



ISLAMIC DEVELOPMENT BANK



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

Rabi Thani 1427H (May 2006)



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Economic Policy and Strategic Planning Department
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ISSN: 0466/1319

CAPITAL STRUCTURE OF IDB GROUP				
				(in million)
		IDB (ID*)	ICD (\$)¹	ICIEC (ID)
Authorized Capital	1426H	15,000	1,000	100
	At Inception	2,000	1,000	100
Subscribed Capital	1426H	8,000	500	97.24
	At Inception	750	350	68.75
Paid-up Capital	1426H	2,736	282.21	72.74
	At Inception	280	88.10	63.81

MEMBERSHIP AND STAFF AS AT THE END OF 1426H				
	IDB	IRTI	ICIEC	ICD
Member Countries	56	-	35	44
Number of Staff	822	55	46	50

IDB GROUP FINANCING OPERATIONS² 1396H-1426H³ (1 JANUARY 1976 - 30 JANUARY 2006)			
Activity	No of Operations	Amount Approved	
		ID million	\$⁴ million
Project Financing from OCR⁵ (Excluding Sukuk)	1,203	8,795.3	11,774.8
Project Financing from Sukuk⁶	18	435.3	626.8
Technical Assistance	525	150.9	197.4
Project Financing by Funds / Entities (UIF,IBP, APIF, ICD and Treasury Dept.)	297	2,667.9	3,762.2
Total IDB Group Project Financing	2,043	12,049.3	16,361.3
Trade Financing Operations	1,811	18,377.8	24,416.1
Special Assistance Operations	1,126	472.3	597.3
Total Net Approvals	4,980	30,899.4	41,374.8

* Islamic Dinar which is equivalent to one Special Drawing Right of the IMF

¹ As per Articles of Agreement Authorized/Subscribed Capital for the ICD is in US\$.

² All figures on operations are net of cancellation.

³ Hijra Year(H): An Islamic Lunar calendar system comprising 12 months.

⁴ '\$' denotes US dollar.

⁵ Ordinary Capital Resources (OCR).

⁶ Assets based Islamic bond.

PREFACE

The Islamic Development Bank is a multilateral development finance institution with a mandate to promote economic development and social progress of its member countries individually and jointly in accordance with the principles of Shari'ah. The Bank undertakes a variety of financing and technical assistance activities in order to serve its mission and objectives.

A yearly review of the IDB Group activities is presented in its Annual Report issued at the end of Hijra year. However, a strong desire has been expressed by different stakeholders of the Bank, including the Board of Executive Directors, to develop a document that could succinctly present the Bank's cumulative contribution in the service of development. In fulfilling this objective, the present booklet, entitled "Thirty-Two Years in the Service of Development" is prepared, reflecting since inception, the overall contribution of the Bank in different priority development areas. Accordingly, highlights of the major achievements of the IDB Group, recent initiatives, key challenges and the way forward is presented using cumulative data.

The IDB is a multilateral development bank with some unique characteristics such as (i) its financing are based on the principles of Shari'ah, (ii) all its membership consist of developing countries, and (iii) its major share of resources are contributed by the relatively better off member countries, in order to assist the other less developed members. In this way, it is considered as a role model institution for South-South cooperation.

Over three decades, the IDB has faced and overcome many challenges including developing innovative schemes and modes of financing, fulfilling the diverse needs of its least developed member countries, promoting trade and investment, Islamic banking and finance and providing emergency relief. It has also contributed in promoting cooperation among its member countries and strengthened their collective position to effectively meet the emerging global challenges. Some of these key features of the IDB's role in the service of development have been covered in this booklet.

The booklet consists of nine Sections. Sections 1-2 present the institutional framework of the IDB Group and its resource mobilization efforts. Sections 3-5 deals with the role of the Bank in fostering economic development, poverty alleviation, and promoting economic cooperation. Sections 6-7 highlights major initiatives of the Bank for promoting Islamic financial services industry and human development through science and technology. Section 8 reviews role of IDB as a knowledge-based institution while Section 9 concludes with challenges facing the IDB Group and the way forward.

It is hoped that the booklet would be a useful reading material for individuals and institutions interested in learning about the diverse role of the Bank in the service of development.

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ABBREVIATIONS

ADFIMI	-	Association of National Development Financing Institutions in Member Countries of the IDB
APIF	-	Awqaf Properties Investment Fund
ADB	-	Asian Development Bank
BADEA	-	Arab Bank for Economic Development in Africa
BOT	-	Build, Operate and Transfer
CAE	-	Country Assistance Evaluation
CILSS	-	Comite Intergouvernemental de lutte Contre la Sécheresse au Sahel (Inter-State Committee for Drought Control in the Sahel)
CIS	-	Commonwealth of Independent States
COMCEC	-	OIC Standing Committee for Economic and Commercial Co-operation
COMSTECH	-	OIC Standing Committee for Scientific and Technological Co-operation
EBRD	-	European Bank for Reconstruction and Development
ECO	-	Economic Co-operation Organization
EFS	-	Export Financing Scheme
ESCWA	-	Economic and Social Commission for Western Asia
FDI	-	Foreign Direct Investment
HIPC	-	Heavily Indebted Poor Countries
IBP	-	Islamic Banks Portfolio for Investment and Development
ICBA	-	International Centre for Biosaline Agriculture
ICARDA	-	International Centre for Agricultural Research in the Dry Areas
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
ID	-	Islamic Dinar which is equivalent to one Special Drawing Right of the IMF
IFAD	-	International Fund for Agricultural development
IIF	-	IDB Infrastructure Fund
IMF	-	International Monetary Fund

IRTI	-	Islamic Research and Training Institute
IWMG	-	International Water Management Group
ICECS	-	Islamic Commission for Economic, Cultural and Social Affairs
IFSI	-	Islamic Financial Service Industry
IFSB	-	Islamic Financial Service Board
ISESCO	-	Islamic Educational, Scientific and Cultural Organization
ITC	-	International Trade Centre
ITFC	-	International Islamic Trade Finance Corporation
ITFO	-	Import Trade Financing Operations
LDMCs	-	Least Developed Member Countries as per IDB's classification
MDBs	-	Multilateral Development Banks
MDGs	-	Millennium Development Goals
MENA	-	Middle East and North Africa Region
MFI	-	Multilateral Financing Institutions
MTN	-	Medium-Term Note
NDFIs	-	National Development Financing Institutions
NGOs	-	Non-Governmental Organizations
OCR	-	Ordinary Capital Resources
OIC	-	Organization of the Islamic Conference
OPEC	-	Organization of Petroleum Exporting Countries
SESRTCIC	-	Statistical, Economic, and Social Research and Training Centre for Islamic Countries
S&T	-	Science and Technology
SME	-	Small and Medium Scale Enterprises
TA	-	Technical Assistance
TCP	-	Technical Co-operation Programme
UAE	-	United Arab Emirates
UN	-	United Nations
UIF	-	Unit Investment Fund
WTO	-	World Trade Organization
UNCTAD	-	United Nations Conference on Trade and Development
WTO	-	World Trade Organization
WWF	-	World Waqf Foundation

INTRODUCTION

The Islamic Development Bank (IDB or the Bank) was established in pursuance of the Declaration of Intent issued by the Conference of the Finance Ministers of Muslim countries held in Jeddah in Dhul Qa'dah 1393H (December 1973). The Inaugural meeting of the IDB Board of Governors took place in Rajab 1395H (July 1975) and the Bank was formally opened on 15 Shawwal 1395H (20 October 1975). The purpose of the Bank is to foster 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 three decades, the Bank has made significant strides in areas of developing financial instruments and establishing institutions to respond to the development needs of its member countries. The section that follows presents the institutional development of the IDB Group as well as its entities, funds and affiliates.

I. INSTITUTIONAL DEVELOPMENT

1. Functions

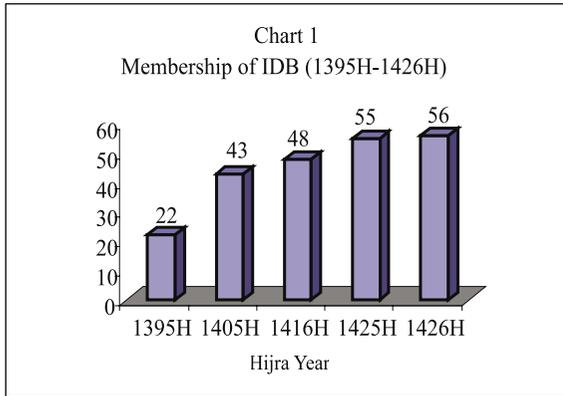
The functions of the Bank are to provide various forms of development assistance, including trade financing, poverty alleviation through human development, forging economic cooperation and enhancing the role of Islamic finance in the social and economic development of its member countries. The Bank is also required to establish and operate special funds for specific purposes including a fund for assistance to Muslim communities in non-member countries, in addition to setting up trust funds.

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

2. Membership

The membership of the Bank has increased from 22 countries in 1395H (1975) to 56 countries by the end of 1426H (30 January 2006). **Chart 1** shows the trend in IDB membership. The membership⁷ of IDB is global spreading over Africa, Asia, Middle East, Europe and Latin America.

⁷**Africa** includes the following countries: Benin, Burkina Faso, Cameroon, Chad, Comoros, Cote d'Ivoire, Djibouti, Gabon, Gambia, Guinea, Guinea Bissau, Mali, Mauritania, Mozambique, Niger, Nigeria, Senegal, Sierra Leone, Somalia, Sudan, Togo and Uganda. **MENA** comprises Algeria, Bahrain, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates and Yemen. **Asia** includes Afghanistan, Bangladesh, Brunei, Indonesia, Malaysia, Maldives, and Pakistan. **CIS** comprises Azerbaijan, Kazakhstan, Kyrgyz Rep., Tajikistan, Turkmenistan, and Uzbekistan. **Europe** includes Albania and Turkey while **Latin America** comprises only Suriname.



All member countries of IDB are developing countries and 22 of them are Least Developed Countries (LDCs)⁸ according to the classification of United Nations (UN). Six other member countries⁹ are considered as Least Developed Member Countries (LDMCs) by the Bank, bringing the total LDMCs to 28, which is 50

percent of its total membership. All member countries of the Organization of the Islamic Conference (OIC) are eligible for the IDB membership provided they pay their contribution to the capital of the Bank and accept the terms and conditions as decided by the IDB Board of Governors.

3. Strategic Planning Initiatives

Periodically, IDB reviews its policies and develops new strategies to guide its future course. In this process, IDB’s Medium-term Strategic Agenda was adopted in 1994, which was followed by IDB Group Strategic Framework approved in 1424H (2004). The Strategic Framework defines the Vision, Mission, identifies Core Values, Strategic Objectives and Priority areas for implementation. In 2005, the Bank has initiated to develop “IDB 1440H Vision”, which aims at developing long-term goals for comprehensive development in member countries.

4. Organization

4.1 Management

The administrative organs of the Bank consist of the Board of Governors (BOG), the Board of Executive Directors (BED), the President and the three Vice-Presidents. Each member country of the Bank is represented on the Board of Governors which meets once a year to review the activities of the Bank and decides its future policies and strategies. The Board of Executive Directors of the Bank is composed of fourteen members, of which seven are appointed (one from each of the seven member countries¹⁰ having the largest shares in paid-up capital), while

⁸These countries are: Afghanistan, Bangladesh, Benin, Burkina Faso, Chad, Comoros, Djibouti, The Gambia, Guinea, Guinea-Bissau, Maldives, Mali, Mauritania, Mozambique, Niger, Senegal, Sierra Leone, Somalia, Sudan, Togo, Uganda and Yemen

⁹These countries are: Albania, Azerbaijan, Kyrgyz Republic, Palestine, Tajikistan, and Uzbekistan.

¹⁰These countries are Saudi Arabia (24.8%), Kuwait (12.3%), Libya (10%), Iran (8.7%), Egypt (8.6%), Turkey (7.8%) and UAE (7%)

the other seven are elected on the basis of geographical representation. The Board of Executive Directors is responsible for providing guidance and directives for the general operations of the Bank.

The staff strength of the IDB Group has reached 973 at the end of 1426H (30 January 2006), comprising 458 Professionals, 90 Special category, 341 General staff and 84 Manual staff.

4.2 Country/Regional Offices

The Bank is headquartered in Jeddah, Kingdom of Saudi Arabia. It has regional offices in three member countries: Almaty (Kazakhstan), Kuala Lumpur (Malaysia) and Rabat (Morocco). It also has field representatives in ten member countries namely: Bangladesh, Guinea, Guinea Bissau, Indonesia, Libya, Mauritania, Pakistan, Senegal, Sierra Leone and Sudan.

