programme for the development of science and technology is mainly through the provision of assistance to scientists, scholarships for higher studies, research and cooperation among member countries for sharing experience and knowledge. During 1425H, IDB financed 14 operations to the tune of ID0.310 million (\$0.45 million).

IDB continues to support institutions in member countries towards achieving excellence and has introduced IDB Prize for S&T since 1423H. This prize amounting to \$100,000 is given to three institutions every year. Another initiative is Young Research Support Programme (YRSP) which is designed for the human resource development in S&T. The purpose of this Programme is to mitigate the adverse effects of “Brain-Drain” phenomenon

at the level of young scientists and to facilitate their return in order to benefit from their expertise. The Programme also provides scholarship grants to selected applicants from IDB member countries in the range of \$8,000 to \$15,000 for a total amount of \$30,000. Currently, fifteen researchers are benefiting from this Programme.

IDB has also been entrusted with the responsibility of contributing through its Programme of Self Reliance in Vaccine Production (SRVP) and few other initiatives emanating from IDB-COMSTECH cooperation. These initiatives include S&T Expatriate Nationals Programme and Support to the Centers of Excellence in IDB member countries.

8.2 Technical Cooperation Programme

The Technical Co-operation Programme (TCP) of IDB was established in 1403H (1983) with the objective of enhancing the quality of human resource by exchanging knowledge, skills and know-how. This is accomplished through mobilizing the technical capabilities of the member countries by promoting cooperation and exchange of experience and information. The Programme utilizes various vehicles including the provision of on-the-job training, study/familiarization visits, recruitment of experts, and organizing seminars and workshops. The priority areas identified for the Programme cover finance, education, agriculture and environment. However, some additional sectors like industry, transport and communication are also covered under the Programme. Special attention is paid to requests received from the CIS countries and LDMCs. Up to the end of 1425H, 1,222 operations involving a total amount of \$26.15 million were approved for the member countries and regional/international organizations. A mix of activities which were approved by IDB included; the organization of 456 seminars and workshops amounting to \$13.35 million (51 percent), 555 on-the-job-training and familiarization/study visits amounting \$9.09 (35 percent) and 211 operations for expert services amounting to \$3.71 (14 percent). During 1425H, 105 operations amounting to \$2.25 million were approved under this Programme.

8.3 M.Sc. Scholarship Programme in Science and Technology

The M.Sc. Scholarship Programme in S&T for the LDMCs of the Bank was launched in 1418H (1997). The Programme is mainly meant to develop human resources; especially in the areas of S&T. Twenty countries¹⁵ amongst the LDMCs are eligible to benefit from the Programme. During the last 7 years of its implementation, 140 students have benefited from the Programme. Scholarships are offered for two years to study in various universities in the leading IDB member countries based on the development needs of the beneficiary countries. The scholarship covers the tuition, living allowance (maximum of \$200 per month), an allowance for clothing and books (\$600 per year), medical coverage, and a return air ticket. The amount approved under the Programme during 1425H amounted to ID84,230 (\$112,026), while the cumulative amount of Scholarship approved till the end of 1425H was ID0.51 million (\$0.67 million).

¹⁵These countries are: Afghanistan, Benin, Burkina Faso, Chad, Comoros, Djibouti, The Gambia, Guinea, Guinea-Bissau, Maldives, Mali, Mauritania, Mozambique, Niger, Palestine, Sierra Leone, Somalia, Togo, Uganda, and Yemen.

8.4 Merit Scholarship Programme for High Technology

The Merit Scholarship Programme for High Technology provides scholarships for advanced studies and research in science and applied technology. The Programme was introduced in 1411H (1991-92). The main objective of the programme is to develop technically qualified human resources and enhance scientific and technological capabilities of institutions in member countries. The scholarships are awarded to outstanding scholars and researchers to undertake advanced studies/research in the selected 16 areas considered important for the development of the member countries. The scholarship is tenable at selected institutions and universities approved under the Programme. The term of study is three years for a doctorate degree and one year for post-doctorate research.

Initially, the Programme was launched for 5 years with a total approved budget of \$9.2 million to train approximately eighty scientists. However, after successful evaluations the Programme has been extended twice. The Programme has also been enhanced by increasing the number of yearly scholarships from 20 to 35, and the institution of fast emerging high-tech countries of Asia and other member countries are included for higher studies. So far, 271 scholars from 175 institutions of 44 member countries have benefited from the Programme. Under this Programme, 86 post-doctoral and 63 scientists have completed their PhD studies. The total amount spent on the Programme till the end of 1425H stood at ID8.77 million (\$11.84 million). During 1425H an amount of ID0.78 million (\$1.03 million) was approved for 35 scholars benefiting from this Programme.

