



## ISLAMIC DEVELOPMENT BANK



**41** Years in the Service of Development



Islamic Development Bank

**41 YEARS  
IN THE SERVICE OF DEVELOPMENT**

Rajab 1436H (May 2015)

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Information Brochure  
Rajab 1436H (May 2015)

ISSN 1658-4449

## **IDB GROUP ENTITIES: SUMMARY**

### ***Islamic Development Bank Group***

The IDB Group comprises five entities: the Islamic Development Bank (IDB), the Islamic Research and Training Institute (IRTI), the Islamic Corporation for the Development of the Private Sector (ICD), the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), and the International Islamic Trade Finance Corporation (ITFC).

### ***Islamic Development Bank (IDB)***

IDB is an international financial institution established in 1395H (1975) in pursuance of the Declaration of Intent issued by the Conference of Finance Ministers of Muslim Countries held in Jeddah in 1393H (1973). The main objective of IDB is to foster economic development and social progress of member countries and Muslim communities in non-member countries in accordance with the principles of the *Shari'ah* (Islamic law).

### ***Islamic Research and Training Institute (IRTI)***

IRTI was established in 1401H (1981) as the research and training arm of IDB. It plays an important role in the transformation of IDB Group into a world-class knowledge based organization by leading and sustaining the development of a dynamic and comprehensive Islamic Financial Services Industry (IFSI) to support the socio-economic development of member countries. As a center of excellence, IRTI conducts training, undertakes research, provides advisory services, and enhances capacity building in basic and applied Islamic economics and finance.

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

ICIEC was established in 1415H (1994) to boost intra-trade among OIC member countries by providing exporters, banks, trade financiers and export credit agencies with *Shari'ah*-compliant export credit insurance and re-insurance facilities. ICIEC also supports and encourages investment flows into member countries by providing investors and financiers of investments with *Shari'ah*-based political risk insurance policies.

### ***Islamic Corporation for the Development of the Private Sector (ICD)***

ICD was established in 1420H (1999) to promote private sector development in member countries. It provides a wide range of *Shari'ah*-compliant financial products and services with a view to facilitating access to Islamic capital markets, mobilizing additional financing resources for the private sector, promoting entrepreneurship in member countries and encouraging cross-country investments.

### ***International Islamic Trade Finance Corporation (ITFC)***

ITFC was established in 1429H (2008) to advance trade across the Islamic world. The primary focus of ITFC is to encourage intra-trade among Organization of Islamic Cooperation (OIC) member countries. The Corporation helps businesses in Islamic countries gain better access to trade finance and provides them with the necessary trade related capacity building tools to help compete successfully in the global market.

## ABBREVIATIONS

AAOIFI	: Accounting and Auditing Organization for Islamic Financial Institutions in IDB MCs
ACAP	: Awqaf Capital
ACL	: Audit Command Language
AFAO	: Association des Femmes de l’Afrique de l’Ouest
AFD	: French Development Agency
AFTIAS	: Aid for Trade Initiative for Arab States
APIF	: Awqaf Properties Investment Fund
AWEF	: Arab Women’s Enterprise Fund
BCG	: Boston Consulting Group
BED	: Board of Executive Directors of IDB
BoG	: Board of Governors of IDB
CEWs	: Country Economic Works
CGOs	: Country Gateway Offices
CIBAFI	: Council of Islamic Banks and Financial Institutions
CIS	: Commonwealth of Independent States
COMCEC	: Standing Committee for Economic and Commercial Cooperation
CUC	: Cumulative Undisbursed Commitments
DFID	: UK Department for International Development
e4e	: Education for Employment
EIB	: European Investment Bank
ESP	: Education Sector Policy
EU	: European Union
EVD	: Ebola Virus Disease
FAWE	: Forum for African Women Educationists
GCC	: Gulf Cooperation Council
GIAD	: Group Internal Audit Department
GIO	: Group Integrity Office
GOED	: Group Operations Evaluation Department
GPE	: Global Partnership for Education
GTRC	: Group Trade Related Issues Committee
HLM2	: High-Level Meeting on Country-Led Knowledge Hubs
ICD	: Islamic Corporation for the Development of the Private Sector
ICIEC	: Islamic Corporation for the Insurance of Investment and Export Credit
ID	: Islamic Dinar (equivalent to one Special Drawing Right of IMF)
IDB	: Islamic Development Bank
IDBG	: Islamic Development Bank Group
IDB-STATCAP	: IDB Statistical Capacity Building Initiative
IFIs	: International Financial Institutions
IFP	: Islamic Finance Primer