The regional/country offices play an important role in the realization of the Bank's objectives and assist in the implementation of its projects at regional and country levels. The responsibility of the regional offices include, country level policy dialogue, coordinating IDB's development assistance, identifying projects for IDB financing, marketing and providing information on IDB products and services to prospective partners both in public and private sectors.

5. Evolution into a Group

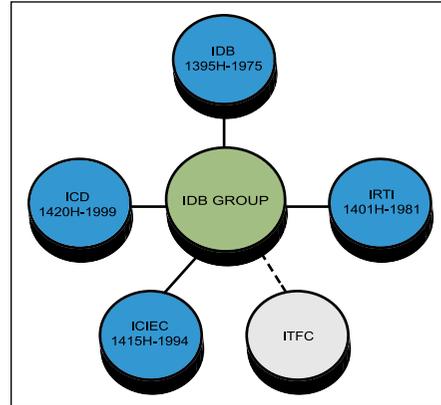
The IDB has evolved over the past three decades from a single entity into a Group comprising four entities: the Islamic Development Bank (IDB), Islamic Research and Training Institute (IRTI), Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), and Islamic Corporation for the Development of the Private Sector (ICD). A new entity entitled International Islamic Trade Finance Corporation (ITFC) was approved by the IDB Board of Governors during the 30th meeting held in Malaysia in June 2005. This expansion would enable the Bank to undertake wide ranging functions to serve diverse needs of its member countries. The entities in the IDB Group have their separate articles of agreements and operate autonomously.

Besides these entities, the IDB Group has set up schemes, funds and affiliated institutions. The specialized funds are (i) Islamic Banks Portfolio for Investment and Development (IBP), (ii) Unit Investment Fund (UIF), (iii) Waqf Fund, (iv) Awqaf Properties Investment Fund (APIF), and (v) World Waqf Foundation (WWF). The Affiliated institutions are (i) International Centre for Biosaline Agriculture (ICBA), (ii) OIC-Networks, and (iii) IDB Infrastructure Fund (IIF). In addition, IDB manages a special Project entitled "Saudi Arabian Project for the utilization of Hajj Sacrificial Meat".

6. Entities, Funds, and Affiliated Institutions

1. Entities

The entities in the IDB Group have specific mandates and operational modalities but they share common vision and mission. Through these institutions, the IDB Group performs a variety of activities which include investment, insurance, private sector development, research, training, capacity building, and emergency relief. A brief description of the members of the IDB Group is given below.



1.1 Islamic Research and Training Institute

The Islamic Research and Training Institute (IRTI) was established in 1401H (1981) to undertake research, provide training, and information services on Islamic banking and finance. IRTI undertakes these activities with a view to bringing member countries' economic, financial and banking activities in conformity with Shari'ah.

IRTI has been developing the discipline of Islamic Economics. It is currently working with consortium of academic institutions to prepare text books. The 1st volume of a series of handbooks has been published and the 2nd volume is under preparation. IRTI has also published academic materials on the role of Zakah, Awqaf and Islamic financial institutions in national economy.

Under its Encouragement and Promotion Programme, IRTI provides assistance to individuals and institutions engaged in research and training activities. Since 1408H (1988), IRTI has been responsible for overseeing the international IDB Prize, which rewards and encourages contributions of outstanding merit in the fields of Islamic economics, banking and finance. The IDB prize, which alternates every year between Islamic economics and Islamic banking, consists of a citation carrying the Bank's emblem and a cash award of about \$40,000.

In the area of basic and applied research, IRTI has been focusing on four main themes (i) sustainable development and poverty alleviation (ii) development of financial products and markets (iii) risk management and regulatory supervision and (iv) governance issues in Islamic finance. IRTI has also setup two working groups to deliberate on these themes. It has organized several conferences, training courses and orientation seminars in collaboration with the central banks and other institutions. The research work of IRTI is published in the forms of research papers, background and discussion papers, seminars and proceedings.

Between 1404H and 1426H, IRTI organized 177 seminars/ conferences/ workshops which were attended by 11,705 persons, and 255 training courses attended by 8,034 persons. Out of 258 publications of IRTI, 150 research papers were contributed by external scholars on various themes of Islamic economics, banking, finance and cooperation. IRTI is producing a biannual journal “Islamic Economic Studies” and a monthly e-newsletter covering its activities. More detailed activities and publications of IRTI are available at www.irti.org.

1.2 Islamic Corporation for the Insurance of Investment and Export Credit

The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) was established on 24 Safar 1415H (1st August 1994) to enlarge the scope of trade transactions and investment flows among member countries of the OIC. The ICIEC encourages exports to and from member countries by providing Shari’ah-compliant export credit insurance and re-insurance to cover the risk of non-payments of export receivables and non-commercial (country) risk. It also facilitates the flow of foreign investment to member countries by encouraging the use of insurance against commercial and political risks. Similarly, it provides re-insurance facilities to the Export Credit Agencies in member countries.

By the end of 1426H, 35 countries and the IDB are shareholders of ICIEC which started operation in 1416H (1995). The IDB owns 50 percent of ID100 million authorized capital of ICIEC, while the remaining 50 percent is available for subscription to member countries of the OIC. The Subscribed capital of ICIEC at the end of 1426H was ID97.2 million (\$140 million) with share of IDB ID50 million (\$72 million), while share of other 32 members was ID47.2 million (\$69 million). The total insurance commitments for the period 1417H-1426H amounted to ID1.67 billion (\$2.4 billion) and the total business insured over the same period was ID0.99 billion (\$1.4 billion). In 1426H, the ICIEC experienced a remarkable growth in its insurance business, as the new insurance commitments increased by 70 percent reaching \$808 million. The business insured has also increased from \$337 million in 1425H to \$618 million in 1426H. Detailed information on ICIEC is available at www.iciec.com.

1.3 Islamic Corporation for the Development of the Private Sector

The Islamic Corporation for the Development of the Private Sector (ICD) was established in Rajab 1420H (November 1999) to promote development of private sector in member countries. The ICD 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 has authorized capital of \$1 billion, of which \$500 million was made available for initial subscription. The IDB has subscribed 50 percent, while share of member countries and public financial institutions in subscribed capital was 30 percent and 20 percent, respectively. The Paid-up capital of the ICD reached

\$282.2 million by the end of 1426H (January 2006). So far, in addition to the IDB, 50 countries have signed the Articles of Agreement of the ICD, out of which 44 countries and 5 public financial institutions had ratified it, while others are in the ratification process.

The ICD provides its clients with a variety of financial products such as direct financing through equity participation, term-financing, line 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. The ICD by the end of 1426H (January 2006) has approved 68 projects amounting to \$406.9 million (net of cancellations). In term of the breakdown of ICD's financing activities by mode are: Instalment Sale 31 percent, Equity 27 percent, Leasing 26 percent, and Murabaha 16 percent. The ICD's sectoral financing composed of industrial projects 34 percent, financial sector 18 percent, telecom 12 percent, transportation 10 percent, health 8 percent, pharmaceutical 5 percent, oil and gas 5 percent, technology 5 percent and education 3 percent. Detailed activities of ICD are available at www.icd-idb.org.

1.4 International Islamic Trade Finance Corporation

The establishment of International Islamic Trade Finance Corporation (ITFC) was approved by the 30th Annual meeting of the IDB Board of Governors held in Malaysia in Jumad-Awwal 1426H (June 2005). The Articles of Agreement of the ITFC has been approved by circulation which will be signed during the 31st Annual meeting of the IDB Board of Governors to be held in Kuwait in Jumad-Awwal 1427H (May 2006). The ITFC will soon commence its operations and be headquartered in Jeddah with its first branch office to be located in Dubai, UAE. The ITFC will be responsible to undertake trade financing operations of the IDB Group. It will have authorized capital of \$3 billion and initial subscribed capital of \$500 million which will be made-up of the existing equity of the Export Financing Scheme (EFS) and Islamic Bank Portfolio for Investment and Development (IBP).

2. Specialised Funds

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

2.1 Islamic Banks Portfolio for Investment and Development

The Islamic Banks Portfolio for Investment and Development (IBP¹¹) is a trust fund established by the IDB in Rajab1407H (March 1987), in collaboration with other Islamic banks and financial institutions. The Fund is administered by the IDB as Mudarib (Manager). The IBP mobilizes liquidity available with Islamic banks

¹¹With the establishment of the ITFC, the resources of the IBP will be merged with the new entity. Some Shareholders of IBP have agreed to join the ITFC while others would claim their shares.

and financial institutions and channels it to promote intra-trade and development in member countries in accordance with the principles of Shari'ah. The IBP has a fixed paid-up capital of \$100 million and a variable capital of \$280 million. Besides, the IBP has access to the deposits of \$300 million placed by the IDB as a specific deposit.

Twenty Islamic banks and financial institutions, including the IDB, are shareholders of the IBP. During the period 1408H-1426H (1987- 2006), the IBP has approved 305 operations for \$4.45 billion including syndicated financing initiated by itself.

2.2 Unit Investment Fund

The IDB Unit Investment Fund (UIF) was established in 1410H (1989) as a private sector window of the IDB to mobilize resources to promote foreign investment in member countries. Its main purpose is to complement resources for IDB through securitization of its lease and instalment sale assets to be used for project and trade financing operations. The UIF provides Shari'ah compatible financing to investors for investment opportunities to be used for short-, medium-, and long-term periods. A policy decision was made in 1426H to allocate up to 30 percent of the Fund's capital to equity investment in national as well as regional markets. The capital of the UIF during the past sixteen years has increased from \$100 million to \$325 million, with the participation of twenty institutional investors from 11 member countries. The Fund is listed on the Bahrain Stock Exchange, which has enhanced its liquidity position and made it possible to trade its units at any time without recourse to IDB for repurchase. By the end of 1426H, the Fund has financed 185 projects for ID1.1 billion (\$1.7 billion).

2.3 Waqf Fund

The Waqf Fund,¹² formerly called Special Assistance Account was setup in 1399H (1979) as a trust fund. The Fund derives its income from (i) return from cash and cash equivalents and fixed deposits with conventional banks; (ii) profit on managed investment; (iii) net income from the UIF deposits, and (iv) investment in Murabaha and other funds.

The income generated from Waqf Fund is used for social development programmes such as financing Special Assistance, Scholarships, Studies, Technical Assistance and activities of IRTI. The Special Assistance Programme is primarily to cater to the needs of the Muslim communities in non-member countries and LDMCs with particular emphasis on social sector development. The Programme also aims to alleviate the suffering of communities affected by natural disasters in both member and non-member countries.

¹² Waqf is an endowment or a charitable trust devoted exclusively for Islamic purposes.

By the end of 1426H (January 2006), the size of the Waqf Fund had reached ID903.5 million (\$1.3 billion). The Fund comprises the principal amount of Waqf Fund ID742.2 million (\$1.07 billion), balance of the Special Assistance Account ID48.2 million (\$69.6 million) and the Special Account for LDMCs ID113.2 million (\$163.5 million). Cumulative approval under the Waqf fund between 1399H-1426H was \$597.3 million for 1,126 operations and programmes, of which \$384.6 million was approved for 406 operations in member countries and \$212.7 million for 720 operations for Muslim communities and organizations in non-member countries.

2.4 Awqaf Properties Investment Fund

The Awqaf¹³ Properties Investment Fund (APIF) was launched as a Trust Fund in Dhul Qa'dah 1421H (February 2001) in accordance with the decision of the Sixth Awqaf Ministerial Meeting held in Indonesia on 28 Jumad Thani 1418H (29 October 1997). The Fund aims to develop and invest in socially and economically viable real-estate properties, in accordance with the principles of Shari'ah. The IDB being the Mudarib (Manager) of the Fund seeks to ensure that the participants earn comparable return on their investment. In 1426H, the APIF introduced Build, Operate and Transfer (BOT) investment guidelines for participation in the real-estate investment opportunities by charitable Awqaf organizations.

In addition to the APIF's own capital resources of \$57 million, the IDB has provided an access to line of financing amounting to \$50 million. It has also provided \$250,000 as technical assistance to be utilized for supporting expansion of APIF activities. By the end 1426H, the Fund had approved ID148.5 (\$198.9 million) for 39 operations in eight member countries and in one non-member country.

