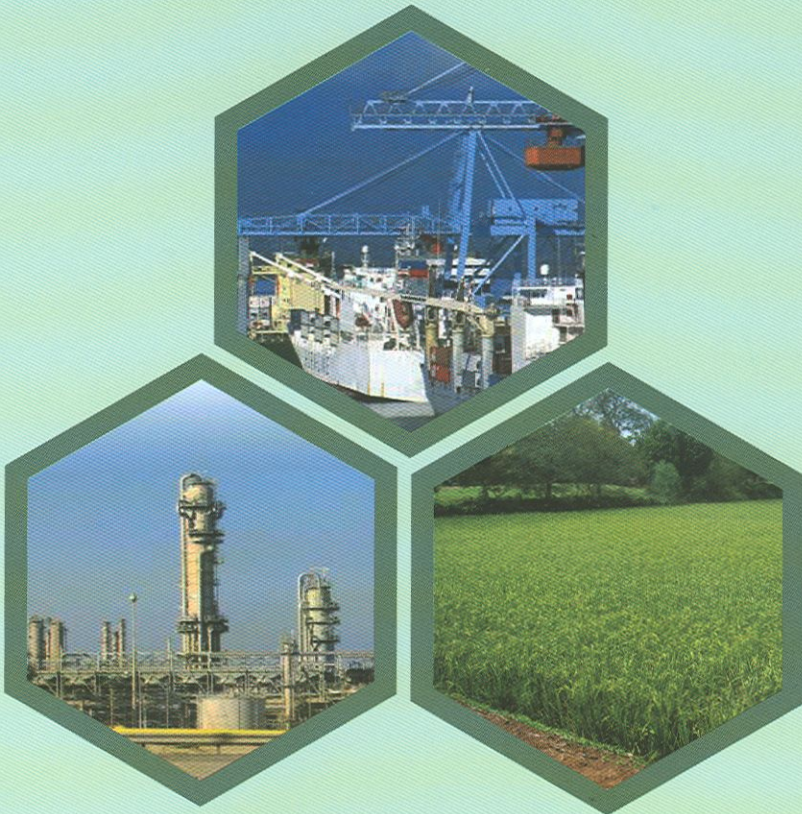




**ISLAMIC DEVELOPMENT BANK**

**THIRTY-FOUR YEARS  
IN THE SERVICE OF DEVELOPMENT**



Jumad Awwal 1429H (May 2008)

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IN THE SERVICE OF DEVELOPMENT**

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For enquiries about this booklet, please write to:

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<b>IDB GROUP OVERVIEW</b>					
<b>CAPITAL STRUCTURE</b>					
		<b>IDB (ID<sup>1</sup> million)</b>	<b>ICD<sup>ii</sup> (\$ million)</b>	<b>ICIEC (ID million)</b>	<b>ITFC (\$ million)</b>
Authorized Capital	<b>1428H<sup>iii</sup></b>	30,000	1,000	100	3,000
	At Inception	2,000	1,000	100	3,000
Issued Capital	<b>1428H</b>	15,000	500	97.2	
	At Inception	750	500	68.8	
Subscribed Capital	<b>1428H</b>	13,870	500	97.7	750
	At Inception	750	350	68.8	500
Paid-In Capital	<b>1428H</b>	3,065	330	73.9	514.9
	At Inception	280	88.1	63.8	446.1
<b>MEMBERSHIP (AT THE END OF 1428H)</b>					
	<b>IDB</b>	<b>IRTI</b>	<b>ICD</b>	<b>ICIEC</b>	<b>ITFC</b>
Member Countries	56	....	45	36	37
<b>NET APPROVALS 1396H-1428H (1 JANUARY 1976-19 JANUARY 2008)</b>					
Activity	Number of Operations	Amount Approved			
		(ID million)	(\$ million)		
(I) Project Financing from OCR <sup>iv</sup>	2,014	11,470.4	15,792.3		
(II) Technical Assistance	663	174	232.2		
(III) Project Financing by Funds/Entities (UIF, IBP, APIF, ICD and Treasury Dept.)	381	3,374.2	4,840.1		
<b>Total Project Financing (I + II)</b>	<b>2,395</b>	<b>14,844.8</b>	<b>20,632.4</b>		
Trade Financing Operations	2,011	21,944.1	29,799.1		
Special Assistance Operations	1,185	501.1	640.8		
<b>Total Net Approvals</b>	<b>5,591</b>	<b>37,290.1</b>	<b>51,072.3</b>		

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

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

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

<sup>iv</sup>Ordinary Capital Resources (OCR) comprise of (i) subscribed capital; (ii) deposits placed with the Bank; (iii) amount received in re-payment of loans from sales of its equity holding and as income from investment related to ordinary operations, and (iv) any other funds raised or received by the Bank or placed at its disposal or income received by it, which do not form part of the IDB Waqf Fund Resources and Trust Fund Resources.



## PREFACE

Thirty-Four Years in the Service of Development highlights the contribution of the Islamic Development Bank (IDB) in key development areas. The cumulative achievements and major initiatives undertaken by the IDB are presented in this publication, which also covers measures undertaken to attain efficiency and effectiveness in development assistance, and institutional capacity building.

In its thirty-four years of existence, the IDB has evolved into an International Development Finance Institution focused on the promotion of comprehensive human development. Its purpose is to foster 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).

Over the years, the IDB activities included project financing, trade financing, equity participation, technical assistance, and special assistance operations. These activities have targeted specific sectors such as health, education, agriculture, public utilities, transportation and communication, industry, mining, and Islamic financial services industry. The sector financing ensures greater focus on human resources, poverty reduction, science and technology, and economic cooperation.

Since inception, the IDB has made significant progress in developing a number of instruments and schemes, establishing affiliated institutions/entities, and funds and responding to the diverse needs of its member countries. Recently, it has embarked on several initiatives aimed at repositioning itself to meet the challenges emanating from the environment in which it operates and those arising from member countries. This is evident in the IDB's 1440H Vision which sets out strategic thrusts and targets to be achieved by 1440H. The OIC Programme of Action arising from the 3<sup>rd</sup> Extraordinary Session of the Islamic Summit Conference, held in Makkah in December 2005, has provided the impetus for the doubling of the IDB's authorized capital, and setting up of the Islamic Solidarity Fund for Development. The International Islamic Trade Finance Corporation has also commenced operations for the promotion of trade. All these major initiatives are aimed at improving and strengthening the IDB's ability to effectively serve the growing development needs of its member countries.

In October 2007, the IDB contracted a consulting company to assist with its reform initiative. The core objective of the reform is to help the IDB streamline its business processes through the realignment of its organizational structures, corporate governance, mission and functions of different entities.

This booklet comprises twelve Sections. Sections 1 to 4 present respectively, introduction, financial resources, financial position and credit worthiness and institutional development. Sections 5 and 6 deal with the role of the IDB in fostering economic development based on the Strategic Thrusts identified in the IDB 1440H Vision. Sections 7 to 9 highlight major initiatives of the IDB for promoting Islamic financial services industry, economic cooperation among member countries, and use of science and technology for human development. Sections 10 and 11 describe the activities of the IDB in achieving development effectiveness and becoming a knowledge institution, while Section 12 concludes with challenges facing the IDB Group and the way forward.

It is anticipated that the booklet would serve as a reference point on the diverse range of activities of the IDB in its quest for the service of development.



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## ABBREVIATIONS

AAOIFI	-	Accounting and Auditing Organization for Islamic Financial Institutions
APIF	-	Awqaf Properties Investment Fund
CIS	-	Commonwealth of Independent States
COMCEC	-	OIC Standing Committee for Economic and Commercial Cooperation
COMSTECH	-	OIC Ministerial Standing Committee for Scientific and Technological Cooperation
EFS	-	Export Financing Scheme
FDI	-	Foreign Direct Investment
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 the Insurance of Investment and Export Credit
ICECS	-	Islamic Commission for Economic, Cultural and Social Affairs
ICT4D	-	Information & Communication Technology for Development
ID	-	Islamic Dinar which is equivalent to one Special Drawing Right of the IMF
IFSI	-	Islamic Financial Services Industry
IFSB	-	Islamic Financial Services Board
IRTI	-	Islamic Research and Training Institute
ISFD	-	Islamic Solidarity Fund for Development
ITAP	-	Investment Promotion Technical Assistance Program
ITC	-	International Trade Centre
ITFC	-	International Islamic Trade Finance Corporation
ITFO	-	Import Trade Financing Operations
LDMCs	-	Least Developed Member Countries as per IDB Classification
LDCs	-	Least Developed Countries as per UN Classification
MDBs	-	Multilateral Development Banks
MDGs	-	Millennium Development Goals
NDFIs	-	National Development Finance Institutions
NGOs	-	Non-Governmental Organizations
OCR	-	Ordinary Capital Resources
OIC	-	Organization of the Islamic Conference
OPEC	-	Organization of Petroleum Exporting Countries
PRGF	-	Poverty Reduction and Growth Facility
SESERIC	-	Statistical, Economic, and Social Research and Training Centre for Islamic Countries
SME	-	Small and Medium Enterprises
S&T	-	Science and Technology
TA	-	Technical Assistance
TCP	-	Technical Cooperation Programme
UIF	-	Unit Investment Fund
WWF	-	World Waqf Foundation



## I. INTRODUCTION

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

Its purpose is to foster 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).

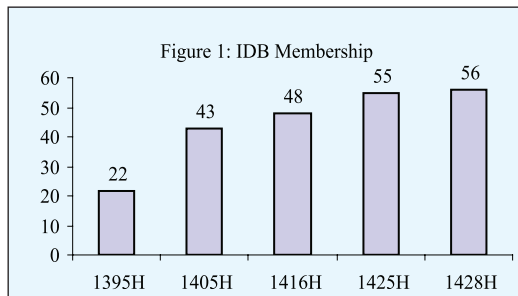
### 1. Functions

The IDB's main function is to provide various forms of development assistance for poverty alleviation through human development, forging economic cooperation by promoting trade and investment among member countries, and enhancing the role of Islamic finance in the social and economic development of member countries. It also establishes and operates special funds for specific purposes including a fund for assistance to Muslim communities in non-member countries, over and above setting up trust funds.

In addition, it mobilizes financial resources using Shari'ah-compliant modes and provides technical assistance to member countries including provision of training facilities for personnel engaged in development activities.

### 2. Membership

The membership of the IDB comprises 56 countries from major continents of the world including Africa, Asia, Europe and Latin America. Membership of the IDB is contingent on first being a member of the Organization of the Islamic Conference (OIC), paying the first instalment of its minimum subscription to the capital stock of the IDB and accepting the terms and conditions that may be decided upon by the Board of Governors. The growth in the IDB membership is depicted in Figure 1.



Of the 56 member countries, the IDB classifies 28 as least developed member countries (LDMCs)<sup>1</sup>, of which 11 are classified by the UNDP as having Low Human

<sup>1</sup>The LDMCs include 24 IDB member countries, namely 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, Yemen, Kyrgyzstan Republic, and Tajikistan. As a special case, the State of Palestine is treated as an LDMC as are Albania, Azerbaijan, and Uzbekistan.

Development. Also 21 LDMCs are HIPC<sup>2</sup>-eligible, while 11 are utilizing the PRGF of the IMF. In addition, 12 LDMCs are classified as fragile states by the Multilateral Development Banks (MDBs).