IFSB	: Islamic Financial Services Board
IIRA	: Islamic International Rating Agency
IRTI	: Islamic Research and Training Institute
ISFD	: Islamic Solidarity Fund for Development
ITAP	: Investment Promotion Technical Assistance Program
ITFC	: International Islamic Trade Finance Corporation
ITFO	: Import Trade Financing Operations of IDB
IWAH	: International Waqf Advisory House
KAUST	: King Abdullah University for Science and Technology
KFAED	: Kuwait Fund for Arab Economic Development
KMIP	: Knowledge Management and Innovation Program
LDMCs	: Least Developed Member Countries
MCPS	: Member Country Partnership Strategy
MCs	: Member Countries of the Islamic Development Bank
MDBs	: Multilateral Development Banks
MENA	: Middle East and North Africa
MoUs	: Memorandum of Understandings
MTN	: Medium Term Note
MTR	: Mid-Term Review
OCR	: Ordinary Capital Resources of IDB
OECD	: Organisation for Economic Cooperation and Development
OFID	: OPEC Fund for International Development
OIC	: Organisation of the Islamic Cooperation
PIASR	: Project Implementation Assessment Support Reports
PCRs	: Project Completion Reports
RLs	: Reverse Linkages
SAO	: Special Assistance Operations
SESRIC	: Statistical, Economic and Social Research and Training Centre for Islamic Countries
SFD	: Saudi Fund for Development
SMEs	: Small and Medium Enterprises
SPECA	: UN Special Program for the Economies of Central Asia
TA	: Technical Assistance of IDB
TCP	: Technical Cooperation Program
TCPP	: Trade Promotion and Cooperation Program
TVET	: Technical Vocational Education and Training
UIF	: Unit Investment Fund
W4D	: Waqf for Development Project
WB	: World Bank
WIEF	: World Islamic Economic Forum
WWF	: World Waqf Foundation

# CORPORATE PROFILE OF THE ISLAMIC DEVELOPMENT BANK

## ***Establishment***

The Islamic Development Bank (IDB) is an international financial institution established pursuant to Articles of Agreement done at the city of Jeddah, Kingdom of Saudi Arabia, on 21 Rajab 1394H corresponding to 12 August 1974. The Inaugural Meeting of the Board of Governors took place in Rajab 1395H (July 1975) and the IDB formally commenced operations on 15 Shawwal 1395H (20 October 1975).

## ***Vision***

By the year 1440H, the Islamic Development Bank shall have become a world-class development bank, inspired by Islamic principles, that has helped significantly transform the landscape of comprehensive human development in the Muslim world and helped restore its dignity.

## ***Mission***

To promote comprehensive human development, with a focus on the priority areas of alleviating poverty, improving health, promoting education, improving governance and prospering the people.

## ***Membership***

The membership of the IDB stands at 56 countries spanning many regions. The basic condition for membership is that the prospective country should be a member of the Organization of the Islamic Cooperation (OIC), pays the first instalment of its minimum subscription to the Capital Stock of IDB, and accepts any terms and conditions that may be decided upon by the Board of Governors.

## ***Capital***

At its 38<sup>th</sup> Annual Meeting, the Board of Governors of IDB approved the 5<sup>th</sup> General Capital Increase whereby the Authorized Capital was increased to ID100 billion and the Issued Capital was increased to ID50 billion. By the same Resolution, the Board of Governors agreed to the calling in of the callable (in cash) portion of the 4<sup>th</sup> General Capital Increase. As at the end of 1435H, the subscribed capital of the IDB stood at ID49.86 billion.

## ***Head Office and Regional Offices***

Headquartered in Jeddah, the Kingdom of Saudi Arabia, the IDB has four regional offices in Rabat, Morocco; Kuala Lumpur, Malaysia; Almaty, Kazakhstan; and in Dakar, Senegal, and Country Gateway Offices in Turkey (Ankara and Istanbul) and Indonesia.