2.5 World Waqf Foundation

The World Waqf Foundation (WWF) was established by the IDB in Jumad Thani 1422H (September 2001) in collaboration with Waqf organizations run by governments in member countries, non-governmental organizations (NGOs), and philanthropists. The Waqf, a socio-economic institution, contributes to the plans and programmes of sustainable development that aim at uplifting Muslims from poverty and ending suffering of the poor.

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 through activities such as supporting education, health, social institutions development programmes, and extending scholarships to students, (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.

¹³Awqaf means assets which are being purchased/held for charitable and socially beneficial purpose.

The WWF is composed of the Council of Waqifs (Endowers), Board of Trustees and the Executive Committee. The Council of Waqifs comprises of major contributors with endowment of more than \$1 million. By the end of 1426H (January 2006), 15 WWF participants have paid in \$42 million, including IDB's share of \$25 million. The detailed activities of WWF are available at www.worldwaqf.org.

3. Affiliated Institutions

The affiliated institutions of IDB are the International Centre for Biosaline Agriculture (ICBA) based in UAE, OIC Networks based in Malaysia, and IDB Infrastructure Fund (IIF) based in Bahrain. In addition, IDB manages a special project called "Saudi Arabian Project for the Utilization of Hajj Sacrificial Meat". A brief on the activities of these institutions is illustrated below.

3.1 International Centre for Biosaline Agriculture

The International Centre for Biosaline Agriculture (ICBA) was established in 1420H (1999), as a non-profit international applied research and development centre. It specialises in the utilization of saline, brackish, and sea-water for agriculture in the arid and semi-arid environment and harsh climatic conditions. The ICBA determines the suitability of conventional crop species for propagation under the saline irrigation in targeted areas, particularly in the Gulf environment. Alternative crop production and management systems are evaluated to improve production of salt-tolerant species.

Currently, the ICBA is developing three year strategic plan (2006-09) which will guide its future activities. By the end of 1426H, it has undertaken consultancy projects for the International Atomic Energy Agency, the Municipality and the Public Works Department of Abu Dhabi and the National Prawn Company in the Kingdom of Saudi Arabia. The ICBA has signed an agreement for an amount of Emirati dirham (AED) 4.55 million with the Agency Environment Abu Dhabi to conduct a survey over 4 years (2005-09) to classify all land types in UAE. The ICBA has also initiated a project in seven member countries namely UAE, Pakistan, Oman, Syria, Tunisia, Jordan and Palestine in collaboration with the Regional Office of International Fund for Agriculture Development (IFAD), Arab Fund and OPEC Fund. The ICBA in collaboration with International Water Management Group (IWMG) and International Centre for Agricultural Research in the Dry Areas (ICARDA) is implementing a three year project in Uzbekistan, Kazakhstan and Turkmenistan which is financed by the Asian Development Bank (ADB) for developing salt-tolerant plants, as well as building capacity of national Biosaline Agriculture institutions in these countries. The ICBA has organized seminars on Biosaline Agriculture in Oman, Morocco and UAE to share experience with experts from member countries. It has also signed six MoUs with the national agriculture centres in IDB member countries.

In the area of information dissemination, the ICBA hosts an e-network on its Website, called the Global Biosaline Network, to link individuals and agencies with common scientific interest in bio-salinity. It is also developing a database of research scientists to prepare a Who's-Who in the field of biosaline agriculture in the OIC member countries. Furthermore, the ICBA produces a range of publications, including a newsletter titled "Bio-salinity News" published quarterly in English and Arabic languages. Detailed information on activities of the ICBA is available at www.biosaline.org/html/index.htm.

3.2 OIC Networks SDN BHD

The OIC-Networks was established in Muharram 1421H (April 2000) as a joint venture company owned by the IDB (51 percent) and the MIMOS Sdn Bhd of Malaysia (www.oicnetworks.com). The OIC-Networks provides information services, e-commerce, internet connectivity and consultancy services. Its aim is to improve exchange and sharing of information among the OIC member countries. The IDB and MIMOS have pledged a total investment of \$14.5 million over a period of 4 years. By the end of 1426H (January 2006), the authorized and paid-up capital has reached \$2.6 million.

The company started its operations in Dhul Qada 1421H (February 2001) and operates two internet-based portals namely OIC Exchange (www.oicexchange.com) for OIC Education Network and OIC Trade Network (www.oictrade.com). The OIC Trade Network was established to facilitate exchange of business and trade related information between buyers and sellers in the OIC countries and its services are membership-based targeting the corporate sectors.

3.3 IDB Infrastructure Fund

The IDB Infrastructure Fund (IIF) was established in 1422H (2001). The Fund is the first private equity investment vehicle to focus on the infrastructure development in member countries. The Fund seeks long-term capital appreciation by making equity and equity-related investments in infrastructure projects and infrastructure related industries in the IDB member countries and promotes the use of Islamic finance for such projects. The IDB, being the main sponsor of the fund, has 51 percent share in the Policy Management Company. The Fund provides access to substantial investment opportunities in member countries. The focus of the Fund's investment is in sectors like power generation, petrochemical, and telecommunication, which account for 80 percent of funds commitment, while transportation and mining sectors account for the remaining 20 percent.

The size of the Fund for equity investment is \$730.5 million and for the Complementary Finance Facility (CFF¹⁴) \$200 million. During the last four years

¹⁴The CFF is a Shari'ah-compliant facility that can only be deployed in conjunction with the Equity Capital.

(1422H-1426H) the Fund has financed 12 projects for total amount of \$535 million in eight member countries.

3.4 Saudi Arabian Project for the Utilization of Hajj Sacrificial Meat

The Saudi Arabian Project for the Utilization of Hajj Sacrificial Meat is managed by the IDB for the Government of Saudi Arabia. The Project provides special services to the Pilgrims during the Hajj period especially in performing the rite of animal sacrifice.

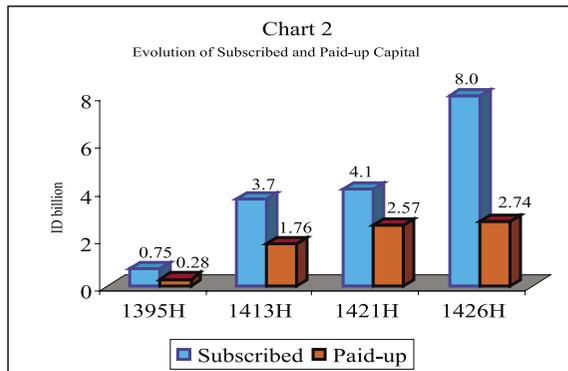
The Bank arranges slaughtering of around 600,000 sacrificial animals annually. To facilitate the operation, the Bank has built modern slaughtering houses. It distributes the sacrificial meat, in accordance with the religious norms, among the poor and needy both locally and internationally covering 23 member and non-member countries in Asia and Africa.

The skins and offals of the sacrificed animals are sold to earn revenue, which is donated to the local charities. Recently, a joint company under the name of United Company for the Manufacturing of Gelatine and Organic Materials has been established in partnership with a Chinese company. A factory will be established to extract 300 tons of halal (religiously acceptable) gelatine for producing one billion capsules per year. The Bank disseminates information about the activities of the project through pamphlets, booklets and posters which are published in many languages.

II RESOURCE MOBILIZATION

1. Capital Base

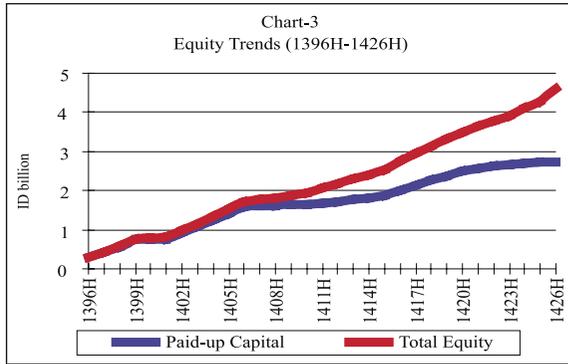
The capital base of IDB has witnessed significant expansion over the years. The authorized capital of IDB has increased from ID2 billion in 1395H (1975) to ID15 billion in 1426H (January 2006). Similarly, the Subscribed capital has increased from ID0.75 billion in 1395H to ID8 billion in 1426H. The paid-up capital of the



Bank reached ID2.7 billion (**Chart 2**) while members fund in the Ordinary Capital Resources (OCR)¹⁵ stood at ID4.6 billion (\$6.4 billion) by the end of 1426H.

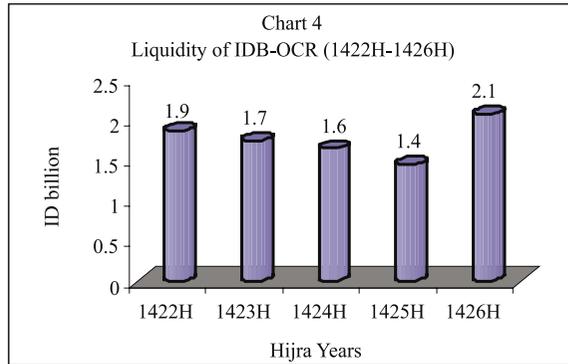
¹⁵OCR comprised of the paid-up capital, capital reserves, profit and any other funds raised or received by the Bank.

The total assets of the Bank under OCR has increased from ID445 million in 1396H to ID5.9 billion in 1426H. The total Equity Capital of the Bank consisting of Paid-up capital and Reserves over the past thirty years shows an increasing trend (Chart 3).



2. Liquidity

The Bank maintains prudent level of liquidity to meet its un-disbursed commitments and other operational requirements. Part of the liquid funds are utilized to finance trade operations, placed in Shari’ah-compliant deposits with financial institutions operating in international financial markets, and deposited with the central banks of member countries.



Over time, these liquid assets of the Bank have shown mixed trend (Chart 4) and total liquid assets of the IDB’s OCR stood at ID2.1 billion by the end of 1426H.

3. Specialized Funds

The Bank mobilises funds to supplement its ordinary capital resources. By the end of 1426H, the Bank had mobilized a sum of \$325 million through UIF, \$100 million through IBP, \$45.8 million through APIF, \$201.9 million through Export Financing Schemes (EFS), and \$138.7 million through Investment Deposit Scheme.

4. Resource Mobilization from International Capital Market

Since 2003, the IDB started raising funds from the international market to diversify its source of long-term capital and reduced its reliance on equity subscriptions. The debut Sukuk (Islamic Bonds) was launched as a vehicle for resource mobilization and generated \$400 million which were utilized for project financing purposes. In Jumad Awal 1426H (June 2005), the Bank has launched the 2nd Sukuk of \$1 billion

under the Medium-Term Note (MTN) programme. The initial issue generated \$500 million and received overwhelming response from investors in both member and non-member countries. The remaining sum will be mobilized from investors depending on the operational requirements of the Bank.

5. International Credit/Risk Rating

The IDB continues to enjoy the highest credit rating for long-term “AAA” and short-term “A-1+” given by the Standard and Poor’s in 2002 and since reaffirmed thereafter on yearly basis. This achievement was possible due to the strong balance sheet and high quality of the Bank’s assets. The AAA rating has given the IDB a stable outlook and made it feasible to tap resources on competitive terms from the international capital market. Under the new Basel Capital Accord (Basel II) issued in June 2004, the IDB was classified as a “Zero Risk Weighted” multilateral development bank by the Bank of International Settlements (BIS).

III FOSTERING ECONOMIC DEVELOPMENT

1. Development Assistance to Member Countries

Project financing extended under various modes plays an important role in building new productive capacity in member countries as well as in expanding and rehabilitating the existing ones. Over the years, project financing has shown tremendous growth due to the efforts made by the Bank to increase its medium- and long-term development-oriented financial assistance to its member countries. The project financing has increased from a modest amount of over \$900 million in 1396H to a total net approval of \$2.2 billion in 1426H for the IDB Group. In addition, the Bank provides financing for trade operations, which constitutes a substantial portion of its development assistance to member countries. In 1426H, trade financing by the IDB Group was \$1.7 billion. During the period 1396H-1426H, the cumulative net financing by the IDB Group (Project financing, trade financing and special assistance) amounted to ID30.9 billion (\$41.4 billion) (excluding ICIEC) for 4,980 operations.