### **3. Management**

The administrative organs of the IDB consist of the Board of Governors and the Board of Executive Directors (BED). Each member country of the Bank is represented on the Board of Governors by a Governor or an Alternate Governor. The Board of Governors meets annually to review the activities of the Bank and determine its future policies and strategies. The BED of the Bank is composed of fourteen members, of which seven are appointed by major share holders<sup>3</sup>, while the other seven are elected based on geographical representation. The President, who is the Chief Executive of the Bank, also serves as Chairman of the BED. He, with the assistance of the three Vice Presidents, oversees the day-to-day business of the Bank under the guidance of the BED.

### **4. Staff**

The staff complement of the Bank has grown from a modest 78 personnel in 1975 to 990 by the end of 1428H. This comprises 494 Professionals, 99 Special Category, 323 General and 74 Manual Staff. In order to continuously attract outstanding young and motivated individuals from around the world, a Young Professionals (YPs) Program was initiated and at the end of 1428H, 37 YPs were in the IDB.

### **5. Location**

The Bank's headquarters are in Jeddah, Kingdom of Saudi Arabia. The IDB has a presence in 18 countries. This comprises regional offices in Almaty (Kazakhstan), Kuala Lumpur (Malaysia), Rabat (Morocco), and Dakar (Senegal); and field representatives in Azerbaijan, Bangladesh, Guinea, Guinea Bissau, Indonesia, Iran, Libya, Mauritania, Nigeria, Pakistan, Senegal, Sierra Leone, Sudan, and Uzbekistan. These regional offices and field representatives provide support for the Bank's responsibilities including: assisting in the implementation of the Bank's projects at regional and country levels, facilitating country level policy dialogue, coordinating the IDB's development assistance, identifying projects for the IDB financing, marketing and providing information on the IDB products and services to prospective partners both in the public and private sectors.

## **II. FINANCIAL RESOURCES**

### **1. Capital Base**

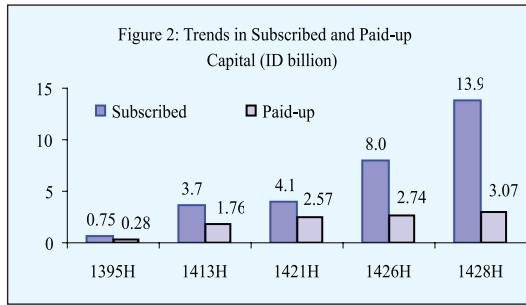
The IDB resources are derived from the capital subscription by member countries. Since inception, there has been a significant increase in both the subscribed and paid-

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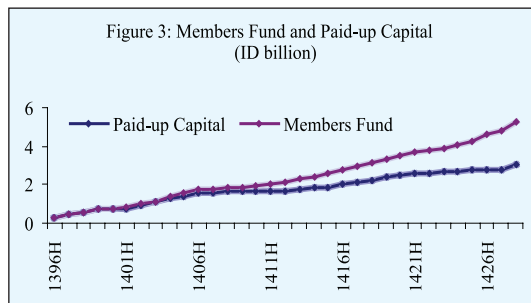
<sup>2</sup>HIPC means Highly Indebted Poor Countries. It is a terminology used by the IMF to describe countries that are poor and with huge debt service obligations in order to consider them for debt relief.

<sup>3</sup>These countries along with their respective share by the end of 1428H, are Saudi Arabia (24.48 percent), Libya (12.13 percent), Kuwait (11.58 percent), Iran (8.16 percent), Egypt (8.12 percent), Turkey (7.35 percent) and UAE (6.95 percent).

up capital. The Bank’s authorized capital has increased fifteen-fold from ID2 billion in 1395H (1975) to ID30 billion in 1428H (2007). Similarly, issued capital increased from ID0.75 billion in 1395H to ID15 billion in 1428H, with subscribed capital increasing from ID0.75 billion in 1395H to ID13.9 billion in 1428H (Figure 2). The substantial increase in the Bank’s capital over time is to enable it to provide additional resources required to meet the growing needs for development assistance by its member countries.

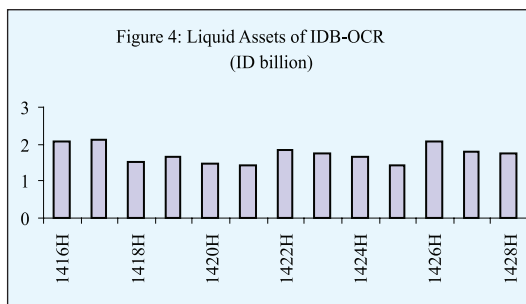


The paid-up capital of the Bank has increased from ID0.28 billion in 1396H to ID3.07 billion in 1428H. The size of the Member’s Fund<sup>4</sup> has also increased from ID0.28 billion in 1396H to ID5.3 billion in 1428H. Over the past three decades, both the paid-up capital and Member’s Funds (Figure 3) highlight an increasing trend. This is attributable to continuous receipt of share capital instalments from member countries, transfer of profits to the general reserves, and increase in the fair value of reserves.



## 2. Liquidity Management

The Bank maintains prudent levels of liquidity to meet its undisbursed commitments, debt-servicing obligations and other operational and cash requirements. The liquid funds are placed in basket of currencies constituting the IDB’s Unit of Account called “ID”. They are placed with financial institutions in Shari’ah-compliant deposits in international financial markets and in member countries. In addition, a part of these liquid funds is also utilized to finance short-term trade financing operations. The total liquid assets of the Bank by the end of 1428H were ID1.77 billion (Figure 4).



<sup>4</sup>Consists of the members’ subscriptions (paid-up capital), plus capital reserves, general and fair value reserves, profits and retained earnings received by the Bank.

### **3. Resource Mobilization through Sukuk**

As part of its strategy to reduce its reliance on equity subscriptions, the IDB has since 2003 been raising funds on the international market. The externally mobilized Funds are predominantly utilised for project financing and short-term trade financing operations. The debut Sukuk<sup>5</sup> yielded \$400 million which was utilized for project financing purposes. In Jumad Awwal 1426H (June 2005), the Bank launched its second Sukuk of \$500 million under the Medium-Term Note (MTN) programme of \$1 billion. The first issue generated overwhelming response from investors from both member and non-member countries. The remaining \$500 million will be mobilized depending on the operational requirements of the Bank.

### **4. Specialized Funds**

#### **Islamic Solidarity Fund for Development**

As per the resolution of the 3<sup>rd</sup> Extraordinary Session of the OIC Summit held in Makkah, Saudi Arabia, on 5-6 Dhul Qa'dah 1426H (7-8 December 2005), the establishment of the Islamic Solidarity Fund for Development (ISFD) was approved by the IDB Board of Governors in its 32<sup>nd</sup> Meeting, held on 12-13 Jumad Awwal 1428H (29-30 May 2007). The ISFD aims to: (a) reduce poverty; (b) build the productive capacities of member states; (c) reduce illiteracy; and (d) eradicate diseases and epidemics, particularly Malaria, Tuberculosis (TB) and AIDS.

The Fund is in the form of a Waqf, with a principal targeted capital of \$10 billion. Thus far, 30 member countries have announced their contributions amounting to approximately \$1.6 billion. The IDB itself will contribute \$1 billion towards the capital of the fund. In addition to voluntary contributions from member countries, the Fund is expected to tap into Zakah and Awqaf resources and private donations.

#### **Unit Investment Fund**

In order to mobilize resources to promote foreign investment in member countries, the IDB Unit Investment Fund (UIF) was established in 1410H (1989). The UIF provides Shari'ah compliant financing to investors, and complements the resources of the IDB through the secularization of its lease and instalment sale assets to be used for project and trade financing operations. In cumulative terms, up to the end of 1428H, the UIF committed \$2,014 million in 208 operations.

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

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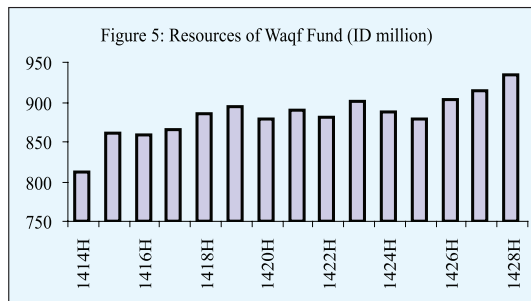
<sup>5</sup>It is an asset-backed bond which is designed or structured in accordance with Shari'ah and may be traded in the market.

## Waqf Fund<sup>6</sup>

The Waqf Fund, previously known as the Special Assistance Account, was setup in 1399H (1979) as a trust fund. The Fund derives its income from: (i) investment in Shari'ah compliant instruments; (ii) trade financing operations; (iii) return from cash and cash equivalents and fixed deposits with conventional banks; (iv) profit on managed investment; and (v) investment in Murabaha and other funds.

The income generated from the Waqf Fund is utilised for social development programmes such as financing Special Assistance Operations, Scholarships, Studies, Technical Assistance (TA), the International Centre for Biosaline Agriculture (ICBA) and the Islamic Research and Training Institute (IRTI). The Special Assistance Programme primarily caters to the needs of the Muslim communities and organizations in non-member countries and LDMCs with particular emphasis on social sector development. The Programme also endeavours to alleviate the suffering of communities affected by natural disasters and emergencies in both member and non-member countries.

At the end of 1428H (9 January 2008), the size of the Waqf Fund amounted to ID939.9 million (Figure 5) comprising the principal amount of the Fund of ID756.8 million (\$1,195.7 million), the balance of the Special Assistance Account of ID50.5 million (\$79.8 million) and the Special Account for LDMCs of ID132.7 million (\$209.7 million). During 1399H-1428H (1979-January 2008), the cumulative approvals for Special Assistance was ID50.1 million (\$640.9 million) for 1,185 operations.



## Awqaf Properties Investment Fund

In accordance with the decision of the 6<sup>th</sup> Awqaf Ministerial Meeting held in Indonesia on 28 Jumad Thani 1418H (29 October 1997), the Awqaf<sup>7</sup> Properties Investment Fund (APIF) was launched in Dhul Qa'dah 1421H (February 2001). Based on Shari'ah principles, the Fund aims to develop and invest in socially and economically viable real-estate properties. The IDB being the Mudarib (Manager) of the Fund provides an adequate return to participants on their investment. In 1426H, the APIF introduced Build, Operate and Transfer (BOT) investment guidelines for participation in real estate investment opportunities by charitable Awqaf organizations.

In addition to the APIF's own capital resources of \$59 million, the IDB has provided access to a line of financing amounting to \$50 million. It has also provided \$250,000 as

<sup>6</sup>Waqf is an endowment or a charitable trust devoted exclusively for socially beneficial purposes.

<sup>7</sup>Awqaf, is a plural of Waqf, means assets which are being purchased/held for charitable and socially beneficial purpose.



technical assistance to be utilized for supporting expansion of the APIF activities. By the end of 1428H (9 January 2008), the Fund had approved 28 operations amounting to \$529 million, 82 percent of which was based on lease financing, 17 percent on profit-sharing and 1 percent on equity financing.