## ***Financial Year***

The IDB's financial year is the lunar *Hijra* Year (H).

## ***Accounting Unit***

The accounting unit of the IDB is the Islamic Dinar (ID) which is equivalent to one Special Drawing Right (SDR) of the International Monetary Fund.

## ***Language***

The official language of IDB is Arabic, but English and French are used additionally as working languages.

**Table 0.1: Net Approvals by Entities and Modes of Financing (1396H-1435H ) (Islamic Dinar - ID million)**

	1431H	1432H	1433H	1434H	1435H	1396-1435H
<b>A. IDB OCR</b>						
Loan	245.0	249.2	251.0	260.5	249.1	5,025.4
Equity	75.2	44.0	203.5	13.1	0.0	865.0
Leasing	637.6	619.5	407.2	518.3	1,148.3	7,006.3
Instalment Sale	20.2	142.3	608.5	119.5	273.1	3,479.7
Combined Lines of Financing	0.0	65.7	29.3	0.0	32.5	502.9
Profit Sharing/Musharaka	66.7	62.0	33.3	0.0	0.0	223.8
Istisna'a	1,246.5	1,332.0	1,318.4	1,582.2	1,611.2	11,098.7
Mudaraba	0.0	0.0	0.0	292.8	0.0	292.8
Technical Assistance	12.3	22.9	14.3	8.7	15.9	288.0
<b>Sub-Total</b>	<b>2,303.5</b>	<b>2,537.5</b>	<b>2,865.4</b>	<b>2,795.1</b>	<b>3,330.1</b>	<b>28,782.6</b>
<b>B. ICD</b>						
Equity	39.1	43.5	84.1	130.6	71.3	740.6
Leasing	21.4	0.0	52.4	13.1	50.5	340.1
Instalment Sale	0.0	0.0	0.0	0.0	3.4	88.6
Istisna'a	0.0	16.1	9.8	0.0	13.5	49.7
Murabaha	34.2	86.7	85.9	94.0	189.2	625.6
<b>Sub-Total</b>	<b>94.8</b>	<b>146.3</b>	<b>232.3</b>	<b>237.7</b>	<b>327.9</b>	<b>1,844.5</b>
<b>C. ITFC</b>						
Murabaha	1,475.5	1,777.3	2,786.5	3,251.4	3,341.8	15,265.9
<b>D. Others</b>						
UIF	20.1	22.2	23.6	65.1	44.1	1,593.2
APIF	26.5	21.5	34.6	54.7	43.0	249.8
Special Assistance Operations	13.2	9.6	5.2	4.8	4.5	564.5
Pre-ITFC trade (EFS, IBP, ITFO)	0.0	0.0	0.0	0.0	0.0	21,809.3
<b>Sub-Total</b>	<b>59.8</b>	<b>53.3</b>	<b>63.4</b>	<b>124.5</b>	<b>91.5</b>	<b>24,216.9</b>
<b>Grand Total*</b>	<b>3,933.6</b>	<b>4,514.4</b>	<b>5,947.6</b>	<b>6,408.8</b>	<b>7,091.3</b>	<b>70,109.9</b>
<b>Memo:</b>						
<b>E. ICIEC Operation for the last five years and total since inception (ID million)</b>						
	1431H	1432H	1433H	1434H	1435H	1417-1435H
New Commitments	2,023.6	2,122.1	1,510.9	1,468.3	2,394.5	15,647.3
Business Insured	1,305.3	2,016.5	2,008.8	2,195.8	2,909.6	14,593.5

**OCR-IDB Resources and Finance (at year's end ) (ID million)**

	1431H	1432H	1433H	1434H	1435H
Total Assets	9,067.6	10,351.2	11,446.7	13,429.4	14,798.9
Gross Income	290.1	257.6	320.6	364.2	356.9
Net Income	169.6	109.0	130.2	170.4	141.7
General Reserves	1,702.3	1,769.8	1,858.5	1,988.0	2,079.5
Fair Value Reserves	525.9	377.1	433.8	391.0	451.0
Subscribed Capital	17,475.6	17,782.6	17,782.6	17,803.8	49,865.7
Approved Administrative budget**	81.93	88.80	98.38	105.10	107.53
Actual Administrative budget**	69.35	81.30	88.94	96.98	103.20
Technical Assistance	12.3	22.9	14.3	8.7	15.9
Business Insured	1,305.3	2,016.5	2,008.8	2,195.8	2,909.6