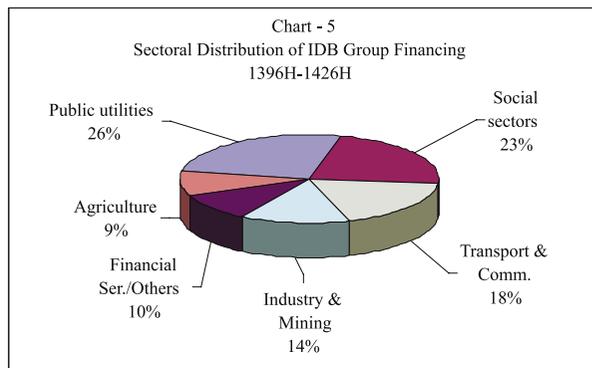
In terms of distribution of IDB Group operations, share of trade financing accounted for 59.5 percent, followed by project financing 38.5 percent, special assistance 1.5 percent, and technical assistance 0.5 percent. At its inception, the original source of project financing and technical assistance was OCR only, however overtime the IDB has diversified its financing sources. Presently, other members of the IDB Group, Funds and affiliated institutions/schemes also participate in development financing activities.

The breakdown of net cumulative financing extended by the IDB Group for its operations is given in Table 1.

Table-1
Cumulative Net Financing Operations of the IDB Group (1396H-1426H)

	No of Projects	Amount Approved	
		ID million	\$ million
I) Project Financing from OCR	1,746	9,381.42	12,599.05
of which:- Financing from Sukuk Resources	18	435.31	626.83
- Technical Assistance	525	150.85	197.41
II) Project Financing by Funds/Entities(UIF,IBP, APIF, ICD and Treasury Department)	297	2,667.85	3,762.23
Total IDB Group Project Financing (I+II)	2,043	12,049.27	16,361.28
III) Trade Financing Operations (ITFO, EFS, IBP, UIF, APIF, ICD and Treasury Department)	1,811	18,377.83	24,416.14
IV) Special Assistance Operations	1,126	472.28	597.33
Overall Financing of IDB Group Total (I to IV)	4,980	30,899.38	41,374.75

During 1396H-1426H, the sector-wise distribution of the IDB Group financing (excluding ICIEC) shows that public utilities registered highest financing at 26 percent; social sector 23 percent; transport and communication 18 percent; industry and mining 14 percent; agriculture 9 percent; and financial services and others 10 percent (**Chart 5**). These sectors are not only considered vital for economic growth but also contribute significantly to the Bank efforts for alleviating poverty.



2. Resource Transfer to Member Countries

The IDB, like other Multilateral Development Banks (MDBs), provides development assistance to its member countries to achieve economic growth and development. By virtue of its mandate, the IDB provides assistance to its member countries through three major types of operations, namely (i) ordinary operations (comprising project financing and technical assistance); (ii) trade financing operations; and (iii) special assistance (Waqf Fund) operations.

Total disbursements and repayments of the IDB Group during the period 1396H-1426H were ID22 billion (\$29.5 billion) and ID17 billion (\$22.7 billion), respectively. The net transfer¹⁶ of financial resources from the IDB Group to member countries amounts to ID5 billion (\$6.7 billion). The net resource transfer by the Bank has been instrumental in contributing to economic development of its member countries.

3. Improving Development Effectiveness

The Bank has been improving its efficiency and effectiveness in the delivery of its operations. To this end, the Bank has taken measures including project portfolio quality improvement programme, project implementation guideline, procurement guidelines and revised guidelines for operations evaluation. As part of its efforts to optimize project financing strategy, the Bank seeks to maintain an adequate number of projects in the pipeline for each member country. In order to make further developmental impact of its financing, the Bank has reduced the cost of financing from 6 to 5.1 percent, extended repayment period from 15 to 20 years, and increased project ceiling from ID35 million to ID80 million. The Bank has increased its operations evaluation activities with a view to improving future development assistance to member countries.

3.1 Operations Evaluation and Lessons Learned

The Bank has identified operations evaluation as a pivotal element for achieving development effectiveness. The lessons learned from the operations evaluation exercise are of two types: (i) operational lessons that aim to improve effectiveness of the IDB's financing activities, and (ii) developmental lessons which focus on assessing the socio-economic impact of the Bank's contribution to the development of member countries. Lessons learned are disseminated internally to improve processing of new projects and the implementation of on-going ones.

The Bank has so far evaluated 287 operations, including 247 completed projects and 28 special assistance operations. In addition, 7 on-going projects facing serious difficulties were evaluated. It has also conducted four Country Assistance Evaluation (CAE) studies and one sectoral study. The CAE was carried out for Jordan, Tunisia and Mauritania in partnership with the World Bank and the African Development Bank. The Bank is currently preparing two CAE studies for Senegal and Tajikistan. It has already completed a study on the road sector in West African member countries while evaluation of Bank's assistance in the education and health sectors is underway.

4. Partnering Development in Priority Sectors

The Strategic Plan of the IDB Group identifies the following three major objectives that will drive the Group's development activities during the next five years

¹⁶Net transfer is computed based on total disbursement less repayment, while Special Assistance and Technical Assistance are in the form of grant.

(1426H-1430H): (a) poverty alleviation, (b) promotion of cooperation among member countries, and (c) promotion of Islamic financial industry and institutions. To realize these objectives, the IDB Group focuses on the following six priority sectors and themes: (i) human development, (ii) agricultural development and food security, (iii) infrastructure development, (iv) intra-trade among member countries, (v) private sector development, and (vi) research and development in Islamic economics, banking and finance. The following sections provide a brief overview of the activities of the IDB Group in achieving these objectives.

IV. POVERTY ALLEVIATION

Assisting member countries to reduce poverty is one of the most pressing development challenges facing the IDB Group. As one of the three strategic objectives of the IDB Group, the Bank extends development assistance to generate pro-growth activities in member countries to have a positive impact on poverty alleviation. The following section provides information on IDB's activities for poverty alleviation in its Least Developed Member Countries (LDMCs).

1. Development Assistance to LDMCs

The IDB assists its member countries especially LDMCs by implementing programmes aimed at improving their economic growth and strengthening their institutional capacity for poverty alleviation. Its assistance to member countries has increasingly focused on financing projects in health, education, water supply, sanitation, and agriculture sectors. The Bank is also investing in human resource development, expansion of basic infrastructure, employment generating activities, trade and investment, private sector development, and women empowerment which are enabler of poverty alleviation.

The Bank provides assistance to LDMCs mainly through Concessional Financing Programmes, LDMCs Loan, Technical Assistance (T.A), Trade Financing, and Special Assistance Programme. Up to the end of 1426H, the total financial assistance provided by the IDB Group to LDMCs amounted to ID6.03 billion (\$7.95 billion) for 1,365 operations, which represents a quarter of its total net approvals. The share of approval for project financing and T.A to LDMCs was ID 2.7 billion (\$3.6 billion, representing 30 percent of total net approval.

The IDB assists member countries to tackle poverty by providing concessional financing for sectors having direct impact on the poor at grass-root level. The LDMCs has continued to receive major share (70.3 percent) of cumulative loan (OCR) of the IDB. In monetary terms, the Bank has financed 370 projects for ID1.9 billion (\$2.5 billion) for LDMCs.

The IDB has provided LDMCs loans for projects that provide primary services, such as basic schooling and health care, safe drinking water, and micro projects in rural areas. By the end of 1426H, the total amount approved from the LDMCs loans was ID212.8 million (\$292.9 million) for 138 projects.

The Technical Assistance (T.A) is funded from the ordinary capital resources of the Bank as well as from the Waqf Fund. The T.A is provided in the form of loan, grant or a combination of both, targeting the LDMCs and regional projects. The Bank provides T.A to LDMCs for building their institutional capacity by supporting preparation of feasibility studies to identify viable projects, preparation of bankable project documents, supervision during the implementation phases of a project and for knowledge acquisition. By the end of 1426H, the Bank provided ID95.1 million (\$122.2 million) in favour of 296 technical assistance operations for the LDMCs representing 62 percent of its total approval for T.A.

The Special Assistance (Waqf) Programme focuses on the socio-economic development of LDMCs as well as uplifting of Muslim communities in non-member countries. By the end of 1426H, the IDB has approved ID199.49 million (\$241.74 million) for 299 special assistance (Wafq) operations for LDMCs, representing 62 percent of total approvals for special assistance.

2. Ouagadougou Declaration

The Bank participates with other global partners in initiatives aimed at enhancing the volume of resource flows to member countries. These include UN initiatives for achieving Millennium Development Goals (MDGs) by 2015 and debt relief programme under Heavily Indebted Poor Countries (HIPC). The IDB has extended full support to the initiative of African Union called the New Partnership for Africa's Development (NEPAD). The IDB Board of Governors at its Annual Meeting held in Ouagadougou (Burkina Faso) in October 2002 adopted the Ouagadougou Declaration in support of the NEPAD initiative.

Under Ouagadougou Declaration, the IDB Group has committed \$2 billion for five years (1423H-1428H) for financing projects in key sectors in African LDMCs. The objective of IDB's intervention is to accelerate economic growth and contribute to fighting poverty in those countries. Under the Action Plan for Ouagadougou Declaration, the IDB Group had approved \$1.2 billion as development assistance to its LDMCs in Africa during 1424H-1426H, which represents 60 percent of the total funds allocated for the programme. Vital sectors benefiting from the Ouagadougou Declaration include transport and communication, public utilities, and social sectors such as health and education.

3. Capacity Building Programme for the OIC Countries

The IDB provided capacity building assistance to its member countries in order to enable them to leapfrog development. The Capacity Building Programme for the OIC Countries was launched in December 2004, in Kuala Lumpur, Malaysia. A joint Steering Committee has been established to oversee the implementation of the Programme. The Committee comprised 18 member countries¹⁷ of the OIC, the IDB

¹⁷Algeria, Bangladesh, Brunei, Egypt, Indonesia, Iran, Jordan, Kuwait, Morocco, Malaysia, Oman, Pakistan, Qatar, Saudi Arabia, Senegal, Turkey, U.A.E and Yemen.

and the OIC Secretariat. The Capacity Building Programme aims at sharing/utilizing the valuable experiences of relatively more advanced countries for the benefit of less developed member countries to enhance their institutional capacity in potential sectors. Implementation of the programme started from the year 1426H. Under the 1st Phase of the Programme, the IDB has allocated \$24 million for the development of four Capacity Building projects, which include (i) Palm Oil Industry in Sierra Leone, (ii) Fisheries Sector in Bangladesh, (iii) Exploring Oil and Minerals in Mauritania, and (iv) Small Enterprises and Microfinance Scheme in Aceh Province of Indonesia. The 2nd Phase is expected to include eight projects benefiting countries namely; Burkina Faso, Comoros, Guinea, Jordan, Maldives, Palestine, Senegal and Somalia.

4. Women in Development

Beginning from 1419H (1998), the Bank has supported initiatives to bring women into the mainstream of development process by implementing women focused projects and building women's capabilities through training programs in collaboration with non-governmental organizations (NGOs).

In order to adequately address main streaming issues in line with Islamic values, an "IDB Women's Advisory Panel" has been established to assist the Bank in developing suitable programs. The programme includes activities for empowering women and encouraging them to participate in the socio-economic development process in their societies. Priority is given to sectors with maximum impact on women especially in sectors like education and health. The IDB is in the process of setting-up of a "Micro-Finance Fund for Poverty Alleviation" (MFPA), which will primarily benefit business women and women entrepreneurs. Through its research and training arm, IRTI, the Bank undertakes research on the status of women and their participation in socio-economic development programmes and offers training to women's organizations and NGOs in member countries. In addition, the Bank has introduced Women Contribution in Development (WCID) Prize to recognize women or women organizations for achievements in improving human and social conditions, alleviating poverty, undertaking business, and contributing to the betterment of their families, communities, and societies. The Prize consists of 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).

5. Global Outreach

The Bank enhances the human capital of Muslim minorities in non-member countries by strengthening capacity of institutions involved in education, health and other social activities. The Special Assistance Programme of the Bank, which was established in 1400H (1980) with the objective to assist Muslim communities by improving their living condition, harnessing their skills and preserving their culture and identity. Cumulative approval under the programme (Waqf) by the end of 1426H was \$212.7 million for 720 operations for Muslim communities and organizations in about 60 non-member countries.

6. Assistance in case of Natural Disaster

The IDB provides relief assistance for emergencies or natural disasters to its member countries as well as the Muslim communities worldwide. In the recent past, the IDB has extended financial aid to the victims of earthquake in Pakistan, Iran and Turkey. The Bank approved a \$501.6 million Emergency Assistance Package for Pakistan in 1426H. Similarly, assistance of \$500 million was extended for the countries affected by Tsunami disaster.