8.5 Scholarship Programme for Muslim Communities in Non-Member Countries

The Scholarship Programme for Muslim Communities in Non-Member Countries was launched in 1404H (1983-84) and aimed at helping academically meritorious and needy Muslim students to pursue higher studies in universities either in their own countries or in other IDB member countries in specified professional disciplines. The areas selected for studies are: medicine, engineering, dentistry, pharmacy, nursing, veterinary sciences, agriculture and computer science. However, on an exceptional basis, six other subjects namely accountancy, administration, banking, business studies, finance, management and marketing are offered for Muslim communities in non-member countries of the CIS region. Although, the Programme is designed only for the Muslim communities in non-member countries, 9 member countries are also entitled to benefit from it on an exceptional basis.

Under the Programme grant scholarships have been given to students from 56 countries including 9 IDB member countries¹⁶. Under the new Strategic Plan, IDB will foster

¹⁶These countries are: Afghanistan, Palestine & Somalia on exceptional basis and Albania, Azerbaijan, Cote d'Ivoire, Kazakhstan, Mozambique and Togo on case by case basis.

entrepreneurship in Muslim communities and during 1425H, IDB spent a total of ID2.13 million (\$2.83 million) on this Programme. The total amount approved since inception of the Programme was ID41.26 million (\$54.90 million). A total number of 7,278 students have benefited from the Programme, of which 4040 students have completed their studies, 725 students (10 percent) have dropped out and 2513 students are at various stages of completion.

IX. IDB AS A LEARNING INSTITUTION

The IDB is striving to become a knowledge based institution, and in this regard it has taken a number of initiatives. The following section covers some of these initiatives that are being pursued by the IDB Group.

9.1 Knowledge Acquisition and Management

9.1.1 Knowledge Management

Knowledge Management (KM) is a framework for creating, capturing, storing and disseminating knowledge with a view to improving functioning of an organisation. It is a collaborative and integrated approach for securing organizational processes. IDB has adopted KM framework with a view to make it a Knowledge Institution by sharing and integrating good practices in its day to day operations. KM strategic framework is being developed, which would drive its short and medium term initiatives for transforming IDB into a knowledge-based institution. In this regard, IDB promotes staff learning and provides encouragement for improving quality of its human resource through continuous learning and training.

The Knowledge Management Program (KMP) Programme of the IDB Group, which is intended to enhance performance and institutional development through transfer of knowledge, became operational in 1425H. The objective of the Programme is to make IDB a knowledge based institution with established practices, building on its past experiences and through continuous learning. The KMP will be used to develop new ideas and services that support the core competencies of the IDB Group. The main strategies of the KMP are: (i) to capture and organize systematically knowledge and experiences of the IDB Group; and (ii) make this knowledge readily accessible to a wide audience inside and outside the IDB Group. The initial program of the KMP includes, among others, awareness campaign to introduce the KMP to the staff and encourage them to actively participate in different knowledge management activities. Currently KMP is creating a set of Oral Histories to capture key episodes in the history of the IDB through recording the unique perspectives, memories and voices of key characters in its development, before they retire. Also, KMP is developing the KM strategic framework that builds on the recently published “Strategy for a better future”, help contextualise current and future demonstration projects and drive the short and medium term activity of IDB’s knowledge management initiative.

9.1.2 Distance Learning Centre

The IDB Group has established a Distance Learning Center (DLC) at its headquarters which has the facility to allow participation in video conferences or distance learning courses. The objectives of the DLC are to: (i) provide cost-effective training facility for staff, (ii) participate in a wide range of learning opportunities and sharing experiences at the international level, and (iii) broadcast relevant courses on Awqaf, Zakah, Islamic economics and banking to various institutions in member countries. The Centre provides a facility for sharing of knowledge and experiences and disseminating best practices and different perspectives on addressing various development challenges concerning socio-economic issues in member countries.

During its second year of operation, the DLC organized 62 events, comprising training courses and video conferences. These events included 10 week lecture series delivered by IRTI as part of a post graduate course on Islamic banking and finance. Four new distance learning sites were established in three countries during 1425H.