### **IDB Infrastructure Fund**

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

By the end of 1428H, the Fund had invested a total amount of \$584 million in 11 projects in nine countries. The Fund is fully committed and the commitment period expired on 11 December 2006. The Fund's investment has primarily targeted the power, petrochemical, telecom, transport and mining sectors, which together attracted around 95 percent of the Fund's commitments, while the remaining 5 percent accounted for the oil and gas sector. The Fund has fully exited from three investments. The total amount returned to investors comprising the principal amount, capital gains and the dividend was \$656 million. As of end-February 2008, the remaining investments are valued at \$662 million.

### **World Waqf Foundation**

The World Waqf Foundation (WWF) was established by the IDB in Jumad Thani 1422H (September 2001) in response to a need to create a Global entity for Waqf in collaboration with Waqf organizations run by governments in member countries, non-governmental organizations (NGOs), and philanthropists. The objectives of the WWF are to: (i) support the establishment of a network of Waqf institutions, coordinate their activities, and provide expertise in relevant fields; (ii) contribute to the alleviation of poverty and advance human development; (iii) provide relief in the form of goods and services; and (iv) extend support for studies and research in the field of Waqf and assist countries to enact uniform Waqf legislation.

## **III. FINANCIAL POSITION AND CREDIT WORTHINESS**

### **1. Income and Expenses**

The gross income (net of Ijara depreciation) of the Bank has maintained its upward trend as a result of the investment volume and prudent investment strategies adopted by the IDB through channelling its resources to more profitable modes of financing as well as placement of liquid assets in high yielding Funds. Over the past 15 years (1414H-1428H) the gross income (net of Ijara depreciation) has increased from ID93 million in 1414H (1993) to ID277.3 million in 1428H (2007). During this period, the Bank's expenditure (excluding the financing cost of ID55.3 million in 1428H) has also increased from ID34 million in 1414H to ID65 million in 1428H.

## 2. Risk Management

The IDB has adopted a prudent risk management policy and put in place appropriate control mechanisms to manage major risks affecting its financial viability, including credit, currency, liquidity and country risks. It has established policies regarding capital adequacy, liquidity, loan provision, operational exposure and concentration risks. The risk mitigation policies and control mechanisms include limiting exposure of IDB investments, specific guidelines for each mode of financing<sup>8</sup>, internal rating and scoring system, and limits for counter-parties. The Bank has laid procedures to minimize country risk and guidelines for accepting different guarantees and assignment of receivables.

## 3. International Credit/Risk Rating

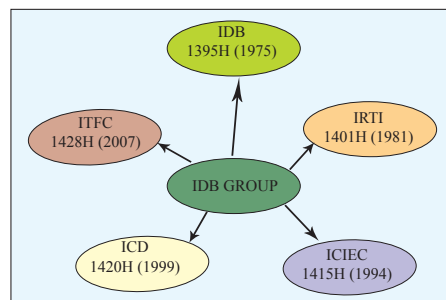
During 1428H, the IDB ratings assigned by FitchRatings were upgraded from “AA+” to the highest ratings “AAA” for the long-term, “F1” for the short-term and a “Stable” outlook. Furthermore, Standard & Poor’s confirmed for the sixth consecutive year its highest ratings for the IDB: “AAA” for long-term and “A-1+” for short-term with “Stable” outlook. The Bank has also maintained for the second year the highest ratings of “Aaa” for long-term and “P-1” for short-term assigned by Moody’s. With the ratings upgrade assigned by FitchRatings, the IDB has become an “AAA” rated institution by the three leading international rating agencies. These ratings reflect, inter alia, the financial soundness of the IDB and its very low risk profile.

Earlier, the Basel Committee on Banking Supervision designated the Bank as a zero-risk weight Multilateral Development Bank (MDB) under its New Capital Accord published in June 2004. Also, the Commission of the European Communities under the Directive of the European Parliament and Council issued in 2007 designated the IDB as an MDB eligible to benefit from a zero-risk weight, as laid down in the provisions of the European Union.

## IV. INSTITUTIONAL DEVELOPMENT

### 1. Evolution into a Group

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



<sup>8</sup>A Shari’ah-compliant instrument used by IDB to extend financing depending on the nature of the underlying project or operation and the party to which the financing is extended.

Group has expanded in response to the needs of its member countries. The entities in the IDB Group have their separate Articles of Agreements and operate autonomously.

### **Islamic Research and Training Institute**

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

The research work of IRTI is concentrated in five thematic areas, namely, (a) Financial Engineering, Product Development, and Capital Markets; (b) Sustainable Development especially based on Maqasid Al-Shariah, and its Implications for Public Policy, Poverty Alleviation and Empowerments; (c) Financial Stability covering the areas of Risk Management Financial Architecture and Infrastructure Development for the Industry; (d) Frontiers of Islamic Economics and Finance; and (e) Policy Dialogues.

In the area of training, the Institute has concentrated on four thematic areas, which are: (a) Islamic Economics, Banking, and Finance; (b) Private Sector Development; (c) Human Capital Development; and (d) Macroeconomic Policies.

The utilization of information and communication technology has been enhanced through the Distance Learning Programme courses on Islamic economics and finance, which have been established in collaboration with the leading universities. An internet-based Islamic finance research network as Islamic Banks Information System (IBIS) has also been established.

Key activities of IRTI include:

- organising, conducting, and publishing fundamental and applied research in the field of Islamic economic, banking and finance. In this regard, IRTI, produced 269 publications since inception;
- overseeing the annual international IDB Prize of approximately \$40,000, which alternates every year between Islamic economics and Islamic banking;
- producing text books on Islamic economics. In this context a workshop was organized to explore the modalities of writing the text books with the involvement of some universities. The 1<sup>st</sup> volume of a series of handbooks entitled “Anthology of Islamic Economics, Exploring the Essence of Islamic Economics” has been prepared and is currently under review of the Academic Committee; and
- organizing seminars, conferences and training programmes. Between 1401H-1428H (1981-2007), IRTI organized 204 seminars/conferences/workshops/forums, attended by over 12,000 persons, and 321 training courses, attended by approximately 10,000 persons.

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

The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) was established on 24 Safar 1415H (1<sup>st</sup> August 1994) and began operations in 1416H (1995). It aims to increase the scope of trade transactions and investment flows among OIC member countries by providing Shari'ah-compliant export credit insurance and re-insurance facilities to Export Credit Agencies in member countries.

Between 1417-1428H (1996-January 2008), the ICIEC's total insurance commitments were approximately ID3.6 billion (\$5.3 billion) and the total business insured over the same period was ID2.5 billion (\$3.7 billion). Since inception, the ICIEC activities have steadily increased, highlighting the growing importance of this aspect of IDB Group activities. The focus of the ICIEC business operations was on general manufacturing, petrochemical and electrical cables.

### **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) to promote the development of private sector in member countries. It provides a wide range of Shari'ah-compliant financial products and services with the view to expanding access to Islamic capital markets, mobilizing additional financing resources for the private sector, promoting entrepreneurship in member countries and encouraging cross country investments.

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

Over the period 1421H-1428H (April 2000-January 2008), the ICD approved 121 projects (net of cancellations) for 23 member countries amounting to ID462.4 million (\$680.5 million). The ICD's financing went predominantly to the industrial sector (32 percent); financial sector (18 percent); and transportation (14 percent).

### **International Islamic Trade Finance Corporation**

The 30<sup>th</sup> meeting of the IDB Board of Governors held in Malaysia in Jumad Awwal 1426H (June 2005) approved the creation of the International Islamic Trade Finance Corporation (ITFC). The ITFC finances inter-regional trade, upgrade the exports capabilities of member countries with the overall objective of increasing the volume of trade. The ITFC is a consolidation of the overall trade related business activities currently undertaken by various IDB Group's windows (ITFO, BADEA and IBP) under a single umbrella. The ITFC officially commenced operations on 1<sup>st</sup> Muharram 1429H.

The ITFC has Authorized Capital of \$3 billion and its initial Subscribed Capital of \$750 million comprises the existing equity of the Export Financing Scheme (EFS) and the Islamic Banks Portfolio for Investment and Development (IBP). In addition to the share capital, the Corporation is mandated to mobilize additional resources from the market to complement its financial requirements and manage dedicated funds with contributions from member countries. The principal office of the Corporation is located in Jeddah, Kingdom of Saudi Arabia, and its first branch is located in Dubai, UAE.

## **2. Affiliated Institutions**

### **International Centre for Biosaline Agriculture**

The UAE based International Centre for Biosaline Agriculture (ICBA) was established in 1420H (1999) as a non-profit international applied research and development centre. Its mission is to develop and promote the use of sustainable agricultural systems that utilises non conventional water resources especially saline water to grow field and forage crops and ornamental plants. The ICBA undertakes innovative developments in saline irrigated agriculture in the arid and semi-arid environment and harsh climatic conditions, particularly in the Gulf region. The Centre has developed broad based expertise and undertakes programmes in areas of plant genetic resources, production systems, irrigation, salinity management, and reclamation of salt affected lands. It organizes seminars, workshops and training programmes to share experience with experts from member countries. Its activities include amongst others undertaking soil surveys to classify land types, projects to combat land and water deregulation, use of low quality water for cultivation in desert and salt-affected areas, testing the salt tolerance of date palms and bio-fuel energy. In the area of information dissemination, ICBA hosts two e-networks, called the Global Biosaline Network and Inter-Islamic Network for Biosaline Agriculture, which links individuals and agencies with common scientific interest in bio-salinity. The ICBA also developed a database of research scientists to prepare a Who's-Who in the field of Biosaline agriculture in the OIC member countries. Furthermore, ICBA produces a range of publications, including its quarterly newsletter titled "Biosalinity News" published in both English and Arabic.

During the period 1999-2007, the IDB and other donors made contributions of \$23.6 million and \$6 million, respectively, for the activities of ICBA. The ICBA has also embarked on key projects in the UAE on soil surveys and salinity. During 1428H, it completed work on its expanded strategy for the period 2008-12. The new strategy focuses on the use of marginal water in addition to ICBA's traditional mandate of using saline water for agricultural production. The Arab Water Council (AWC) has also recently approved that the ICBA will host the Arab Water Academy (AWA), which is supported by the World Bank, the IDB and the Environment Agency-Abu Dhabi. This academy is a major addition to ICBA's mission related to capacity building in the Arab region.

### **3. Management of Funds, Scheme and Project**

Over and above its own Funds and affiliated institutions, the IDB is responsible for other initiatives as described:

#### **Al-Aqsa and the Al-Quds Funds**

The Al-Aqsa and Al-Quds funds, established by the Arab Summit Conference held in Rajab 1421H (October 2000) with the declared capital of \$1 billion are administered by the IDB. The objectives of these funds are to finance re-construction projects and facilitate socioeconomic development in Palestine. Key projects in the area of education, health, infrastructure, provision of municipal facilities, and expansion of trade and industry are financed by these Funds. The IDB oversees the implementation of the Funds programme in partnership with the UN agencies, Ministries and the local NGOs. By the end of 1428H (9 January 2008), under these two funds a total amount of \$762.8 million was committed for different projects.