7. Leveraging Development Partnership

The IDB is an active member of the multilateral development community and participates in a number of collaborative global initiatives aimed at promoting economic growth and development in member countries. The following sub-section provides a brief account of the role played by the IDB in multilateral initiatives.

7.1 Participation in Debt Relief Initiatives

The IDB has been participating in major international initiatives such as debt relief and has contributed to the Heavily Indebted Poor Countries (HIPC) Programme. Since 1997, the IDB has provided debt relief by rescheduling the debt of its eligible member countries. So far, under the HIPC programme, thirty eight countries have been declared eligible to receive debt relief amounting to \$38.2 billion in 2004 Net Present Value (NPV) terms. Twenty seven countries are eligible to receive debt relief under HIPC initiative of which nineteen countries¹⁸ were members of the IDB. Out of these nineteen member countries, eight countries¹⁹ have reached completion point, six countries²⁰ are at the decision point and five other countries²¹ are at pre-decision stage. By the end of 1426H, fourteen member countries have either received the debt relief or in the process of receiving it. The IDB's share in debt relief package was around \$150 million. The IDB debt relief package has been approved for Benin, Burkina Faso, Cameroon, Chad, Gambia, Guinea, Mali, Mauritania, Niger, Senegal, Sierra Leone and Uganda. For Mozambique, the Bank has no exposure at decision point date while for Guinea Bissau, the delivery of its debt relief share is under process.

¹⁸These countries are: Benin, Burkina Faso, Cameroon, Chad, Gambia, Guinea, Guinea Bissau, Mali, Mauritania, Mozambique, Niger, Senegal, Sierra Leone, Comoros, Cote d'Ivoire, Somalia, Sudan, Uganda and Yemen.

¹⁹Benin, Burkina Faso, Mali, Mauritania, Mozambique, Niger, Senegal, and Uganda.

²⁰Cameroon, Chad, Guinea, Guinea Bissau, Gambia, and Sierra León.

²¹Cote d'Ivoire, Comoros, Somalia, Sudan and Togo.

7.2 Co-Financing Arrangements

Co-financing²² of projects is one of the principal mechanisms through which the Bank collaborates with other MDBs, donors, and UN institutions to support development activities in member countries. Co-financing besides reinforcing cooperation, complements the Bank's development efforts. In this connection, the IDB also maintains a special partnership with the Arab Coordination Group, Islamic banks and National Development Financing Institutions (NDFIs). During 1426H, the IDB co-financed 15 projects in 12 member countries for \$1.7 billion, of which the Bank's contribution was \$368 million (22 percent). The co-financing partners included the African Development Bank, the Arab Bank for Economic Development in Africa, the Arab Fund for Economic and Social Development, the Kuwait Fund for Arab Economic Development, the European Investment Bank, the OPEC Fund, the Saudi Fund for Development and the West African Development Bank.

7.3 Participation in Other Programmes

The Bank is a member of the tripartite committee whose other members are the Permanent Inter-State Committee on Drought Control in the Sahel (CILSS) and the OIC. The Committee is responsible for accelerating the implementation of the CILSS Programme which aims at combating the effects of chronic drought in the Sahel region. The Bank has already committed \$20 million for this Programme. The IDB also manages the AL-Aqsa Fund and the Al-Quds Fund, which were established by the Arab Summit Conference held in Rajab 1421H (October 2000). The objective of these two funds is to provide assistance to the people of Palestine in education and health sectors.

The IDB also supports a programme for bilingual education in Chad and Niger and contributed \$33 million for this initiative. An international donor's conference on the subject was held in N'Djamena, Chad, in June 2004, pledging a total amount of about \$450 million, with \$300 million pledged by the IDB to support governments of Sub-Saharan African countries interested in developing bilingual education.

V. PROMOTION OF ECONOMIC COOPERATION

Promotion of economic cooperation among its member countries is one of the priority areas identified in the Strategic Plan. Accordingly, the IDB Group has developed a range of cooperation-related activities that include promotion of intra-trade and investment, enhancement of technical cooperation, support for development of the private sector and its involvement in national development. It is also strengthening cooperation with national financing 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.

²²Co-financing refers to a financing arrangement in which more than one lender contributes to funding a project under the same or different terms and conditions.

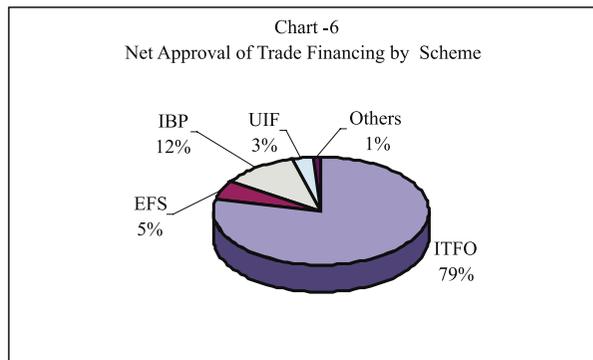
1. Trade Financing Operations

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

Financing of intra-trade operations started in 1397H (1977) and is undertaken through two major schemes namely Import Trade Financing Operation (ITFO) and the Export Financing Scheme (EFS). In addition, other entities of IDB Group and specialized funds (UIF, IBP, APIF, Treasury Department and ICD) also participate/undertake trade financing activities.

The net trade financing approvals for IDB Group by the end of 1426H (January 2006) amounted to ID18.4 billion (\$24.4 billion) for 1,811 operations.

Chart 6 depicts the share of various entities engaged in the trade financing activities of the IDB Group. Trade financing operations and initiatives undertaken by the Bank are summarized in the following sub-sections.

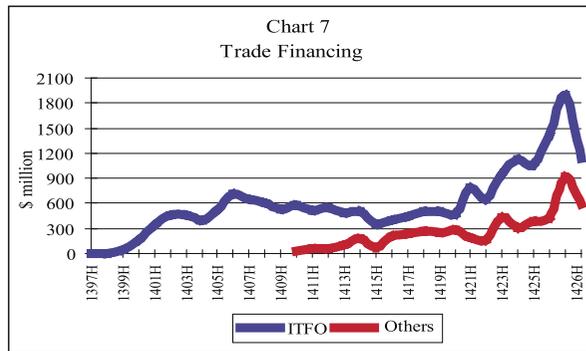


1.1 Import Trade Financing Operations

The Import Trade Financing Operations (ITFO) is by far the widely used scheme for trade financing. The funds of the ITFO mainly come from the Bank's own resources and are extended to the member countries for the import of essential development goods. To supplement these resources, funds are also mobilized from the market through syndication and Two-Step Murabaha Financing (2SMF)²³ mechanisms. During the period 1397H-1426H ITFO net approvals amounted to ID14.7 billion (\$19.2 billion) for 1,302 operations. The ITFO extends financing for the import of commodities like crude oil, refined petroleum and fertilizer etc. which accounted for 37.9 percent of its total financing followed by 26.2 percent for intermediate goods and service.

²³It 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.

The ITFO net approvals have shown increasing trend over the years (Chart 7), rising from ID43.61 million (\$50.52 million) in 1397H (1977) to ID783.9 million (\$1.1 billion) in 1426H (2006). The cumulative trade financing approvals under all widows (excluding ITFO) have also increased from \$32.43 million in 1408H (1987) to \$591.5 million by the end of 1426H (January 2006).



1.2 Export Financing Scheme

The Export Financing Scheme²⁴ (EFS) aims at promoting exports of both traditional and non-traditional commodities, and also capital goods from the participating member states. As a suppliers’ credit scheme, it aims at promoting exports from the member countries through the provision of short- and long-term financing for the exports destined to both the member and non-member countries. By the end of 1426H, the Scheme has 26 participating countries²⁵ as its members with a total contribution of ID170 million. This amount together with the IDB’s contribution of ID150 million, brings the total subscribed capital to ID320 million. The paid-up capital of the Scheme is ID134 million, of which ID75 million was paid by the Bank. The aggregate amount approved under the Scheme by the end of 1426H was ID945.9 million (\$1.3 billion) for 203 operations benefiting 19 exporting member countries.

1.3 Trade Financing by Other Windows

A number of other Funds established by the IDB, also participate in trade financing activities with the objective of promoting trade among member countries. In particular, during the period 1396H-1426H, trade financing of other windows of IDB Group has varied both in terms of number of operations and amount. Cumulatively, IBP net trade financing amounted to ID2 billion (\$2.8 billion) for 176 operations, UIF ID564.3 million (\$794.7 million) for 98 operations, and APIF ID16.4 million (\$24.3 million). In addition, the Treasury Department of the Bank and the ICD also

²⁴After the establishment of the ITFC, trade financing operations under EFS will be discontinued and its resources will be merged with the ITFC.

²⁵These countries are: Algeria, Bahrain, Bangladesh, Brunei, Cameroon, Egypt, Gabon, Indonesia, Iran, Jordan, Kuwait, Lebanon, Libya, Malaysia, Morocco, Pakistan, Palestine, Saudi Arabia, Senegal, Somalia, Sudan, Syria, Tunisia, Turkey, Uganda and United Arab Emirates.

participate in the trade financing operation and so far have contributed ID158.6 million (\$228.5 million) and ID19.8 million (\$29.3 million), respectively.

1.4 BADEA Export Financing Scheme

This is a special scheme which emerged from a MoU signed in 1418H (1998) between the IDB and the Khartoum-based Arab Bank for Economic Development in Africa (BADEA). The MoU was initially signed for three years beginning from 1419H (2001) and was renewed for another three years at the expiry of the initial period. The IDB manages \$50 million fund as a Mudarib to finance exports from the Arab League member countries to the non-Arab League member countries of the African Union. By the end of 1426H (January 2006), the Scheme has financed 22 operations in favour of importers from 11 African countries²⁶ of amount \$133.3 million. The Bank has finalised new arrangement with the BADEA to increase total amount of funding to be made available under the Scheme starting from 1427H.

2. Trade Promotion

Besides trade financing schemes described in the previous section, the Bank has following programmes designed specifically for the promotion of trade among its member countries.

2.1 Trade Cooperation and Promotion Programme

The IDB established a Trade Cooperation and Promotion Programme (TCPP) in 1415H (1994) to enhance the level of intra-OIC trade through promotion and facilitation of trade cooperation among its member countries, as well as through capacity building. The Programme is an integrated part of the IDB trade financing framework and supplements the efforts of other trade promotional initiatives. The TCPP has provided support to member countries through organizing trade fairs, seminars/workshops and meetings, and specialized training courses. Since its establishment, the Programme, on average undertakes 20 such activities on yearly basis.

2.2 Assistance for WTO-Related Matters

After the establishment of the World Trade Organization (WTO)²⁷ in 1995, the IDB established a Technical Assistance (T.A) Programme related to WTO in 1997 to help the OIC member countries to participate in the multilateral trading system. The objective of the Programme is to strengthen institutional capacity and manpower resources of member countries on WTO-related activities. The IDB extends assistance to its member countries in the areas of negotiating WTO trade rules, understanding and meaningfully applying the WTO rules, participating effectively

²⁶Namely Angola, Cape Verde, Gambia, Guinea, Kenya, Mauritius, Senegal, Seychelles, Tanzania, Uganda, and Zimbabwe.

²⁷Currently, 39 IDB member countries are members of the WTO, whose total membership stands at 149.

in the WTO processes, promoting common interests of member countries during the negotiation process, and providing technical support and advice on accession-related issues to member countries.

The IDB delivers its WTO-related T.A. by organizing consultative meetings, training courses on trade policy, seminars and workshops, studies, and providing country-specific assistance. By the end of 1426H, the IDB has organised 22 consultative meetings before, during and after the last six WTO Ministerial Conferences, organized 10 trade policy courses, 22 seminars on different WTO-related topics, and 11 workshops on the impact of some WTO agreements on member countries. In addition, the IDB conducted 5 sectoral studies and financed 13 country-specific WTO-related T.A. operations. It has also collaborated with international trade-related institutions such as the WTO, UNCTAD, ITC and WIPO in the design, development and implementation of its T.A. Programme.

3. Promotion of Intra-Investment

Promotion of intra-investment flows is important for accelerating greater economic cooperation among the IDB member countries. The IDB Group facilitates intra-investment flows to member countries through a number of activities such as supporting organization of investment conferences, facilitating joint ventures among member countries, and giving priority to financing those projects which benefit two or more member countries. The IDB has organized a number of investment conferences to create awareness among prospective investors about existing opportunities in member countries.