9.1.3 Records and Documents Management

In order to make IDB a paperless organization with overall objective of improving productivity and efficiency, it has implemented record and document management initiative. Publishing and maintaining the IDB Group's vital records and common documents of the past 30 years is one of the main objectives of the Bank's Record and Documents Management Division. The main purpose of establishing and activating IDB Group Scanning Centre and the Departmental Electronic Achieves was to collect, prepare, scan, index and make the information available online through intranet website for the benefit of the IDB Group staff.

The intensive training and familiarizing Programme for the staff in the use and storage of electronic documents has been completed. More than 140,000 documents comprising 1,600,000 pages were published online and more than 16 Department/Offices have begun storing their documents electronically.

9.1.4 Information Technology

The mission of the Information Technology (I.T) Department is to build a robust information technology infrastructure and modern information systems that fulfils the Bank's business information technology needs. In this regard, the recently approved IDB Group Information Technology Strategic Plan aims at developing a resilient technology infrastructure and information systems to support IDB's present and future business needs. At Present, IDB is in the process of selecting the most appropriate solutions for implementing IDB Group Information Technology Programme (ITP). This project aims at enabling the Bank to achieve its objective through building a new IT environment that can enhance the capacity of the Bank in serving its clients, and performing its internal procedures efficiently and effectively. The main objective of ITP is to help IDB become

more client focused, reduce business cycle time and harness the employee's skills in order to increase their productivity and overall performance.

Robust communication systems and services were established to enhance and facilitate the flow of information amongst the Bank, member countries, Regional Offices and International Organizations. In this regard, internal, external messaging services, internet services, Routers services and SWIFT System were introduced. The I.T. Department also supports IDB's Distance Learning Centre. Recently, IDB Regional Offices have been interconnected with the IDB Headquarters through secure Virtual Private Network (VPN) enabling IDB Regional Offices and travelling IDB staff to have secure access to the IDB's I.T. System and services.

Upgrading the office technology tools is an ongoing task which aims at providing the IDB Group staff with adequate and up-to-date solutions, to enable them to perform day-to-day activities efficiently and effectively. To enable IDB's business clients easy and speedy online access to various IDB Group services, the IDB Group Internet web portal project is under implementation. This will provide many new features in term of design and content to meet the information requirements of the IDB Group's clients when accessing these services.

9.1.5 IDB Library

The main objective of the library services is to fulfil the information requirements of the IDB Group staff members in the fields of economics, finance, investment, development, transfer of technology, trade, information technology. The library has an extensive collection of printed and non-printed materials to meet the information need of all staff members of the IDB Group.

By the end of 1425H, the library had a collection of 80,000 titles of print and non-print materials. The print materials comprise books, reports from the member countries, regional and international organizations, conference proceedings and dissertations. The non-print materials include CD-ROMs, audio/video cassettes, computer software, microfilms and microfiches. The library collection is backed up with an extensive journal collection (more than 500 international titles) and a number of online sources such as Economist Intelligence Unit (EIU)'s Country Reports, British Library Supply Centre, and the World Bank e-library. The website of the IDB library provides information on member countries, links to the library bibliographic database, library information bulletins, and provides useful online information services.

The IDB Learning Resource Center provides training for continuous professional development and self education of staff. The collection at the Center comprises video tapes, audio cassettes, PC software, etc. in the fields of languages, management, finance, Islamic banking etc.

9.1.6 IDB Group Forum

The IDB Group Forum was established to consider matters concerning group strategies, policies and organizational plans and to improve coordination among its entities. The Forum has met regularly on monthly basis under the chairmanship of the IDB Group President, its members include the Vice Presidents, the Chief Executive Officer of ICD, General Manager of ICIEC, Director of IRTI, Directors of Departments and Head of Offices and Fund Managers. The matters concerning the IDB Group such as strategic issues, the strategic framework, policies and procedures, organizational matters, coordination of work plans and program as well as other related issues referred to it by the President of the IDB Group were discussed by the Forum.

In its pursuit of the institutional development objective the IDB Group Forum during 1425H deliberated on the important subjects including implementation of Strategic Framework, Promotion of Cooperation Strategy, I.T Strategy, Human Resource Strategy, Financial Projections, Administrative Services, 5-year Strategic Plan and other important Organizational matters. The Forum has taken many important policy decisions which have contributed in improving efficiency and effectiveness of the IDB Group.