#### **BADEA Export Financing Scheme**

This scheme arose from an MoU signed in 1418H (1998) between the IDB and the Khartoum-based Arab Bank for Economic Development in Africa (BADEA). The MoU was for an initial period of three years beginning from 1419H (2001) and has subsequently been renewed twice for a further six years. Under the programme, the IDB manages \$50 million fund as a Mudarib (Manager) to finance exports from the Arab League member countries to the non-Arab League member countries of the African Union. By the end of 1428H (January 2008), the Scheme had financed 31 operations in favour of importers from 12 African Countries and one operation for Afrexim-bank, amounting to \$188.10 million. After the successful implementation of the programme for nine years, starting from 1427H (2006), BADEA has finalised new arrangement with the IDB to increase the amount of funding available under the scheme to \$75 million and to increase the products and country coverage. The scheme is now involved in co-financing activities in some of the IDB's trade financing operations. From 1<sup>st</sup> Muharram 1429H, The ITFC has taken over as Mudarib for the BADEA Export financing Scheme.

#### **Saudi Arabian Project for the Utilization of Hajj Meat**

The Saudi Arabian Project for the Utilization of Hajj Meat is an initiative of Government of the Kingdom of Saudi Arabia with its implementation entrusted to the IDB since 1403H (1983). The project serves the Pilgrims during the Hajj period to undertake the animal sacrifice. Moreover, the Bank oversees the utilization of meat in accordance with religious requirements. The meat is distributed to the needy and poor in some member countries and Muslim communities in non-member countries.

Since 1427H, the IDB in collaboration with some banks in Saudi Arabia, developed an online Internet service for pilgrims to buy their offerings in any part of the world through coupons by using their credit cards or through cash transfers. The online Internet service also allows the IDB to build up a central database that helps in

marketing the Project worldwide. In 1428H, total Hajj meat of 732,855 animals was distributed to the needy in the Haram area in Makkah Al-Mukarrama and countries around the world.

## **V. IN THE QUEST FOR DEVELOPMENT: IDB 1440H VISION**

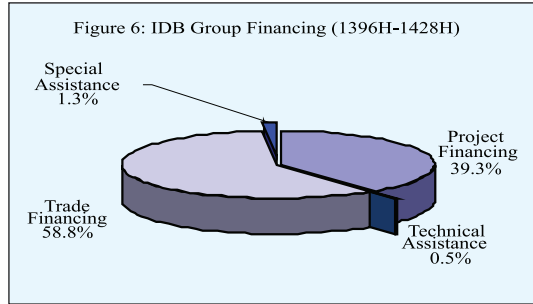
In its endeavours to address the strategic challenges confronting the Muslim world and the IDB, the Bank adopted its 1440H Vision which states that “By the year 1440 Hijrah IDB shall have become a world-class development bank, inspired by Islamic principles, which has helped significantly transform the landscape of comprehensive human development in the Muslim world and helped restore its dignity”. The IDB set itself ambitious targets to achieve for its member countries in line with their priorities and targets. In order to realize these targets, the Vision outlined nine strategic thrusts namely: reform IDB, alleviate poverty, promote health, universalise education, prosper the people, empower the sisters of Islam, expand the Islamic financial industry, facilitate integration of IDB Member Country economies among themselves and with the world and improve the image of the Muslim world.

At the core of achieving the targets and other strategic thrusts envisaged in the Vision is the first strategic thrust – “Reform IDB”. As part of the IDB Reform process six critical elements have been identified: (i) Undertaking Institutional Reform and Improve Corporate Governance, and Organizational Structure; (ii) Enhancing staff skills to achieve high level of performance through motivation and talent development; (iii) Improving business processes by making use of Information Technology (I.T.) and to include best practices in developing new systems for Finance, Operations, Treasury, Human Resource and Special Assistance; (iv) Aligning operations and policies with the IDB 1440H Vision and in line with the policies of other world class institutions; (v) Pursuing Knowledge Management encompassing all elements including human capital, I.T. systems, and processes; and (vi) Undertaking comprehensive diagnostic studies for gap analysis and cultural assessment for ensuring successful implementation of the IDB Vision. The reform process, once completed, will chart the future course of the IDB to reposition itself to become an effective and efficient world-class institution.

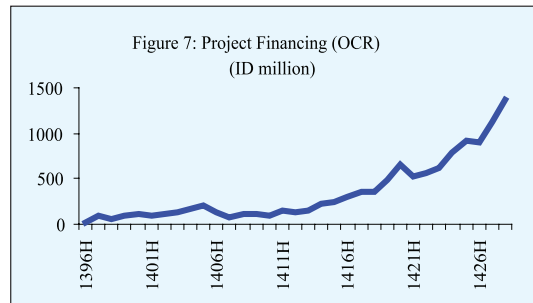
## **VI. DEVELOPMENT ASSISTANCE TO MEMBER COUNTRIES**

To deliver on its mandate, the IDB provides development financing to both public and private sectors in its member countries through three major types of operations: (i) ordinary operations (comprising project financing and TA); (ii) trade financing operations; and (iii) WaqfFund (Special Assistance) operations. The IDB’s development assistance to its member countries and Muslim communities in non-member countries has increased from ID0.14 billion in 1396H to ID3.6 billion in 1428H. The cumulative net financing of the IDB Group for all three types of operations at the end of 1428H reached ID37.3 billion (\$51 billion) for 5,591 operations.

The IDB’s financing activities are dominated by trade financing which accounts for approximately 59 percent of total financing, followed by project financing (Figure 6). Technical and special assistance, although small from a financial perspective, are critical elements of the development mandate of the IDB.



Total project financing from the OCR during 1396H-1428H (January 1976-January 2008) reached ID11,470.4 million (\$15,792.3 million), of which 71 percent of the concessional financing went to LDMCs (Figure 7).



In cumulative terms, the Bank’s total commitments to member countries in Africa and Asia reached \$6,744 million (43 percent) and \$8,255 million (52 percent), respectively, while the remaining 5 percent targeted member countries in Europe and Latin America, and international and regional organisations.

The sectoral distribution of cumulative project and T.A. financing from the IDB’s OCR during 1396H-1428H, showed that the majority of funding went to public utilities (30 percent), transport and communication (23 percent) and social services (21 percent). Other sectors benefiting from funding were agriculture, industry and mining and financial services.

### 1. Poverty Alleviation

A key feature of the various initiatives that the IDB has embarked on is poverty alleviation. This has resulted in the Bank devoting considerable resources for poverty reduction efforts in its member countries particularly LDMCs. Thus far, the IDB has provided development assistance to LDMCs for improving basic rural and urban infrastructure such as the supply of drinkable water, electricity, and expanding education and health facilities.

#### Development Assistance to LDMCs

Since inception, the Bank has provided development assistance to its LDMCs through concessional financing, trade financing, and special assistance. During 1396H-1428H, the IDB financed 1,562 operations for ID7.9 billion (\$10.8 billion) in LDMCs, which represented over a quarter of its total net approvals, with project financing and T.A. to LDMCs amounting to ID3.4 billion (\$4.7 billion), representing approximately 30 percent of total net approvals.



More than 70 percent of IDB loan financing from OCR went to LDMCs for 430 projects amounting to ID2.2 billion (\$3 billion). Under the LDMCs loans, the IDB financed projects that targeted primary services, such as basic schooling and health care, safe drinking water, and micro projects in rural areas. By the end of 1428H, the net approval from the LDMCs loans was ID228 million (\$315 million) for 142 projects. The LDMCs also received the major share of the T.A. provided by the IDB, which is intended for strengthening institutional capacity. By the end of 1428H, the Bank provided T.A. of ID102.6 million (\$133.3 million) in favour of 333 operations for LDMCs, representing 57.4 percent of its total T.A. approvals. Similarly, under the Special Assistance (Waqf) Programme which focused on the socioeconomic development of LDMCs, the IDB approved 271 projects amounting to ID209.9 million (\$256.8 million), representing 61.5 percent of total approvals.

### **Progress on Ouagadougou Declaration**

The IDB remains committed to New Partnership for Africa's Development (NEPAD), and at its Board of Governors annual meeting held in Ouagadougou (Burkina Faso) in October 2002 adopted the Ouagadougou Declaration in support of the NEPAD. Under Ouagadougou Declaration, the IDB Group committed \$2 billion for 5 years (1424H-1428H) (2003-2008) to finance projects in key sectors in African LDMCs. The objectives of IDB's interventions are to accelerate economic growth and reduce poverty levels in African member countries. Since the adoption of the Declaration, cumulative total approvals by the Group reached \$2.4 billion. This exceeded the target by 19 percent. Of the cumulative approvals, concessional financing reached \$890 million (37.3 percent), ordinary financing totalled \$605.3 million (25.4 percent), while trade financing amounted to \$580.2 million (24.3 percent). Key sectors benefiting from the Ouagadougou Declaration include transport and communication, public utilities, and social sectors (health and education).

### **IDB Special Programme for the Development of Africa (SPDA)**

In recognition of the socio-economic challenges facing member countries in Sub-Saharan Africa, the Bank, as called upon by the Third Extraordinary Session of the OIC Summit, has initiated a Special Programme for the Development of Africa (SPDA).

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

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

With the above focus, the SPDA aims to support investments in social and infrastructure sectors in Sub-Saharan Africa, which will underpin inclusive or shared growth. In

particular, the SPDA will aim to provide affordable access to services used by the poor through twinning with regional infrastructure networking.

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

Since 1997, the IDB has participated in the Heavily Indebted Poor Countries (HIPC) Programme of the World Bank/IMF in rescheduling debt of its eligible member countries. Out of 41 eligible HIPCs, 21 are IDB member countries. Of these, ten countries (Benin, Burkina Faso, Cameroon, Mali, Mauritania, Mozambique, Niger, Senegal, Sierra Leone and Uganda) have reached completion point. Five countries (Afghanistan, Chad, The Gambia, Guinea and Guinea Bissau) are at decision point stage, while another six countries (Comoros, Cote d'Ivoire, Kyrgyz Republic, Somalia, Sudan, and Togo) are at the pre-decision stage. The cost of the IDB's share of debt-relief under the HIPC Initiative is projected at around \$150 million.

The Bank has approved participation in the HIPC debt relief packages of all its member countries, who have reached their decision points, except for Mozambique, where the Bank had no exposure up to its decision point and Guinea Bissau, where delivery of the IDB's share of debt relief is yet to be finalised. The Bank's debt-relief package has been implemented for Benin, Burkina Faso, Mauritania, Niger, Uganda, Mali and Senegal.

### **Capacity Building Programme for the OIC Countries**

The Capacity Building Programme for the OIC Countries was launched in December 2004, in Kuala Lumpur, Malaysia, to enhance capacity to better manage and improve the performance of economies of member countries. The objectives of the Programme include reducing poverty, improving living standards and raising the productive capacity. A joint Steering Committee was established to oversee the implementation of the Programme. The Capacity Building Programme focuses on sharing/utilizing the experiences of relatively more advanced countries for the benefit of lesser-developed member countries to enhance their institutional capacity in important sectors.

### **IDB Statistical Capacity Building (IDB-STATCAP) Initiative**

Following the recommendations of the Expert Group Meeting (EGM) on Statistical Capacity Building at its headquarters in Jeddah, the IDB launched a Statistical Capacity Building (IDB-STATCAP) Initiative in Ramadan 1428H (September 2007) with the following elements:

- A technical assistance facility to support the following four components of statistical capacity building: (i) physical infrastructure and equipment; (ii) statistical infrastructure; (iii) statistical operations; and (iv) institutional framework for national statistics.
- Financial support for statisticians from least developed member countries to leverage on the experiences and best practices of other member countries with advance statistical systems through training, workshops, conferences, and staff exchange programmes.