In June 2004, the Bank organized an expert group meeting on “Enhancing the Capacity of Financial Markets to Promote Intra-Investment among IDB Member Countries”. As a follow-up, a Task Force was setup which prepared and presented an Action Plan to the OIC Economic Conference held in Istanbul in November 2004. In 2005, the IDB has organized two other meetings on intra-investment, one in Petaling Jaya, Malaysia on the occasion of the inaugural session of the World Islamic Economic Forum, and the second in Jeddah on the occasion of the 9th International Business Forum. The thrust of these meetings was to develop networking amongst the business community of member countries.

The IDB has recently launched an Investment Promotion Technical Assistance Programme (IPTAP) jointly in collaboration with the ICD and the ICIEC. The objective of the programme is to assist member countries in attracting Foreign Direct Investment (FDI). The Programme covers two broad areas (a) technical assistance, and (b) investment promotion capacity building of member countries. The Programme will be carried out in cooperation with three external partners, the Multilateral Investment Guarantee Agency (MIGA), the United Nations Industrial Development Organization (UNIDO), and the Malaysian Industrial Development Authority (MAIDA). The ICIEC is responsible for the management and implementation of the Programme, which aims to disseminate information on

best practices, building institutional capacity of investment promoting agencies, and establishing Investment Promotion Network among member countries.

In addition, the IDB provides lines of financing to the National Development Financing Institutions (NDFIs), cooperates with the Association of NDFIs in member countries, and with the Islamic Chamber of Commerce and Industry (ICCI), as well as with other Islamic banks, in order to further enhance intra-investment flows among member countries. The IDB has made efforts to facilitate the enactment of an appropriate legal framework under the OIC “Agreement for the Protection and Guarantee of Investment Among Member Countries” which is expected to further improve prospects for intra-investment.

4. Technical Cooperation Programme

The Bank is committed to enhancing the quality of human resources and building institutional capacity for achieving socio-economic development in its member countries. The Technical Cooperation Programme (TCP) of the IDB was established in 1403H (1983) to reinforce institutional capacity of member countries and in turn accelerate their development.

The TCP provides on-the-job training, finances study/familiarization visits, recruits experts, and organises seminars and workshops. The priority areas identified for the Programme are finance, education, agriculture and environment. However, some additional sectors like industry, and transport and communication are also included in the Programme. The special consideration is given to requests received from the Commonwealth of Independent States (CIS) and LDMCs.

By the end of 1426H (January 2006), the TCP has financed 1,312 operations for \$28.4 million in member countries and regional/international institutions. Out of this, 590 operations for \$10 million were approved for training, 230 operations for \$4.0 million for experts’ services and 492 operations for \$14.4 million were approved for organizing seminars and workshops.

5. Cooperation with International Organizations

The IDB Group participated in collaborative activities to promote commercial and economic cooperation among its member countries. In this regard, the IDB has developed working relationship with several organizations sharing common vision and objectives. The following is a brief account of such cooperation.

5.1 Cooperation with the OIC and its Affiliated Organs

The IDB since long has recognized the importance of strengthening cooperation with relevant international organizations for the betterment of its member countries. The IDB has special cooperation with the General Secretariat of the OIC, its subsidiary organs, specialized institutions and affiliate organizations. Over the years, the IDB has developed strong working relationship with the Statistical, Economic and Social

Research and Training Centre for Islamic Countries (SESRTCIC) (Ankara, Turkey), the Islamic Centre for Development of Trade (ICDT) (Casablanca, Morocco); the Islamic Chamber of Commerce and Industry (ICCI) (Karachi, Pakistan) and the Islamic University of Technology (IUT) (Dhaka, Bangladesh). The nature of cooperation between the Bank and these institutions involves collaboration in the areas of research, training, information exchange and joint working groups. These institutions regularly undertake activities of special interest to the IDB. In addition, the Bank participates and holds consultative meetings on the periphery of the annual meeting of the Standing Committee for Economic and Commercial Cooperation (COMCEC), Islamic Commission for Economic, Cultural and Social Affairs (ICECS) and Islamic Conference of Foreign Ministers (ICFM) to exchange views and develop collaborative programmes.

During the 3rd extraordinary OIC Summit which was held in Makkah Al-Mukarramah in December 2005, the IDB played a significant role and is making efforts to implement the programmes identified in the Ten-Year OIC Programme of Action. The Summit has called for the increase in the IDB capital and assigned special role to the IDB in areas of supporting economic development, poverty alleviation, higher education, science and technology and assisting countries facing natural disasters.

The IDB has contributed in the development and implementation of programmes in the areas of intra-trade, training, literacy, and health. Under the Self-reliance on Vaccine Production Programme (SRVP), which aims at producing affordable quality vaccine, the IDB has contributed \$5.6 million for the programme and committed \$2.18 million for six technical assistance operations in Algeria, Egypt, Iran, Kyrgyz Republic, Malaysia, and Tunisia. In order to reduce illiteracy rate in member countries, the Bank has allocated \$3.5 million for literacy programmes in ten countries²⁸. The IDB has also organized numerous seminars, conferences, courses and workshops related to trade, economics, health, education, information and communication technology, finance, tourism, SMEs, agriculture, cotton, water resources, and transport. The IDB also provides financial support to some organizations established with the support of the OIC.

5.2 Regional Organizations

The IDB promotes regional economic cooperation as a policy for developing regional integration among its member countries. The Bank maintains close working relations with regional organizations especially those with common membership. The Bank has signed MoUs with several regional organizations including the Arab Maghreb Union (AMU), the Economic Cooperation Organization (ECO), the Gulf Cooperation Council (GCC), and the Economic Community of West African States (ECOWAS). Under these MoUs, the IDB extends assistance for promoting economic

²⁸Bangladesh, Chad, Djibouti, Gambia, Jordan, Mauritania, Morocco, Sierra Leone, Sudan and Yemen.

and social development in member countries. For instance, IDB has provided assistance to ECO for a feasibility study on Interconnection of Power System and development of a Multi-modal Transport System. In 1426H, the Bank extended technical assistance to the GCC Secretariat to study institutional role in promoting regional integration. The Bank also provides financial and technical assistance to regional organizations for implementing projects in various fields.

The IDB has taken initiative to facilitate cooperation between two or more regional grouping in Asia and Africa in collaboration with the Asian Development Bank (ADB) and the African Development Bank (AfDB). In addition, the Bank has strengthened relationship with the several other regional organizations where its member countries belong, such as African Economic and Monetary Union (UEMOA), the Common Market for Eastern and the South Africa (COMESA) and the Association of South East Asian Nations (ASEAN).

5.3 International Organizations

The IDB strives to forge coordination and strategic alliance with other development partners to be able to better coordinate delivery of assistance and to enhance the level of development in member countries. The IDB maintains a close working relationship with multilateral and regional development financing institution as well as with specialized bodies of United Nations (UN). It also collaborates and participates in the relevant initiatives taken at global and regional levels. The Bank maintains collaboration with multilateral institutions including the World Bank (WB), the International Monetary Fund (IMF), the Asian Development Bank (ADB), the African Development Bank (AfDB), and the European Bank for Reconstruction and Development (EBRD). In 1426H, the Bank initiated a review of its relationship with other MDBs with the objective of updating areas of cooperation and joint activities. It is participating with other MDBs in the Nile River and the Niger Basin initiative for the development of water sector and is a member of the task force of MDBs on initiative “Water for All”. The Bank is also cooperating with international donors on fast track initiative “Education for All” in Burkina Faso, Guinea, Mauritania, and Niger.

The IDB’s collaborative activities with the UN agencies are aimed at assisting member countries in achieving MDGs targets by year 2015 and their integration into the global trading system. Consequently, the IDB continues to broaden the scope of relationship with the UN specialized institutions including Food and Agriculture Organization (FAO), the International Fund for Agriculture Development (IFAD), United Nations Conference on Trade Development (UNCTAD), International Trade Centre (ITC), United Nations Development Programme (UNDP), the World Health Organization (WHO) and the World Trade Organization (WTO).

6. Cooperation with Institutions of Member Countries

The IDB develops synergy and alliances with major financing institutions and organizations of member countries to strengthen their abilities to contribute more in

the development process. The cooperation with financial institutions includes joint activities, capacity building and extending line of financing.

6.1 Collaboration with Arab Coordination Group

The IDB collaborates with Arab national and regional developments financing institutions which are providing significant development assistance to member countries. Since its inception, the IDB has maintained a good working relationship with the Arab Coordination Group²⁹ and participated in all their events. The IDB enhances its development role by co-financing projects in member countries jointly with other development partners. In the last three years, the Bank has organized round table meetings of the Coordination Group and IDB's member countries in the CIS and the African region to identify projects for co-financing by the members of the Group. In 1426H, a round table meeting was held in IDB's headquarters, where it was agreed to finance the construction of two dams in Mali and Niger.

6.2 National Development Financing Institutions

The IDB has developed close working relations with the National Development Financing Institutions (NDFIs) to contribute effectively to the promotion of private sector in member countries and development of small and medium scale enterprises (SMEs). It reaches out to NDFIs for strengthening their capacity and enhances financing for pro-growth and employment generation activities of SMEs. Accordingly, the IDB provides line of financing in the form of Leasing, Instalment Sale and Istisna'a with a view to cover a large number of projects to spur competition and efficiency in the SME sector. By the end of 1426H, IDB has provided 31 lines of financing to 15 member countries at total cost of ID244.64 million (\$318.94 million).

The Bank also extends technical assistance for capacity building of these NDFIs through training of staff for proper management of SMEs portfolios. The IDB also supports cooperation and coordination among NDFIs by sharing best practices to improve their efficiency. In order to further increase the utilization of the lines of financing, the IDB has made provision of 'free limit', authorizing the NDFIs to approve sub-projects up to 25 percent of the overall approved amount of the lines, and providing the NDFIs with a margin of 3-5 percent, on top of the Bank's markup.

The Bank holds meeting with the NDFIs, every year, on the occasion of 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.

²⁹The members of the Coordination Group are: Abu Dhabi Fund for Development; Arab Bank for Economic Development in Africa; Arab Fund for Economic and Social Development; Kuwait Fund for Arab Economic Development; OPEC Fund for International Development; Saudi Fund for Development; and Islamic Development Bank.

VI. PROMOTION OF ISLAMIC FINANCIAL SERVICES INDUSTRY

Well functioning financial services industry plays an important role in enhancing sustainable economic development by providing businesses and households access to financial services. It also facilitates resource mobilization for financing economic development as well as supports the flow of investment and trade. Hence, the promotion of the Islamic Financial Services Industry (IFSI) is one of strategic objectives of the IDB Group.

Since its inception, in collaboration with other stakeholders, the IDB has been playing a leading role in promoting and strengthening Islamic financial institutions both in member and non-member countries. As a result, Islamic financial services industry has emerged as a viable system for mobilizing savings and financing investment projects in different parts of the world. Despite the consistent and impressive growth shown by the IFSI during the last three decades, there is a potential for future expansion. Recent economic growth in some member countries and ample liquidity available in the financial sector provide further opportunities for expansion of the IFSI. However, attaining higher sustainable growth requires sound and competitive financial institutions, building credible financial infrastructure, including Shari'ah-compliance, prudential regulation and effective supervision.

Growing demand for Islamic financial services requires orderly development of the industry and making financial services accessible to all segments of the population. The IDB has been at the vanguard of developing financial infrastructure institutions, promoting dialogue, coordinating and harmonizing standards, and sharing best practices. These are crucial for standardization of the Islamic financial products and making the IFSI competitive, transparent and viable. Developing national financial infrastructure also requires the implementation of international standards in the domestic environment to enable the national financial industry to perform in compliance with international standards and norms.

The IDB has contributed to the development of Islamic banks and other financial institutions through equity participation, product development through research, human resource development, and training activities. A brief summary of the major contributions made by the IDB in the development of IFSI is as follows:

1. Development of New Modes of Financing

The IDB has developed and operationalized Shari'ah-compliant modes such as loan, equity, leasing, profit sharing, instalment sale, and Istisna'a, which are used for project financing, while trade financing is based on Murabaha. Since 1424H (2003), the Bank has introduced Sukuk for mobilizing resources from the international market. It has also developed a number of Shari'ah-compatible funds which are used for mobilizing additional resources.