9.2 Knowledge Dissemination

9.2.1 Information Disclosure Policy of IDB Group

Information dissemination is considered a vital element of business strategy of the IDB Group with the purpose to keep its stakeholders and partners well informed about its activities. The IDB Group has initiated a number of important internal changes to facilitate dissemination of information. In 1425H, the IDB Group adopted important policy guidelines concerning public disclosure of information about its activities. The Policy promotes better understanding of its activities among various stakeholders and has been prepared in line with the vision, mission and core values of the IDB Group and consistent with the objectives of the new Strategic Plan. It is also expected that the implementation of the Policy will increase the scope of information made available to the general public through the Group's website. It is expected that the new policy will allow the stakeholders to review IDB's policies and operations and recommend measures for further enhancing its effectiveness.

9.2.2 IDB Annual Symposium

Since 1409H (1989), the Bank has been organizing regularly symposium in conjunction with the Annual meetings of its Board of Governors. The IDB Annual Symposium provides a forum for experts from the member countries to exchange views on issues of common interest. The Symposium helps in identifying new initiatives for achieving greater economic cooperation at the level of member countries and the IDB Group. The thematic issue covered in each symposium is selected from areas of special interest to the member countries. The proceedings of every symposium are published and

distributed among the member countries. So far 16 symposia have been held covering topics specific to the needs of member countries. The topics of the Symposia were: Agricultural Development and Food Security, Counter-Trade Arrangements, Promotion of Joint Ventures, Enhancing the Scientific and Technological Capabilities, Promotion of Exports, Obstacles and Opportunities for Investment in the African LDMCs, Human Development, Implications of the Uruguay Round Agreements and the WTO, Promotion of Information Technology for Development, Enhancing Private Sector Participation in Physical Infrastructure Development, Resource Mobilization from Capital Markets for Financing Development, Enhancing Productivity and Competitiveness, Women in Poverty Alleviation: Better Access to Education and Micro Finance, Cooperation for Intra-Investment, and Health Millennium Development Goals: reversing the incidents of Malaria in IDB member countries.

9.2.3 Occasional Papers

The Bank started preparing occasional papers in 1419H (1998) with a view to study and analyse the cross cutting economic issues of concern to the member countries. The Occasional Papers, which are prepared for distribution at the annual meeting of the IDB Board of Governors, are also expected to provide a critical assessment of various economic development issues leading to practical policy recommendations. The Occasional Paper have been published on the following topics: Asian Financial Crisis; Economic; Trade and Financial Co-operation; the Challenges of Poverty Alleviation; Challenges Facing Islamic Banking; Capacity Building for Promotion of Trade and Intra-Trade; the Role of Financial Markets in Private Sector Development; Regulation and Supervision of Islamic Banks; Exploring Trade Complementarities, Promotion of Investment Flow; Survey of Risk Management Issues in Islamic Financial Industry; Resource Constraints in Financing Economic Development; Challenges of the New WTO Agenda; Corporate Governance in Islamic Financial Institutions; Grain Production in IDB member Countries; Islamic Method of Financing Government Expenditures; Financing Basic Education; the Role of Zakat and Awqaf in Poverty Alleviation; Water Resource Management; Enhancing cooperation in IDB member countries, and Islamic Capital Markets Products: development and challenges.

X. CHALLENGES AND THE WAY FORWARD

Since its establishment thirty-one years ago in 1395H (1975), IDB has always sought to contribute to the social uplift and economic advancement of its member countries and Muslim communities around the world. During the past three decades, some member countries have made remarkable progress by transforming their agrarian economies towards industrialization. However, many of LDMCs face a variety of social and economic challenges, which can be addressed through strong commitment to sustain reforms in the area of governance and economic management.

Developmental challenges of today are radically different from those faced by member countries in 1975 when IDB commenced its operations. The current developmental issues

such as the competitive pressures emanating from globalization, a concern over a lack of progress towards meeting the various MDG target by 2015, liberalization of trade and capital flows, the enhanced role of private sector as an engine of growth, and a realization that political and economic governance structures affect the quality of development and distribution of economic growth have led to new developmental perspectives and policy concerns.