- Scholarships for statisticians working in national statistical offices to obtain Masters degree in the field of Statistics.
- A Forum called Statistical Working Group, established in collaboration with relevant OIC institutions, to coordinate and develop a common framework for collecting data from member countries and streamlining techniques for calculating aggregate statistics.

The guidelines and procedures for applying for grants under IDB-STATCAP are available on the IDB website.

### **Supporting Civil Society**

The participation of non-governmental organizations (NGOs) and civil societies in the development process is vital for ensuring quality and delivery of services at the grassroots level. NGOs are viewed by the IDB as important partners in the provision of services to the disadvantaged groups and empowering local communities in its member countries. A total of \$5 million for 153 projects in 30 member countries were approved by the end of 1428 for projects with NGOs. The IDB is also working with NGOs to address the problem of blindness in Africa by making provision for Cataract Surgery.

### **Global Outreach**

The Special Assistance Programme was established by the IDB in 1400H (1980) to assist Muslim communities in non-member countries to improve their living conditions, harness their skills, and preserve their culture and identity. Its focus is on strengthening the capacity of institutions involved in education, health and other social activities. Cumulative approvals under the Special Assistance Programme (Waqf) by the end of 1428H (9 January 2008) amounted to \$640.8 million for 1,185 operations in member countries and for Muslim communities and organizations in non-member countries.

### **Assistance for Emergencies and Natural Disasters**

The IDB is active in the provision of emergency relief assistance in its member countries and for Muslim communities worldwide. According to the recent World Bank report entitled “Natural Disaster Hotspots”, twenty-nine IDB member countries are located in the disaster prone areas. The IDB has provided assistance to several member countries including: Algeria, Iran, Afghanistan, Iraq, Lebanon, Pakistan and Indonesia.

In addition to its own Special Assistance Operations, the IDB is coordinating the implementation of several reconstruction and rehabilitation projects with the Saudi Charity Campaign for about \$18 million. It is also implementing an Orphan Sponsorship Program under the OIC Alliance for Child Victims of Tsunami in Indonesia, by sponsoring approximately 3000 orphan children for a period of 15 years. Furthermore, the IDB in partnership with UNDP, has provided assistance to conflict affected countries such as Afghanistan and Palestine. It is also collaborating with the

Global initiatives of the multilateral agencies including the World Bank and the UN to implement the “Hyogo Framework” which is a blue print for disaster reduction efforts for the period 2005-15.

## **2. Women Empowerment**

Mainstreaming women in the development process of a country is fundamental for poverty alleviation. Since 1419H (1998), the Bank has been supporting initiatives aimed at bringing women into the forefront of development process by supporting and financing projects focused on women. In terms of capacity building, the IDB has collaboration with NGOs initiated training programmes. A Women’s Advisory Panel was established to assist in formulating appropriate programs in conformity with Islamic values and to mainstreaming women issues in the operations of the Bank. The IDB has initiated the process of prioritising sectors that have a direct and greater impact on women.

In order to encourage the contribution of women to their societies, the IDB established an annual prize for “Women’s Contribution in Development”, which is awarded to women, women’s group, or organizations in IDB member countries and in Muslim communities in non-member countries. The Prize acknowledges efforts aimed at integrating women in the development process and helping improve their human and social conditions. The Prize comprises a cash award of \$50,000 for individual or a group and \$100,000 for an organization along with a citation recognizing the contributions of the recipient(s).

The first prize has been awarded to two individual laureates and three organizations during the 31<sup>st</sup> Annual Meeting in Kuwait in May 2006. The second Prize was awarded to two individual laureates and two organizations during the 32<sup>nd</sup> Annual Meeting of the Board of Governors of the IDB Group in Senegal in May 2007.

## **3. Social Sectors**

Sustainable development requires an investment in human capital. The IDB efforts in the social sectors have intensified with the aim of improving educational and health infrastructure in order to meet the targets envisaged in the MDGs and 1440H Vision. By the end of 1428H, total intervention in the social sectors amounted to ID2,385.8 million (\$3,259.4 million) which was 11 percent of total OCR project financing.

The IDB’s interventions in the education sector focus on developing human resources by financing education and training programmes, reducing illiteracy rate in the LDMCs and increasing access to the primary education. Cumulative financing for the education sector amounted to ID1,272.8 million (\$1,730 million) for 341 operations. This represents over 53 percent of the total allocation to the social sector. Moreover, in order to promote school enrolment, the IDB in partnership with UNESCO, allocated \$300 million for the implementation of the Bilingual Education Programme in African LDMCs.

The IDB's assistance to the health sector is mainly for primary health care focusing on delivery of health services to the rural poor as well as for the establishment of hospitals. In terms of its interventions in the health sector, cumulative financing up to the end of 1428H amounted to ID759.2 million (\$1,024 million) for 180 operations. This accounted for 31.4 percent of the overall allocation for the social sectors, and 6.5 percent of OCR project financing. The IDB has also been active with the WHO and International Federation of the Red Cross and Red Crescent societies (IFRCRCS) in their anti-malaria programmes in African MCs.

## **VII. EXPANSION OF ISLAMIC FINANCIAL SERVICES INDUSTRY**

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

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

At the end of 1428H, the IDB had equity investments in 26 Islamic banks and financial institutions in 19 countries, for a total disbursed amount of ID124.7 million. Investments in 57 manufacturing and other companies amounted to ID170.1 million in 19 countries. These equity investments are in the cement, engineering, pharmaceutical, healthcare, mining, and agriculture sectors. The Bank is also involved in the following:

- Excess liquidity scheme: Member countries with balance of payments surpluses place deposits with the IDB.
- Management Services: Provision of treasury fund management services to central banks and other entities in MCs.
- IFSI Support Initiative: The “IFSI Development” initiative was launched as a Quick-Win project under the IDB 1440H Vision for Comprehensive Human Development. In order to implement the Vision strategy, the initiative was divided into the following two sub-programmes:
  - National Awqafs: Supporting the modernisation of the awqaf sector through institutional and capacity building activities and bringing the best practices of philanthropic and trust management.
  - Microfinance Development Programme: Facilitating the entry of IFIs in the provision of Shari’ah-compliant microfinance by launching pilot projects in Bangladesh, Indonesia, Sudan and one member country from the West Africa region. These initiatives are at the various stages of development and implementation in member countries.

The IDB offers various modes of financing as depicted below:

### **IDB Modes of Financing**

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

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

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

**Lines of Financing:** The lines are extended to financial institutions in member countries to finance projects and trade operations of small- and medium-scale enterprises.

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

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

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

**Profit-Sharing:** This mode, introduced in 1397H (1978) involves pooling of funds by two or more parties in order to finance a particular venture. Each partner obtains, in accordance with the terms and conditions of partnership, a percentage of (net) profit accruing from the venture. The profit accrued is shared proportional to each partner's contribution in the capital of the venture.

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

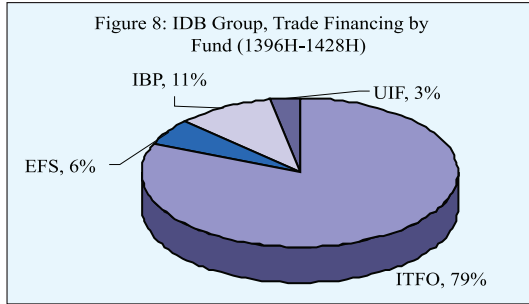
## **VIII. PROMOTION OF ECONOMIC COOPERATION AMONG MEMBER COUNTRIES**

Since inception, the IDB has recognised the integral role of economic cooperation (specifically with regard to trade and investment) among member countries for fostering economic development. The Bank is strengthening its cooperation with

national financial institutions, forging close links and working relationships in particular with the OIC and its affiliated institutions, and with other sub-regional, regional and international organizations. Given the importance of trade in economic development, the IDB launched various initiatives and expanded its trade financing operations in 1428H. The ITFC, a new entity dedicated to enhancing intra-trade among member countries officially commenced operations on 1<sup>st</sup> Muharram 1429H.

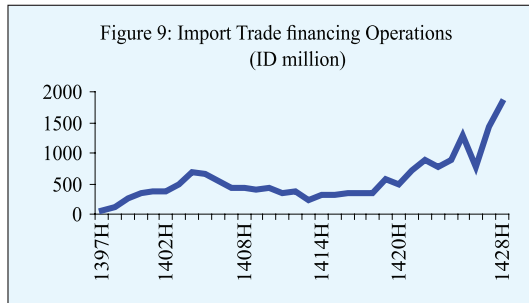
**1. Trade Operations**

The IDB’s trade financing operations focus on promoting intra-trade among member countries. Trade financing operations started in 1397H (1977), and focused on both export and import trade financing. The IDB Groups other activities in this area are also undertaken by the UIF, IBP, APIF, Treasury Department and ICD. Figure 8 depicts the share of various funds and schemes engaged in trade financing activities. As of 1<sup>st</sup> Muharram 1429H, all trade operations were consolidated under the ITFC. The net cumulative trade financing approvals for the IDB Group (excluding the trade activities of ICD, APIF and treasury operations) at the end of 1428H (9 January 2008) amounted to ID21.5 billion (\$29.1 billion) for 1,934 operations.



**Import Trade Financing Operations**

The Import Trade Financing Operations (ITFO) are financed from the Bank’s OCR. ITFO is the most widely used scheme for trade financing and a major instrument for promotion of intra-OIC trade. In order to supplement the ITFO resources, funds are also mobilized from the market through Syndication and Two-Step Murabaha Financing (2SMF<sup>9</sup>) mechanisms. During the period 1397H-1428H, net approvals by ITFO amounted to ID17.5 billion (\$23.5 billion) for 1,420 operations.



In line with the IDB’s efforts to support the OIC intra-trade target, intra-OIC trade financing represented 77 percent of total operations in 1428H, showing a moderate improvement over the 75 percent in 1427H.

<sup>9</sup>It is a mode of financing used by the IDB to provide funds to other banks/financial institutions for the purpose of their trade financing operations and/or the IDB mobilizes funds from other banks/financial institutions for its trade financing operations.

Figure 9 shows that ITFO increased significantly from ID43.6 million (\$50.5 million) in 1397H to ID1.7 billion (\$2.6 billion) in 1428H. This growth was largely driven by the increased availability of resources and the opening of the scheme to more member countries.

### **Trade Financing by Other Windows**

During the period 1397H-1428H, trade financing activities of other windows of the IDB Group varied both in terms of number of operations and amount. Cumulatively, the Islamic Banks Portfolio for Investment and Development (IBP) net trade financing reached ID2.2 billion (\$3 billion) for 186 operations, Unit Investment Fund (UIF) at ID0.6 billion (\$0.9 billion) for 111 operations, and Awqaf Properties Investment Fund (APIF) at ID23.2 million (\$34.3 million) for 18 operations. In addition, the Treasury Department of the Bank and the ICD also participated in trade financing operations and by the end of 1428H had financed ID371.7 million (\$548.7 million) and ID48.9 million (\$73.6 million), respectively.

## **2. Trade Promotion**

Over and above the trade financing schemes described above, the Bank has designed specific programmes for the promotion of trade among its member countries.