2. Strengthening Islamic Finance Architecture

Over the past two decades, the IDB in collaboration with other stakeholders and has been instrumental in establishing and strengthening of a number of Islamic institutions. It has contributed in the development of Shari'ah-compliant financial architecture such as standards, best practices and financial infrastructure. These institutions are mainly aimed at enhancing the level of transparency, prudence, corporate governance, and risk management in the industry. The IDB has supported the establishment of the following Islamic financial infrastructure institutions:

Name	Year of Establishment	Objectives
The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), Bahrain	1411H (1991)	Develop accounting, auditing and Shari'ah standards for adoption in the financial reporting of Islamic Financial Institutions
International Islamic Financial Market (IIFM), Bahrain.	1421H (2001)	Develop Shari'ah enhancement and guidelines for issuance of Islamic financial instruments, and to encourage active secondary market trading.
The Islamic Financial Services Board (IFSB), Malaysia.	1423H (2002)	Promote development of prudent standard and effective supervision, guidelines for Islamic financial services industry and recommend their adoption by the regulatory authorities.
International Islamic Rating Agency (IIRA), Bahrain.	1423H (2002)	Conduct rating of the entities, determine financial strength, fiduciary risk and credit worthiness of the issuer along with assessment of Shari'ah compliance.
Liquidity Management Centre (LMC), Bahrain.	1423H (2002)	Facilitate development of inter-bank money market and provide short-term investment opportunities with greater Shari'ah credibility.
The General Council of Islamic Banks and Financial Institutions (CIBAFI), Bahrain.	1422H (2001)	Promote cooperation amongst Islamic financial institutions, develop concepts, rules, provisions, share related information and develop better understanding with the regulatory bodies.
International Islamic Centre for Reconciliation and Commercial Arbitration (IICRCA), Dubai, UAE.	1425H (2004)	Conduct mediation of disputes and adjudicate on financial and commercial disputes which can arise between the Islamic financial institutions, and between these institutions and/or third parties.

3. Participation in the Equity of Islamic Banks

The IDB supports the growth of Islamic banks by participating in their equity, providing them co-investment opportunities, and building their capacity through training, and research. The IDB has assisted in establishing a number of Islamic banks in member countries and particularly by way of equity investment. It has equity investments in the share capital of 29 Islamic banks and financial institutions worldwide with a total amount of ID94.35 million (\$138.59 million). The IDB has also contributed in the establishment of re-takaful (re-insurance) company to support trade operations of the Islamic banks. Recently, the IDB has contributed in the establishment of a re-takaful company in UAE and participated in the equity by investing \$12 million.

4. Research and Training

The IDB through IRTI undertakes a range of services for facilitating the development of the basic financial architecture of the industry, and ensuring the appropriate financial infrastructure to enable the financial industry to perform in compliance with the best practices and international standards. IRTI undertakes research, provides training and information services in the fields of Islamic economics, banking and finance. In the area of research, IRTI conducts basic and applied research for developing models and methods for application of Shari'ah in the fields of economics, banking, and finance. The training activities of IRTI are undertaken to build skills and human capacity of member countries. These activities involve conducting specialized training courses and workshops mainly in the field of Islamic economics, banking and finance, private sector development and macro-economic management.

5. Policy Dialogue

The IDB Group aims to promote strategic dialogue among its various stockholders including public, regulators and supervisors, international and regional institutions, and users of Islamic services. In an effort to create awareness of Islamic banking and finance, the Institute prepared and presented several papers at international forums and has finalized a document entitled "Islamic Financial Services Industry: 10 Year Master Plan Framework" jointly with IFSB, as an international policy dialogue document. In order to develop Islamic financial infrastructure, an Islamic Financial Sector Development Working Group has been established comprising top experts from a number of relevant institutions. The Islamic Financial Sector Development Forum has been established which meets on the occasion of annual IDB Board of Governors meeting. A document entitled Islamic Financial Sector Development Review will be prepared annually by the Working Group, which will be discussed in the Forum for sharing country experiences and ensuring orderly developments of the IFSI.

VII. HUMAN DEVELOPMENT THROUGH SCIENCE & TECHNOLOGY

1. Science and Technology

Science & Technology (S&T) plays an important role in human development and economic progress of member countries. Over the years, the IDB has increasingly financed S&T projects and programmes, including building institutional capacity, procurement of advanced equipment for laboratories, infrastructure building for hospitals and universities, and establishment of S&T education and applied research institutions. The IDB has provided assistance, among others, to the Ghulam Ishaq Khan Institute of Engineering Sciences and Technology, and the Institute of Advanced Training in Pakistan, the International Biosaline Agriculture Centre in Dubai, the Marmara Research Centre in Turkey, the Sharif University of Technology in Iran, the Institute of Health Sciences in Maldives, the Polytechnic Institute in Yemen, the BINA Bio fertilizer Centre in Bangladesh, the Leather Technology Centre in Sudan, the Paduke Seri Bagawan Sultan Science College in Brunei Darussalam, and the Institute of Physics and Technology in Kazakhstan.

The IDB implements its programme for the development of S&T in collaboration with relevant OIC institutions and partners, including the OIC Standing Committee on Science & Technology (COMSTECH); the Islamic Academy of Sciences (IAS); the Islamic University of Technology (IUT); the Islamic Educational, Scientific and Cultural Organization (ISESCO); as well as with some of UN agencies, regional and national institutions and non-governmental organizations. The IDB is also collaborating with the International Islamic Forum for Science and Technology and Human Resource Development (IIFTIHAR); African Regional Centre for Technology (ARCT); and the PATHFINDER Foundation for Education and Development, which is a NGO dedicated to the development of S&T and its application in Africa.

The IDB has initiated other S&T programmes which includes scheme to hold eight workshops annually, launched in 1419H(1998), with a contribution of \$200,000 per year. A series of regional symposia has been organized under the theme of “Investing in Technology” designed to bring together the public, private sector and investors, to support OIC Inter-Islamic S&T Networks series of scientific workshops. By the end of 1426H, the Bank completed seven cycles of implementation of the series and eight OIC science and technology Networks have been established by the COMSTECH; for Water resources in Jordan (INWARDAM); Renewable Energy Sources in Pakistan (INRES); Space Science and Technology in Pakistan (ISNET); Oceanography in Turkey (INOC); Genetic Engineering and Biotechnology in Egypt (INOGE); Tropical Medicine in Malaysia (INTROM); Biosaline Agriculture in UAE (ICBA); and Information and Communication Technology in Pakistan (INIT).

Other initiatives include S&T Expatriate Nationals Programme with the objective of promoting Centres of Excellence in the IDB member countries. The purpose of this Programme is to mitigate the adverse effects of “Brain-Drain” phenomenon at

the level of young scientists and to facilitate their returns, in order to benefit from their expertise.

The IDB has launched the Young Research and Support Programme (YRSP), which provides scholarships/grants to selected young researchers from the IDB member countries ranging from \$8,000 to \$15,000. In the first test year of this programme 1422H (2001), the IDB has approved a total of \$350,000 benefiting fifteen researchers.

The IDB continues to promote scientific research and education by supporting deserving institutions in member countries towards achieving excellence, the IDB has introduced IDB Prize for S&T since 1423H. This prize amounting to \$100,000 is given to three institutions every year. The IDB also facilitates cooperation among centres of excellence in member countries by encouraging joint projects through grants and so far it has approved two activities for \$145,000.

The Ten-Year Programme of Action approved during 3rd extraordinary OIC Summit also highlighted the need for improving S&T and higher education in the Muslim World. The IDB in 1426H has announced financing of up to 10 percent of the member countries' annual programme in S&T. Over the past 4 years, the IDB has approved 44 projects in the area of S&T for member countries of amount \$393.92 million and 25 Technical Assistance Operations for \$5.29 million.

2. Human Resource Development

The IDB programme for the development of S&T is undertaken through the provision of assistance to scientists, scholarships for higher studies, research and forging of cooperation among member countries for sharing experiences and knowledge.

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 IDB has developed three types of Scholarship Programmes; (i) M.Sc. Programme for Science and Technology, (ii) Merit Scholarship Programme for High Technology, and (iii) Scholarship Programme for Muslim Communities in Non-Member Countries. The activities of these programmes are as follows:

2.1 M.Sc. Programme for Science and Technology

The M.Sc. Programme of the Bank was launched in 1418H (1997) and is aimed to develop human resources, especially in the areas of S&T. Twenty LDMCs³⁰ are eligible to benefit from the Programme. The Programme places the selected students in various universities and centres of excellence in member countries in courses

³⁰These countries are: Afghanistan, Benin, Burkina Faso, Chad, Comoros, Djibouti, The Gambia, Guinea, Guinea-Bissau, Maldives, Mali, Mauritania, Mozambique, Niger, Palestine, Sierra Leone, Somalia, Togo, Uganda, and Yemen.

related to their national needs and based on the requirement of their development programmes. A new feature of the Programme allows students from LDMCs to register for qualifying courses for doctoral research as well.

Between 1419H (1999) and 1426H (2006), 160 students were selected for the Programme of which 65 students have graduated, 42 students are currently enrolled and 4 students are registered for PhD programme. By the end of 1426H, the total approval for the Programme amounted to ID0.58 million (\$0.77 million).

2.2 Merit Scholarship Programme for High Technology

The Merit Scholarship Programme for High Technology (MSP) introduced in 1411H (1991-92) provides scholarships for advanced studies and research in science and applied technology. The objective is to develop technically qualified human resources and enhance scientific and technological capabilities of institutions in member countries. The scholarships are awarded to outstanding scholars and researchers to undertake advanced studies/research in 16 selected areas, which are considered important for the development of the member countries. The scholarship holders are accepted at selected institutions and universities approved under the Programme. The term of study is three years for a doctorate degree and one year for a post-doctorate research. Initially, the Programme was launched for 5 years with a total approved budget of \$9.2 million to train approximately 80 scientists. However, after evaluation, the Programme has been extended twice. The Programme has also been enhanced by increasing the number of yearly scholarships from 20 to 35. Institutions in the fast emerging high-tech countries of Asia and other member countries are included for higher studies. In 1426H, the Bank has increased the number of MSP scholarships from 35 to 50 and an additional allocation of \$2 million will be made for the programme every year, starting from 1427H.

In its thirteen years of implementation, the Programme has selected 297 scholars from 178 institutions in 44 member countries, of whom 170 have completed their PhDs and returned to their home institutions/countries, while 127 are studying in their PhD Programmes. The total amount spent on the Programme up to the end of 1426H stood at ID9.3 million (\$12.4 million).

2.3 Scholarship Programme for Muslim Communities

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

Independent States (CIS) and East European countries. The Programme is designed especially for Muslim communities in non-member countries; however, 9 member countries³¹ are also entitled to benefit from it on an exceptional basis. Under the Programme, grant scholarships have been given to students from 46 Muslim communities including 9 IDB member countries.

To facilitate the implementation of the SPMC, the Bank usually requests its member countries to place students on IDB Scholarship in their universities, whenever they are unable to study in their own countries. Accordingly 12 member countries have SPMC students, of which two (Turkey and Tunisia) have signed MoUs with the IDB for this purpose.

In June 2005, another MoU was signed between the IDB and the Malaysian Government to enable the IDB to place 40 students under all three IDB Scholarship Programmes in Malaysian universities starting from Academic year 2006. More assistance is expected from other member countries. Since inception of the Programme, IDB has approved ID41.3 million (\$55 million) benefiting 7,642 students from 46 countries, of which 4,352 students have completed their studies, 734 students (10 percent) are dropped out, and 2,556 students are at various stages of completion.

VIII. KNOWLEDGE GENERATION AND DISSEMINATION

The IDB has been striving to become a knowledge-based institution. To this end, it has taken a number of initiatives which are presented in the following sections:

1. Knowledge Acquisition and Dissemination

1.1 Distance Learning Centre

The Distance Learning Centre (DLC) was established in December 2002 at the IDB headquarters to facilitate the participation of IDB staff in international video conferencing events. The DLC, through distance learning courses, assists in the exchange of knowledge, capacity building, and dissemination of best practices.

The objectives of the DLC are to: (i) provide 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.

Since its inception, the DLC has organized 21 IRTI courses, including 10-week lecture series as part of a post graduate course on Islamic banking and finance for

³¹These countries are: Afghanistan, Palestine & Somalia on exceptional basis and Albania, Azerbaijan, Cote d'Ivoire, Kazakhstan, Mozambique and Togo on case by case basis.

universities in five countries namely Lebanon, Kuwait, Pakistan, Iran and UK (for Muslim students). The DLC has also provided to the staff of the Bank access to online seminars, webinars, training courses, etc. In addition, the DLC has organized 30 capacity development training courses and 103 video conferences for various departments of the IDB Group. The IDB provided financial assistance for establishing four new distance learning sites in three countries and Technical Assistance was provided to two new video conference centres in Lebanon and Kuwait. The centre has also installed web-casting equipment for wider dissemination of IRTI lectures and organization of other similar events.