Globalization, while offering opportunities to many developing countries also had the effect of marginalizing the LDMCs. In recent years, the developed countries have provided unfettered market access to the exports of least developed countries. However, the subsidization of key export commodities by developed countries continues to depress already low income levels in the least developed countries. Decreasing flows of official development assistance, despite the commitments made by the donor community in the Monetary Conference, held in March 2002, is another major challenge for LDMCs, as with their inadequate financial resources, it will not be possible to implement the poverty reduction programmes and achieve other MDGs targets. As part of its contribution, IDB will continue to vigorously implement its financing commitments under the Ouagadougou Declaration to LDMCs in the African region and to provide new trade financing facilities to LDMCs in order to assist in their integration efforts in the global economy.

Enhancing economic cooperation among member countries is the overarching goal of the Bank's activities. The IDB Group plays a pivotal role by serving as a catalyst in promoting mutually beneficial and complementary activities at country and regional level. In order to deepen economic cooperation among member countries, the Bank is exploring new mechanisms such as supporting trade liberalization measures under the OIC Trade Preferential System, promotion of intra-investment opportunities by forging business-to-business contacts, implementing new measures to popularize takaful (insurance) in intra-trade transactions, and establishment of a new trade bank entity within the IDB Group.

An important dimension of future IDB activities will revolve around learning lessons on the quality of its development assistance and the effectiveness of its past operations. The new Strategic Plan of the Bank identifies the major developmental challenges facing the member countries and the priority areas of IDB's assistance. The operational mechanism of the Strategic Plan is based on the lessons learnt by IDB in providing development assistance over the past thirty one years. Consequently, the Bank is taking necessary measures which will make its operational policies more responsive to the needs of beneficiaries in member countries by streamlining delivery procedures and continuously reviewing the impact of its assistance on targeted beneficiaries. As part of its implementation mechanism under the Strategic Plan, the Bank will further enhance consultation with the stakeholders by ensuring their participation during the entire cycle of operational activities. This participatory approach in the implementation of operational activities will ensure a greater impact of IDB's assistance on the lives of targeted beneficiaries.

IDB is cognizant of the need to strengthen the role of the private sector in member countries, particularly the LDMCs, by removing impediments to the growth of the SME

sector. Focusing on the growth of the SMEs will have the beneficial impact of both employment generation and poverty alleviation. Consequently, the Bank has developed micro-credit schemes for beneficiaries in member countries. In terms of ensuring the successful implementation of the micro-credit scheme, the Bank will aim to extend technical assistance in capacity building of the institutions involved therein which will act as a catalyst for harnessing the comparative advantage of the SME sector and thereby target poverty reduction at the grass-root level.

The Islamic financial industry has established itself as an important segment in the global financial service market. Also, a number of related infrastructure institutions have been established to develop internationally acceptable regulatory and market standards. Given the increasing and varying needs of users of Islamic financial services, there is a need to develop sophisticated financial products to meet varying risk requirements; to strengthen transparency and ethical standards in corporate affairs; and to develop risk management capacity against credit and systemic instabilities. Addressing these issues in Islamic financial industry is critical to sustaining competitiveness and global market acceptability. IDB is in the process of developing a long-term master plan for the Islamic financial industry which will provide a road map for forging synergy amongst the various infrastructure institutions and the requirements for addressing challenges at the national and international level.

At the institutional level, the IDB Group is focusing on efforts to mobilize resources from the international capital market in order to further increase the transfer of development assistance to member countries. In this regard, the Bank is embarking on a first of its kind instrument to tap international capital market from the Islamic financial industry. Launching of Sukuk-based Euro Medium-term Note (EMTN) for an amount of \$500 million by the Bank is expected during the second quarter of 2005. EMTN is a flexible arrangement and can potentially mobilize for the Bank up to \$1 billion of resources during the first two years of the implementation of the Strategic Plan.

After the successful deployment of \$400 million resources mobilized under the debut Sukuk in August 2003, the Bank re-engineered its procedures to effectively target its development assistance in member countries. The increased availability of resources with the Bank will allow it to play an effective role in the economic development of member countries and to position itself as a leading multilateral development institution from the developing world. In pursuit of its mission, undoubtedly, the IDB Group will face many future challenges. By judiciously addressing the challenges, the Bank is committed to turning every challenge into an opportunity. In doing so, the Bank is also committed to managing knowledge, which flows from thirty-one years in the service of development, dynamically addressing external changes, and sustaining a robust 'AAA'-rated institution from the developing world.