### **Trade Cooperation and Promotion Programme (TCPP)**

The Trade Cooperation and Promotion Programme (TCPP) programme focuses on enhancing the level of intra-trade between OIC member countries through trade promotion and facilitation activities. Under the Programme, a number of trade fairs, seminars, workshops, meetings, and specialized training courses were organized. Since its establishment, the Programme, on average, undertakes 20 such activities annually. Central to its activities is capacity building for Trade Promotion Organisations in member countries. The activities of the TCPP have also been consolidated under the newly established ITFC.

### **Assistance on WTO-Related Matters**

After the establishment of the World Trade Organization (WTO)<sup>10</sup> in 1995, the IDB in 1997 established a Technical Assistance Programme (TAP). The Programme aims primarily at strengthening the human and institutional capacity of OIC member countries and enabling them to better participate in the multilateral trading system. It extends assistance to member countries in the areas of negotiating WTO trade rules, understanding the WTO rules, promoting common interests of member countries during the negotiation process, and providing technical support and advice on accession-related issues.

The IDB delivers its WTO-related T.A. by organizing consultative meetings, training courses on trade policy, seminars and workshops, studies, and country-specific assistance to countries intending to join WTO. By the end of 1428H, the Bank had

<sup>10</sup>Currently, 40 IDB member countries are members of the WTO, whose total membership stands at 150..



organised 24 consultative meetings, 14 trade policy courses, 33 seminars/symposiums on different WTO-related topics, and 15 workshops on the impact of some WTO agreements on member countries. Additionally, the IDB conducted 5 sectoral studies and financed 14 country-specific WTO-related T.A. operations. It also collaborated with international trade-related institutions such as the WTO, United Nations Conference on Trade and Development (UNCTAD), International Trade Centre (ITC) and World Intellectual Property Organization (WIPO) in the design, development and implementation of its Technical Assistance Programme.

### **3. Investment Promotion**

The promotion of investment has been a key area of interest for the IDB Group and featured prominently in both the IDB 1440H Vision and OIC 10-Year Programme of Action. The IDB Group facilitates intra-investment flows to member countries through various activities including organising of investment conferences, symposia and workshops on investment related issues. It also facilitates joint ventures among member countries, and gives priority to financing those projects which benefit two or more member countries. Two entities of the IDB Group, ICIEC and ICD also focus on the promotion of investment. The ICIEC is mandated to facilitate the flows of investment to OIC member countries by encouraging the use of insurance of investment against commercial and political risks. The ICD promotes investment through the development of private sector in member countries.

In 2005, the IDB Group established Investment Promotion Technical Assistance Program (ITAP) for implementing various investment promotion and T.A. programmes in member countries. The objective of the programme is to assist member countries attract FDI. The ITAP Program aims to address three inter-related challenges namely: (i) institutional development by facilitating appropriate training; (ii) sharing best practices from successful member countries; and (iii) dissemination of information on investment opportunities in member countries by dedicating a specific portion of Multilateral Investment Guarantee Agency (MIGA) web-portal ([www.fdi.net](http://www.fdi.net)) to IDB member countries.

### **4. Technical Cooperation**

The Technical Cooperation Programme (TCP) which was established in 1403H (1983) highlights the Bank's commitment to enhancing the quality of human resources and building institutional capacity for achieving socioeconomic development. It provides on-the-job training, conducts familiarization visits, recruits experts, finances studies and organises seminars and workshops. The priority areas identified for the Programme are finance, education, agriculture and environment, with special consideration given to Commonwealth of Independent States (CIS) and LDMCs. Since inception to end-1428H, a total of 1,510 operations amounting to \$33.7 million were approved. This comprises (i) 263 operations (\$4.7 million) for Recruitment of Experts, (ii) 663 operations (\$11.8 million) for On-the-Job Training activities, and (iii) 584 operations (\$17.2 million) for Seminars & Workshops. During 1428H, 108 operations amounting to \$2.8 million were approved under TCP.

The programme has co-sponsored several activities with international agencies including UN agencies such as WHO, IFAD and FAO as well as the OIC affiliated organs such as Statistical, Economic, and Social Research and Training Centre for Islamic Countries (SESRIC), Islamic Centre for the Development of Trade (ICDT), Islamic Chamber of Commerce and Industry (ICCI), and OIC Standing Committee for Economic and Commercial Co-operation (COMCEC). Regional organizations such as ECO, AMU and GCC also benefit from the support of the programme.

## 5. Strengthening Development Partnerships

As an important part of the multilateral development community, the IDB participates in a number of collaborative global initiatives aimed at promoting economic growth and development in member countries. To support the development activities in member countries, the Bank collaborates with development partners, Islamic Banks, National Development Financing Institutions (NDFIs), donors, and UN institutions. The following sub-sections presents a brief overview of the IDB role in forming strategic alliances with the multilateral institutions and institutions of member countries to provide joint development assistance to common member countries.

### Co-Financing Arrangements

The IDB enhances its development role by co-financing projects in member countries jointly with other development partners. Co-financing<sup>11</sup> remains the primary mechanism for collaborating with other donors. Besides strengthening cooperation, co-financing enhances the catalytic role of the IDB to complement its development efforts for its member countries. In addition to co-financing, the Bank shares knowledge through staff exchange, participates in joint field visits, advocacy and outreach activities with other donors. The Bank is also involved in the harmonization programme of the Multilateral Development Banks (MDBs), which aims at enhancing delivery of assistance to beneficiaries by adopting identical policies, procedures and practices. During the period 1396H-1428H, the IDB co-financed 417 projects with donors and MDBs amounting to \$46.7 billion; of which the IDB's contribution was \$4.9 billion, representing 10.6 percent of the total cost. The contribution of other co-financers was \$22 billion, representing 47 percent of the total cost, with the balance being provided by the project promoters.

### Collaboration with the Coordination Group

The IDB maintains strong ties with the Arab Coordination Group<sup>12</sup> (ACG) which has been in existence for over 30 years. The ACG remains a successful model of cooperation for development assistance. The Bank has contributed to its activities and participates in its round table meetings to strengthen dialogue and collaboration. It has

<sup>11</sup>Co-financing refers to a financing arrangement in which two or more lenders contribute to funding a project under the same or different terms and conditions.

<sup>12</sup>In addition to the IDB and the OPEC Fund for International Development, the Coordination Group comprises of Arab National and Regional Development Institutions, which are: Abu Dhabi Fund for Development, Arab Fund for Economic and Social Development, Arab Bank for Economic Development in Africa (BADEA), Arab Gulf Programme for United Nations Development Organization (AGFUND), Kuwait Fund for Arab Economic Development, and Saudi Fund for Development.

organized round table meetings of the Coordination Group, and member countries of the CIS and the African region to identify projects for co-financing by the members of the Group. Out of the 31 operations co-financed with other donors in 1428H, 11 (35 percent) were with the ACG, who financed projects amounting to \$786 million (36 percent of total project cost). The IDB's contribution to this was \$298 million which is equivalent to 13 percent of the project cost.

### **Cooperation with Institutions of Member Countries**

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

The IDB has developed close working relationship with the NDFIs to contribute effectively to the promotion of the private sector in member countries and the development of SMEs. The Bank provides Shari'ah-compliant lines of financing in the form of Leasing, Instalment Sale and Istisna'a to NDFIs in member countries for growth and employment generation activities of SMEs. By the end of 1428H, the IDB had provided 32 lines of financing to 15 member countries amounting to ID351.8 million (\$485.8 million). In order to further increase the utilization of the lines of financing, the Bank has made provision of 'free limit', authorizing the NDFIs to approve sub-projects up to 32 percent of the overall approved amount of the lines, and providing the NDFIs with a margin of 3-5 percent, on top of the Bank's mark-up.

The IDB holds meetings with the NDFIs every year, on the occasion of the annual meeting of its Board of Governors, to discuss issues and challenges facing the SMEs and identify ways to support these enterprises with innovative and modern banking products.

## **6. Enhancing Cooperation with International Organizations**

Acknowledging the importance of strengthening cooperation with relevant international organizations for the benefit of its member countries, the IDB has developed a working relationship with several organizations sharing common vision and objectives.

### **Cooperation with the OIC and its Affiliated Organs**

The IDB and the General Secretariat of the OIC, its subsidiary organs, specialized institutions and affiliated organizations work in close collaboration. Over the years, the Bank has developed a strong working relationship with the OIC institutions including SESRIC, ICDT, ICCI and the Islamic University of Technology (IUT) (Dhaka, Bangladesh). The cooperation with these institutions involves collaboration in the areas of research, training, information exchange and joint working groups. Additionally, the IDB participates and holds consultative meetings on the periphery of the annual meetings of COMCEC, Islamic Commission for Economic, Cultural and Social Affairs (ICECS) and Islamic Conference of Foreign Ministers (ICFM) to share ideas and develop collaborative programmes.

The IDB also signed an MoU with the World Islamic Economic Forum (WIEF) in Ramadan 1428H (September 2007). The WIEF, established in 2005, is a platform designed to become the World Forum on Muslim Leadership in Business and Trade. Under the MoU, fields of mutual cooperation included discussions on development issues aimed at better understanding of global economic challenges, promotion of strategic alliances and partnerships, promotion of economic growth through increased intra-trade investment and contribution to the integration of the Muslim economies among themselves and with the world. The partnership with WIEF marks the beginning of the IDB's participation in a global platform for economic integration for the benefit of its member countries in line with the 1440H Vision.

The Bank continues to implement the relevant decisions of the OIC Summit and engages itself in initiatives which are aimed at enhancing economic development of its member countries. It has organized numerous seminars, conferences, courses and workshops related to trade, health, education, ICT, tourism, SMEs, agriculture, cotton, water resources, and transport.

The IDB has allocated \$5.6 million for the Self-Reliance on Vaccine Production Programme (SRVP), and allocated \$3.5 million for literacy programmes in ten member countries<sup>13</sup>. More recently, the Bank has established a working relationship with the newly established institutions of the OIC namely Islamic Conference Youth Forum for Dialogue and Cooperation (ICYF-DC), and Islamic Chamber Research and Information Centre (ICRIC). The IDB supports the activities of these institutions by financing research projects, training programmes, and their participation in related activities.

### **Cooperation with Regional Organizations**

The IDB promotes regional economic cooperation by working closely with regional organizations especially those with common membership and objectives. The Bank has signed MoUs with several regional organizations including the AMU, ECO, GCC, and ECOWAS. Under these MoUs, the IDB extends assistance for promoting economic and social development in member countries. It has also strengthened relationships with several other regional organizations such as the African Economic and Monetary Union (UEMOA), the Common Market for Eastern and the Southern Africa (COMESA) and the Association of South East Asian Nations (ASEAN).

### **Cooperation with International Organizations**

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

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<sup>13</sup>Bangladesh, Chad, Djibouti, Gambia, Jordan, Mauritania, Morocco, Sierra Leone, Sudan and Yemen.

The IDB's collaborative activities with the UN agencies are aimed at assisting member countries in achieving the MDGs, developing agriculture and industries, and integrating their economics into the global trading system. Consequently, the IDB has broadened its relationship with the UN related organizations and specialized institutions including the United Nations Development Programme, United Nations Industrial Development Organisation, World Health Organisation, Food and Agricultural Organization, International Fund for Agricultural Development, United Nations Conference on Trade and Development, International Trade Centre, World Intellectual Property Organization, Organisation for Economic Co-operation and Development, World Customs Organization and World Trade Organization. The IDB has concluded new institutional collaborative arrangements, with a special focus on operational matters, with the AsDB, Japan Bank for International Cooperation (JBIC), UNIDO and the World Bank.