1.2 Information Technology

Building a robust information technology infrastructure and modern information systems is the objective of the Bank's Information Technology Plan (ITP). The Bank has prepared a Group wide ITP Strategic Plan aiming to develop information system to support IDB's present and future business needs. The objective of the ITP is to build IT environment that can enhance the capacity of the Bank in serving its clients, and performing its internal procedures efficiently.

Communication systems have been enhanced to facilitate the flow of information among the Bank, member countries, regional offices, and International Organizations. To facilitate this, internal, external messaging services using secure Virtual Private Network (VPN), Routing services, and SWIFT System etc, have been installed. To enable IDB's business clients easy and speedy online access to various IDB Group services, the IDB Group's new web portal is being redesigned. Meanwhile the I.T Department has implemented wireless network within the IDB and has started Web-casting important events internally through the Local Area Network. The IDB's enterprise business applications were implemented in the areas of Human Resource Management, Projects, Finance and Treasury Operations.

1.3 IDB Library

The IDB library has an extensive collection of printed and non-printed materials to meet the information need of the Bank staff in the areas of economics, finance, investment, science, business, trade, and information and communication technology. The library has a collection of 65,000 titles of print and non-print materials, over 500 international journals and online access to a number of international databases including the World Bank and IMF such as WDI, GDF and IFS. The electronic information sources include Country Reports of Economist Intelligence Unit, British Library Supply Centre, and the World Bank e-library. The website of the IDB library provides information on member countries, links to the library bibliographic database, library information bulletins, and other useful online information services. The Library Management System provides the staff with access to a wealth of information relevant to their interest and can do online catalogue search based on different parameters.

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

1.4 Knowledge Management

The IDB has adopted a knowledge management (KM) framework with a view to transforming itself into a knowledge-based institution where it can share and integrate good practices in its day-to-day operations. The KM strategic framework has been adopted to drive the short and medium-term activities of the IDB's KM initiative. The Knowledge Management Programme (KMP) of the IDB Group became operational in 1425H and its main objectives are: (i) to capture, organize and share knowledge and experiences of the IDB Group; and (ii) make this knowledge readily accessible to a wide audience inside and outside the IDB Group.

Under the KMP, Oral History interviews have been conducted to capture significant "tacit knowledge" of the IDB Group (i.e stories, memories, feelings, perspectives and interpretations of value), that generally do not find their way into written reports. A steering committee is supervising the implementation of KMP and each department/entity has designated two staff members as coordinator and associate coordinator respectively for the KM activities. The program also pursues initiative for developing concept for knowledge based economy (K-economy).

1.5 Records and Documents Management

The Record and Document Management (RDM) programme is an integrated part of the Bank's Information Technology Plan (ITP) for improving management of records including documents and publications with the objective of making IDB a paperless organization. The purpose of establishing IDB Group Scanning Centre and the Departmental Electronic Achieves was to collect, prepare, scan, index and make the information available online through intranet website for the benefit of the IDB Group staff. By the end of 1426H, over 175,000 documents comprising 2 million pages were digitized and published online and 16 Department/Offices have stored their documents electronically.

2. Knowledge Generation

2.1 IDB Annual Symposium

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

By the end of 1426H, 17 symposia have been organized covering topics specific to the needs of member countries and are as follows:

Sl. No.	Topic	Country	Year
1.	Agricultural Development and Food Security in OIC member countries	Rabat, Morocco	Rajab 1409H (February 1989)
2.	Counter-Trade Arrangements: Survey and Critical Review	Algiers, Algeria	Sha ban (February 1990)
3.	Promotion of Joint Ventures among OIC Member Countries	Cairo, Egypt	Shul Qada 1411H (May 1991)
4.	Enhancing the Scientific and Technological Capabilities of OIC Member Countries	Tripoli, Libya	Sha ban 1412H (February 1992)
5.	Promotion of Exports Among OIC Member Countries	Tehran, Iran	Jumad Awal 1413H (November 1992)
6.	Obstacles and Opportunities for Investment in the Least Developed African IDB Member Countries	Banjul, The Gambia	Jumad Awal 1414H (November 1993)
7.	Human Development in the Islamic World	Conakry, Guinea	Rajab 1417H (November 1996)
8.	Preparing the Ummah for the Twenty-First Century: Implications of the Uruguay Round Agreements and the WTO for IDB Member Countries	Damascus, Syria	Rajab 1418H (November 1997)
9.	Preparing the Ummah for the Twenty-First Century: Promotion of Information Technology for Development	Cotonou, Republic of Benin	Rajab 1419H (November 1998)
10.	Preparing the Ummah for the Twenty-First Century: Enhancing Private Sector Participation in Physical Infrastructure Development	Jeddah, Saudi Arabia	Rajab 1420H (November 1999)
11.	Resource Mobilization from Capital Markets for Financing Development in IDB Member Countries	Beirut, Lebanon	Sha ban 1421H (November 2000)
12.	Enhancing Productivity and Competitiveness in the IDB Member Countries	Algiers, Algeria	Sha ban 1422H (October 2001)
13.	Women in Poverty Alleviation: Better Access to Education and Micro Finance	Ouagadougou, Burkina Faso	Sha ban 1423H (October 2002)
14.	Cooperation among OIC Member Countries for Intra-Investment	Almaty, Kazakhstan	Sha ban 1423H (September 2003)
15.	Health Millennium Development Goals: reversing the incidents of Malaria in IDB member countries	Tehran, Iran	(Rajab 1424H) August 2004
16.	Knowledge and ICT for Development (KICT4D)	Kuala Lumpur, Malaysia	Rabi Thani 1426H (June 2005)

2.2 Occasional Papers

The Bank started preparing occasional papers in 1419H (1998) with a view to studying and analysing cross cutting economic issues of concern to the member countries. The Occasional Papers, which distributed at the Annual Meeting of the IDB Board of Governors as well as hosted on IDB Website. The Occasional Papers provide a critical assessment of various economic development issues facing member countries.

The following are the topics covered in Occasional Papers:

Sl. No.	Topics	Years
1.	Asian Financial Crisis: An Overview and Major Lessons for IDB Member Countries	(1419H/1998)
2.	Preparing the Ummah for the Twenty-First Century in the Area of Economic; Trade and Financial Cooperation among the OIC Member Countries	(1419H/1998)
3.	The Challenges of Poverty Alleviation in IDB Member Countries	(1420H/1999)
4.	Challenges Facing Islamic Banking	(1420H/1999)
5.	Capacity Building for Promotion of Trade and Intra-Trade in IDB Member Countries	(1421H/2000)
6.	The Role of Financial Markets in Private Sector Development in IDB Member Countries	(1421H/2000)
7.	Regulation and Supervision of Islamic Banks	(1421H/2000)
8.	Exploring Trade Complementarities among the IDB Member Countries	(1421H/2000)
9.	Promotion of Investment Flow among IDB Member Countries	(1422H/2001)
10.	Survey of Risk Management Issues in Islamic Financial Industry	(1422H/2001)
11.	Resource Constraints in Financing Economic Development in IDB Member Countries	(1423H/2002)
12.	Challenges of the New WTO Agenda for IDB Member Countries	(1423H/2002)
13.	Corporate Governance in Islamic Financial Institutions	(1423H/2002)
14.	Grain Production in IDB member Countries	(1424H/2003)
15.	Islamic Method of Financing Government Expenditures	(1425H/2004)
16.	Financing Basic Education in IDB Member Countries	(1425H/2004)
17.	The Role of Zakat and Awqaf in Poverty Alleviation	(1425H/2004)
18.	Water Resource Management Enhancing cooperation in IDB member countries	(1426H/2005)
19.	Islamic Capital Markets Products: development and challenges	(1426H/2005)

2.3 IRTI Knowledge Activities and Training

IRTI contributes to knowledge creation activities of the IDB Group. Research activities of IRTI are focused on themes such as financial stability, corporate governance and transparency, risk management, market discipline and efficiency,

product development, legal framework and efficiency of Islamic banks. In order to overcome the non-availability of qualified instructors, IRTI has initiated two learning programmes in the area of Islamic finance, and economics by making use of distance learning technology. The training programme of IRTI has four themes; (i) private sector development, (ii) macroeconomic management, (iii) human resource management, and (iv) Islamic Economic, Banking and Finance.

IRTI pursues a knowledge management strategy making use of information and communication technology tools for both accumulation and dissemination of information. IRTI is also developing a publication management system, and Database systems on Experts/Scientists in member countries and Islamic banking information.

IX. CHALLENGES AND THE WAY FORWARD

During the past 32 years, the IDB has strived to meet the challenges arising from various fronts including global environment and member countries' ever-growing needs. In recent years, to make its development assistance more focused, IDB has prepared strategic Framework from which a Five-Year Strategic Plan was developed. The challenges of meeting the targets and goals set in the Plan are daunting and require enough capital which IDB has been exploring through innovative schemes such as Sukuk which is a useful instrument for resource mobilization. To further reinforce the need for additional resources for the Bank, the 3rd extraordinary OIC Summit has mandated the IDB to raise its authorised capital.

Promoting economic cooperation among its member countries has remained an important strategic objective of the IDB Group since inception. The Bank plays a pivotal role in programmes aimed at promoting mutually beneficial and complementary activities at country and regional levels. Thus, promotion of intra-trade and intra-investment is pursued by the Bank as an essential mechanism for enhancing cooperation and realizing sustained economic growth in member countries. The establishment of a new entity called International Islamic Trade Finance Corporation (ITFC) will further consolidate and enhance trade financing activities of the Bank, while it is important for member countries to increase intra-trade and improve intra-investment climate.

Over the past three decades, the IDB Group has launched various initiatives to support poverty alleviation programmes in its LDMCs. Poverty alleviation in member countries was adopted as one of the three Strategic Objectives of the IDB Group. The Bank under the Ouagadougou Declaration, adopted in 2002 has committed to invest \$2 billion during five years (1423H-1428H) in its African LDMCs. More recently, the 3rd extraordinary OIC Summit has called for supporting development and poverty alleviation in Africa. Accordingly, the IDB is considering establishing a special Fund for Poverty Alleviation, which will further strengthen the Bank's capacity to provide concessional financing for poverty alleviation programmes for deserving member countries.

Private sector is widely recognized as an important player in any economy. The IDB has been supporting the private sector development in its member countries by providing Technical Assistance for building their capacity to enhance the growth of SME sector. The Bank has also developed and successfully implemented micro-credit schemes for beneficiaries in member countries. It is well established that the growth of the SMEs has the potential of having overriding impact on both employment generation and poverty reduction. Other entities and members of the IDB Group especially the ICD and the ICIEC would continue to play a vital role in the development of private sector in member countries.

The Islamic financial industry has witnessed remarkable growth during the last three decades and has bright prospects in the years to come. The capital, deposits and assets of the Islamic banks have also grown substantially. However, in order to sustain the pace of growth in Islamic banking industry, there is a need to promote Insurance and financial service industry, which in turn requires developing human resources, regulatory standards, norms, sophisticated financial products, options, and overcoming international concerns on transparency, and ethical standards in corporate affairs.

The rapid development of science and technology and lack of access to these technologies in member countries is a major challenge. If appropriately promoted, science and technology can present great opportunities for economic progress of member countries. Promotion of science and technology through focused interventions in the key areas of information and communication technology, electronic, petrochemical and biotechnology can help to create adoptable technological application which can prove to be a driving force for future development. This will require developing infrastructure for research, institutions, human resources and mechanism for knowledge creation and dissemination.

The IDB will continue to build synergy with the development partners to provide development aid for its middle- and low-income countries. In this regard, the Bank is engaged in co-financing activities with sister institutions to increase development assistance and provide much needed resources to foster development of its member countries.

As a dynamic institution, the Bank regularly reviews its activities to learn lessons and draw best practices for future interventions in its member countries. Such reviews have made the Bank more effective and efficient both in terms of programmes and procedures which have been streamlined to respond to various issues and challenges.

As a result of being granted AAA rating by Standard & Poor's since 2002, the IDB has continued to strengthen its institutional effectiveness in order to sustain its financial soundness and maintain its classification as zero-risk weighted MDB under the new Basel Capital Accord issued by the Bank of International Settlements in June 2004.