## **IX. SCIENCE AND TECHNOLOGY FOR HUMAN DEVELOPMENT**

### **1. Leveraging Science and Technology**

Science and Technology (S&T) capacity is one of the key drivers of competitiveness, and forms an integral part of any knowledge driven economy. This recognition is evident in the OIC 10-Year Programme of Action which sets out a vision for enhancement of human capital by leveraging S&T to achieve economic development. Since 1427H (2006), the IDB has expressed its willingness to finance up to 10 percent of the member countries' annual programme in the field of S&T. Over the past 5 years, the Bank approved 44 projects in the area of S&T for member countries amounting to \$393.9 million and 25 T.A. operations amounting to \$5.3 million. The IDB activities in the field of S&T include the following:

**Assistance to Technological Centres/Universities:** Financing for S&T projects and programmes for the development of institutional capacity, provision of advanced equipment for laboratories, and establishment of applied research institutions. The IDB has provided, among others, assistance to, institutions and facilities in Pakistan, Indonesia, Malaysia, Turkey, Iran, Maldives, Yemen, Bangladesh, Sudan, Brunei, Egypt, Saudi Arabia, Morocco, Senegal, Tunisia, Lebanon, Mali, Mauritania, Maldives, Cote d'Ivoire, Benin, Qatar, UAE, Kazakhstan and Kyrgyzstan.

**Annual Inter-Islamic Networks Programme:** Since 1419H (1998) the IDB has been implementing an annual Inter-Islamic Networks Programme. Under the programme a series of regional symposia have been organized. The Bank allocates \$200,000 annually for organizing these workshops.

**IDB's Young Research Support Programme:** This Programme was launched in 1422H (2001) to provide scholarships/grants ranging from \$8,000 to \$15,000 to selected young researchers from member countries. The pilot phase of the Programme has been completed and it is being evaluated with a view to developing it into an annual programme to be incorporated into IDB Scholarship Programme. Under the Programme, the Bank has approved \$350,000 for 15 researchers.

**IDB Prize for Science and Technology:** Since 1423H (2002), the IDB Prize for S&T amounting to \$100,000 is awarded annually for achievements in the following three categories: (i) excellence in a given scientific speciality; (ii) outstanding science and technology contribution to social and economic development, (iii) best performing R&D centre in one LDMC.

**Science and Technology Expatriate Nationals Programme (STENP):** Initiated to mitigate the adverse effects of “Brain-Drain” phenomenon at the level of young scientists, the Programme is based on the UNDP-TOKEN which facilitates the return of high skill expatriate scientists to their countries of origin by establishing centres of excellence in member countries. The IDB makes an annual contribution of \$200,000 for the Programme.

**Centres of Excellence:** In collaboration with COMSTECH, efforts to mobilize resources for establishing 21 Centres of Excellence in various fields of S&T are being undertaken. So far, the IDB has provided grants for 2 research projects amounting to \$280,000.

## 2. Supporting Human Resource Development

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

**(i) Scholarship Programme for Muslim Communities (SPMC):** Established in 1404H (1983) to support academically meritorious and needy Muslim students in non-member countries to pursue higher studies in universities in their countries or in other IDB member countries in specified professional disciplines.

**(ii) Merit Scholarship Programme for High Technology (MSP):** Introduced in 1411H (1991), it provides scholarships for advanced studies and research in science and applied technology. The Programme aims to develop technically qualified human resources and enhance scientific and technological capabilities of institutions in member countries. Under the Programme, scholars can undertake doctoral or postdoctoral research in designated universities.

**(iii) M.Sc. Scholarship Programme for Science and Technology:** Initiated in 1419H (1998) to provide the students of LDMCs with access to scientific and technological education, its focus is to develop human resources in twenty LDMCs<sup>14</sup>. The Programme places selected students in various universities and centres of excellence in member countries in courses related to their national needs and requirement of their development programmes. A new feature of the Programme allows students from LDMCs to register for doctoral research and qualify for the IDB Merit Scholarship Programme for High Technology.

<sup>14</sup>These countries are: Afghanistan, Benin, Burkina Faso, Chad, Comoros, Djibouti, Gambia, Guinea, Guinea-Bissau, Maldives, Mali, Mauritania, Mozambique, Niger, Palestine, Sierra Leone, Somalia, Togo, Uganda, and Yemen.

Table 1 highlights the IDB Scholarship Programme which provided in excess of \$80 million for deserving scholars, and has over 2750 students currently enrolled.

<b>Table 1: IDB Scholarship Programme Activities</b>			
	<b>SPMC</b>	<b>MSP</b>	<b>MPST</b>
Number of students selected	8,762	392	205
Number of students currently enrolled	2,640	75	52
Number of Graduate students	5,237	200	92
Total Financing ID (mil)	50	11	0.8
\$ (mil)	67	15	1

## **X. ACHIEVING INSTITUTIONAL EFFECTIVENESS**

To enhance the impacts of its activities on the member countries' socio-economic development, the Bank continues to examine its institutional framework with a view to raising its operational effectiveness. During 1428H, the IDB continued with efforts to improve its institutional effectiveness. These included the launching of ISFD and the establishment of the fourth regional office in Dakar, Senegal. Also within the year, the Bank initiated a comprehensive study of institutional reform with the aim of achieving greater effectiveness in addressing the challenges of socio-economic development of member countries. The IDB also undertook the necessary steps to ensure that the newly established, dedicated trade entity, the ITFC commenced operations on 1Muharram 1429H.

In October 2007, the IDB contracted a consulting company to assist with its reform initiative. The core objective of the reform is to help the Bank streamline its business processes through realignment of its organizational structures, corporate governance, mission and functions of different entities. Through this exercise, it will redesign its business processes in order to be closer to its customers, improve the project cycle time and increase its overall impact.

Recognizing the important role of the private sector, state owned enterprises, municipalities and local governments in providing basic services, the IDB is increasingly embarking on operations with the private sector and sub-sovereign entities. It is now extending financing to these entities without sovereign guarantees and has developed innovative financing structures to mitigate risk and achieve satisfactory results. In 1428H, the IDB's non-sovereign financing transactions reached 28 percent of the total approvals for 8 projects. The Bank has also been improving its effectiveness in the delivery of its operations and has focused on two aspects: reviewing the portfolio of on-going projects and increasing its operations evaluation activities for both on-going and completed projects.

### **1. Portfolio Assessment**

The IDB regularly reviews its portfolio to ensure timely completion of projects, in accordance with the projects' stated objectives and in compliance with the Bank's

guidelines. At the end of 1428H, the overall size of active portfolio had reached ID6.2 billion for 789 operations. Out of this, 510 operations (representing 62 percent of the total amount) were disbursing, while the remaining 279 operations (representing 38 percent of total amount) were at the pre-disbursement stage. In line with the new project implementation guidelines introduced in 1426H (2005) and with the current project portfolio quality improvement programme, strong focus is being placed on the quality-at-entry and efficient post entry processing of projects. In addition, the Bank ensures the successful completion of projects, by designing projects to match the capacity of member countries in terms of implementing and sustaining the projects. As a result of the Bank's strategy, 390 operations were completed between 1426H and 1428H amounting to ID1.1 billion (representing 18 percent of active portfolio), while 48 operations amounting to ID455 million were cancelled.

## **2. Operations Evaluation**

In order to improve its operational efficiency and foster development, the IDB undertakes evaluation of its operations (both completed and on-going projects). By the end of 1428H, the bank had conducted a total of 365 evaluations. These included 315 completed operations, 20 special assistance operations as well as 9 on-going projects. It has also conducted 6 Country Assistance Evaluations (CAEs) and 15 sector and thematic studies.

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

## **XI. IDB AS A KNOWLEDGE INSTITUTION**

The IDB has been striving to become a knowledge-based institution, in line with its 1440H Vision. Accordingly, it has taken a number of initiatives which are briefly described below:

### **1. Knowledge Generation and Acquisition**

#### **IDB Annual Symposium**

Initiated in 1409H (1989) to coincide with the annual meetings of the IDB Board of Governors, the Symposium provides a forum for experts from member countries to exchange views on issues of common interest. It 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 IDB member countries. The proceedings of every Symposium are published and distributed to a wider audience. By the end of 1428H, the Bank had organized 18 Symposia on various development and strategic issues, with the theme for the 19<sup>th</sup> Symposium is "Enhancing Capital Markets Cooperation among IDB Member Countries".



## **Occasional Papers**

In order to undertake in-depth analysis of cross cutting economic issues concerning member countries, the Bank started preparing Occasional Papers in 1419H (1998). The Occasional Papers are distributed at the Annual Meeting of the IDB Board of Governors and are also placed on the IDB Website. These Occasional Papers provide a critical assessment of various economic development issues facing member countries. The Occasional Paper for 1429H (2008), the 14<sup>th</sup> in the series, will be on the “Role of Microfinance in Poverty Alleviation in Selected IDB Member Countries”. IRTI has also produced several occasional papers related to Islamic finance and economics.

## **IRTI Knowledge Activities and Training**

IRTI’s research programme focuses on a variety of themes including the legal framework and efficiency of Islamic banks, financial stability, corporate governance and transparency. The developmental themes of its economic research have been focusing on sustainable development, poverty alleviation, development of Islamic financial products and markets. With regards to its training programs, the focus is on: (i) poverty alleviation, (ii) private sector development, (iii) macroeconomic management; (iv) human resource management, and (v) Islamic economics, banking and finance.

## **Organization Management Development (OMD)-Distance Learning Centre**

The Distance Learning Centre (DLC) is affiliated with the World Bank’s Global Development Learning Network (GDLN). It was established in December 2002 at the IDB headquarters. The objectives of the DLC are to: (i) provide a cost-effective training facility for staff; (ii) participate in a range of learning opportunities and sharing of experiences at the international level; and (iii) broadcast relevant courses on Islamic Economics, Awqaf, Zakah, and Islamic Banking to various institutions in member and non-member countries. The IDB has provided technical and financial assistance for establishing 5 DLCs in selected universities in Lebanon, Kuwait, Pakistan, Iran, and United Kingdom. The facility will be further expanded to few other institutions to enable them to participate in online courses.

In addition to special lectures organized by IRTI, OMD-DLC regularly conducts lectures on Islamic Finance and Economics of 10 weeks duration each, on yearly basis. These lectures are broadcasted to participating universities in different countries. The DLC facilities are also used for conducting IDB Information Technology related online training courses. Since its establishment, OMD-DLC has conducted over 215 events.

## **2. Knowledge Management**

### **Knowledge Management Framework**

The IDB has adopted a knowledge management (KM) framework with a view to transforming itself into a knowledge-based institution, for the purpose of sharing

knowledge to enhance its performance. The KM framework of the IDB Group became operational in 1425H (2004) and aimed to connect, collect, and create knowledge on the IDB Group and make it readily accessible to a wide audience inside and outside the IDB Group.

The KM Framework covered several activities including the Development of a Strategic Framework to guide the KM activities in the IDB. The Oral History Program which captured significant “Tacit Knowledge” of the IDB Group (i.e. stories, memories, feelings, perspectives and interpretations of value), that generally does not find its way into written reports was completed. A Story Competition was held to portray knowledge from the field focusing on the difference the IDB Group has made in the lives of people. Activities are also undertaken to create awareness among member countries to promote the concept of knowledge economy. IDB staff were also trained through workshops on tools and methodologies applicable to the knowledge economy.

### **Information Technology**

The Bank aims to have a robust information technology (I.T.) infrastructure to facilitate its day-to-day business. It has established communication systems which facilitate the flow of information within the Bank, with member countries, and regional offices. The IDB maintains high-tech I.T. facilities, which include Internal Local Area Network, External Secure Virtual Private Network, and SWIFT System. To provide its business clients easy and speedy online access to various services, it has launched a new dynamic web portal. It has also implemented wireless network within the IDB and started Web-casting important events internally. The IDB’s enterprise business applications system covers core functions of Human Resource Management, Projects, Finance and Treasury Operations.

A Record and Documentation System has been implemented with the objective to make the IDB a paperless organization. All important documents are scanned, indexed, and archived and made available through the IDB Intranet for the benefit of the staff. In 1427H (January 2006), the IDB launched a new integrated Information Technology Program (ITP), now known as Business Enhancement and Systems Transformation (BEST), which will bring substantial improvement in the process and reporting of business information. The project is expected to make the IDB’s operations cost effective, enhance productivity, and reduce business transactions time. The new system will capture all aspects of IDB’s core business processes and facilitate access to information, which will help the Bank in making informed decisions. The Project will be implemented over 5 years covering financial, business and operations aspects of the IDB Group.

### **IDB Library**

The library has in excess of 65,000 titles of print and non-print materials in the areas of Islamic finance and banking, development economics, investment, trade, management science, and information technology. It serves as a valuable resource, and provides an

excellent learning and research facility for the staff of the Bank. The collection is backed up with an extensive journal collection of over 500 international periodicals as well as a number of online references and statistical databases. The IDB library has an easy to use website on the IDB intranet. The library's Learning Resource Centre provides training material for continuous professional development and self-education of the Bank staff. The collection includes video tapes, audio cassettes, and PC software on subjects such as economics, management, finance and Islamic banking.

## **XII. CHALLENGES AND THE WAY FORWARD**

The IDB 1440H Vision highlights that the strategic challenges facing the Muslim countries and Muslim minorities residing in other countries are to: (i) achieve healthy human development; (ii) secure strong and sustainable economic growth; (iii) promote good governance; (iv) strengthen peace and stability; (v) foster a powerful sense of common identity, consciousness and empathy as members of the Ummah; and (vi) restore the image of the Muslim world. The challenge is how to best target IDB development assistance to specific sectors such as agriculture, small and medium enterprises, and private sector development, in order to directly benefit the most vulnerable communities.

To confront these challenges and implement its 1440H Vision, the IDB cannot continue to do business as usual, it has to reposition itself to address myriad of problems. This requires enhanced level of resource commitment, realignment of operations, improved organization structure, and better coordination to maximize its development impact. In order to confront these and other challenges, the Authorized Capital of the IDB was doubled from ID15 billion to ID30 billion by the Board of Governors during the 31<sup>st</sup> Annual Meeting held in Kuwait in Jumad Awwal 1427H (May 2006), established a new entity called ITFC for trade promotion with an authorized capital of \$3 billion, and launched ISFD with a target capital of \$10 billion. These initiatives have significantly improved and strengthened the IDB's ability to provide more targeted development assistance to member countries, and confront the challenges more directly. The Bank continues to support efforts of member countries to achieve the targets set in the MDGs and its 1440H Vision. Although some member countries have made considerable progress and may likely attain the key goals and targets, Sub-Saharan African member countries require extra resources particularly aimed at reducing poverty, achieving universal primary education, reducing child mortality and providing access to safe drinking water.

Despite considerable progress made by the Islamic Financial Services Industry (IFSI), it still remains an evolving industry that provides banking services. It needs to expand and diversify its products and services to benefit vulnerable communities by introducing Islamic microfinance. However, its expansion hinges on harmonized operational and Shari'ah standards and the development of a common regulatory framework to support cross-border transactions and avoid market fragmentation. Moreover, in order to sustain the pace of growth in the IFSI, a supportive legal framework is required in member countries to further develop the Islamic capital market.

The need to increase the living standards of the vulnerable populations in IDB member countries remains a key challenge. In this regard, improving access to the financial services and using microfinance could be important instruments in any future development assistance strategy. The Bank is exploring the potential for providing Shari’ah-compliant financing to SMEs.

Since its inception, an important strategic objective of the IDB has been to promote economic cooperation among its member countries. The Bank plays a pivotal role in programmes aimed at promoting mutually beneficial and complementary activities at country as well as regional levels. To this end, promotion of intra-trade remains an essential mechanism for enhancing cooperation and achieving sustained economic growth in member countries. The establishment of ITFC is expected to further consolidate and enhance trade financing activities of the IDB and assist member countries to attain the target of increasing intra-trade to 20 percent.

Bridging the digital divide between member countries and the rest of the world can be accomplished by appropriately promoting science and technology. The IDB continues to facilitate sharing of knowledge by promoting and financing activities requiring use of information and communication technology (ICT). The Knowledge and ICT for Development (KICT4D) initiative can prove to be a driving force for future development in member countries which will, in turn, require developing internal capacity, human resource, and mechanism for sharing knowledge and expertise.

The three leading international rating agencies (FitchRatings, Moody’s Investors Service and Standard & Poor’s) have all rated the IDB “AAA”, which indicates its financial soundness and low risk profile. Furthermore, the Basel Committee and the European Commission have designated the IDB as a zero-risk weight Multilateral Development Bank.

The Bank remains committed to its mission of promoting comprehensive human development and progress in member countries and becoming a leading multilateral development financing institution. With over three decades of experience in the service of development, the IDB is ideally poised to meet the aspirations of its stakeholders.

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ITFC	+966-2-6466022 +966-2-6467014	+966-2-6371064	www.isdb.org	itfc@isdb.org
ICBA	+971-4-3361100	+971-4-3361155	www.biosaline.org	icba@biosaline.org.ae

IDB Member Countries Subscribed Capital and Membership Date						
		Par Value of Shares		Voting Power	Membership Date	
		Total (ID million)	(%)	(%)	Hijri	Gregorian
1	Afghanistan	9.93	0.07	0.12	26/10/1396	20/10/1986
2	Albania	9.23	0.07	0.12	04/03/1414	21/08/1994
3	Algeria	459.22	3.31	3.16	24/07/1394	12/08/1974
4	Azerbaijan	18.19	0.13	0.17	04/01/1413	04/07/1992
5	Bahrain	25.88	0.19	0.24	06/10/1394	21/10/1974
6	Bangladesh	182.16	1.31	1.28	24/07/1394	12/08/1974
7	Benin	18.19	0.13	0.17	01/06/1404	03/03/1984
8	Brunei	45.85	0.33	0.36	24/07/1406	03/04/1986
9	Burkina Faso	24.63	0.18	0.25	06/04/1398	15/03/1978
10	Cameroon	45.85	0.33	0.35	09/04/1397	28/03/1977
11	Chad	9.77	0.07	0.12	06/04/1397	26/03/1977
12	Comoros	2.50	0.02	0.07	24/04/1400	11/03/1980
13	Cote d'Ivoire	4.65	0.03	0.08	29/04/1423	10/07/2002
14	Djibouti	4.96	0.04	0.10	24/04/1400	11/03/1980
15	Egypt	1278.67	9.22	8.76	24/07/1394	12/08/1974
16	Gabon	54.58	0.39	0.41	27/04/1401	03/03/1981
17	Gambia	9.23	0.07	0.12	24/04/1400	11/03/1980
18	Guinea	45.85	0.33	0.35	24/07/1394	12/08/1974
19	Guinea Bissau	4.96	0.04	0.10	16/12/1398	16/11/1978
20	Indonesia	406.48	2.93	2.94	24/07/1394	12/08/1974
21	Iran	1293.34	9.32	8.92	16/07/1409	22/02/1989
22	Iraq	48.24	0.35	0.41	19/10/1398	23/09/1978
23	Jordan	73.50	0.53	0.55	24/07/1394	12/08/1974
24	Kazakhstan	19.29	0.14	0.18	08/07/1416	30/11/1995
25	Kuwait	985.88	7.11	8.33	24/07/1394	12/08/1974
26	Kyrgyz	4.96	0.04	0.10	19/05/1414	03/11/1993
27	Lebanon	9.77	0.07	0.13	09/04/1397	28/03/1977
28	Libya	1478.24	10.66	10.67	06/08/1394	24/08/1974
29	Malaysia	294.01	2.12	2.07	24/07/1394	12/08/1974
30	Maldives	9.23	0.07	0.12	24/04/1400	11/03/1980
31	Mali	18.19	0.13	0.17	06/04/1398	15/03/1978
32	Mauritania	9.77	0.07	0.13	24/07/1394	12/08/1974
33	Morocco	91.69	0.66	0.68	24/07/1394	12/08/1974
34	Mozambique	9.23	0.07	0.12	08/07/1416	30/11/1995
35	Niger	24.63	0.18	0.24	24/07/1394	12/08/1974
36	Nigeria	4.65	0.03	0.08	08/05/1426	15/06/2005
37	Oman	50.92	0.37	0.40	24/07/1394	12/08/1974
38	Pakistan	459.22	3.31	3.20	24/07/1394	12/08/1974
39	Palestine	19.55	0.14	0.19	07/07/1397	23/06/1977
40	Qatar	97.73	0.70	0.89	24/07/1394	12/08/1974
41	Saudi Arabia	3685.13	26.57	25.33	24/07/1394	12/08/1974
42	Senegal	45.89	0.33	0.35	28/11/1396	20/11/1976
43	Sierra Leone	4.96	0.04	0.10	01/08/1402	24/05/1982
44	Somalia	4.96	0.04	0.10	24/07/1394	12/08/1974
45	Sudan	72.77	0.52	0.53	24/07/1394	12/08/1974
46	Suriname	9.23	0.07	0.12	02/01/1418	08/05/1997
47	Syria	18.49	0.13	0.17	04/09/1395	09/09/1975
48	Tajikistan	4.96	0.04	0.10	16/07/1417	27/11/1996
49	Togo	4.96	0.04	0.10	29/07/1419	18/11/1998
50	Tunisia	19.55	0.14	0.22	24/07/1394	12/08/1974
51	Turkey	1165.86	8.41	7.73	24/07/1394	12/08/1974
52	Turkmenistan	4.96	0.04	0.10	12/06/1415	15/11/1994
53	UAE	1045.96	7.54	7.22	24/07/1394	12/08/1974
54	Uganda	24.63	0.18	0.25	09/04/1397	28/03/1977
55	Uzbekistan	2.50	0.02	0.07	06/07/1424	03/09/2003
56	Yemen	92.38	0.67	0.68	19/07/1395	28/07/1975
	<b>Total</b>	<b>13870.01</b>	<b>100</b>	<b>100</b>		

Note 1: Some difference may arise in the voting power due to rounding.