\* Treasury operations which are reported in previous Annual Reports of the Bank were removed from this year Annual Report due to change in data classification in accordance with the Bank's Liquidity Risk Management Guidelines

\*\* include Trust Funds(i.e Al-Quds and Al-Aqsa Funds)

Source: IDB Data Resources and Statistics Division, ERPD

The conversion rates are those for end of each hijra year.  
The conversion rates for the various years are as follows:

1431H IID = \$1.5392

1432H IID = \$1.55621

1433H IID = \$1.52623

1434H IID = \$1.53128

1435H IID = \$1.48509

1396H-1435H IID = \$1.45083 (approximation only)

**Table 0.2: Net Approvals by Entities and Modes of Financing (1396H-1435H) (\$ million)**

	1431H	1432H	1433H	1434H	1435H	1396-1435H
<b>A. IDB OCR</b>						
Loan	369.3	383.0	386.0	396.5	379.2	7,073.2
Equity	114.5	68.1	313.7	19.7	0.0	1,257.2
Leasing	974.6	982.7	620.4	783.2	1,770.0	10,388.2
Instalment Sale	30.8	220.7	927.1	182.0	416.1	5,036.5
Combined Lines of Financing	0.0	100.0	45.0	0.0	50.0	723.0
Profit Sharing/Musharaka	100.0	100.0	50.0	0.0	0.0	331.9
Istisna'a	1,950.5	2,076.4	2,028.5	2,388.8	2,458.5	16,831.6
Mudaraba	0.0	0.0	0.0	440.0	0.0	440.0
Technical Assistance	18.8	35.2	21.9	13.4	24.5	408.4
<b>Sub-Total</b>	<b>3,558.3</b>	<b>3,966.0</b>	<b>4,392.6</b>	<b>4,223.6</b>	<b>5,098.3</b>	<b>42,490.0</b>
<b>B. ICD</b>						
Equity	60.2	67.7	128.4	200.0	105.9	1,121.8
Leasing	33.0	0.0	80.0	20.0	75.0	508.8
Instalment Sale	0.0	0.0	0.0	0.0	5.0	130.2
Istisna'a	0.0	25.0	15.0	0.0	20.0	75.7
Murabaha	52.7	135.0	131.1	144.0	281.1	952.2
<b>Sub-Total</b>	<b>145.9</b>	<b>227.7</b>	<b>354.5</b>	<b>364.0</b>	<b>487.0</b>	<b>2,788.7</b>
<b>C. ITFC</b>						
Murabaha	2,231.6	2,788.4	4,286.4	4,938.5	5,135.0	23,485.8
<b>D. Others</b>						
UIF	31.0	34.5	36.1	99.7	65.5	2,287.0
APIF	40.8	33.5	52.8	83.7	63.8	379.5
Special Assistance Operations	19.9	15.1	8.0	7.2	6.9	737.6
Pre-ITFC trade (EFS, IBP, ITFO)	0.0	0.0	0.0	0.0	0.0	29,549.0
<b>Sub-Total</b>	<b>91.7</b>	<b>83.1</b>	<b>96.8</b>	<b>190.6</b>	<b>136.2</b>	<b>32,953.1</b>
<b>Grand Total*</b>	<b>6,027.6</b>	<b>7,065.2</b>	<b>9,130.3</b>	<b>9,716.7</b>	<b>10,856.5</b>	<b>101,717.6</b>

**Memo:**

**E. ICIEC Operation for the last five years and total since inception (\$ million)**

	1431H	1432H	1433H	1434H	1435H	1417-1435H
New Commitments	3,096.1	3,310.5	2,311.7	2,248.4	3,556.0	23,776.2
Business Insured	1,997.1	3,145.8	3,073.5	3,362.5	4,321.0	22,184.1

\* Treasury operations which are reported in previous Annual Reports of the Bank were removed from this year Annual Report due to change in data classification in accordance with the Bank's Liquidity Risk Management Guidelines

Source: IDB Data Resources and Statistics Division, ERPD

## TABLE OF CONTENTS

ABBREVIATIONS .....	iv
<b>I. INTRODUCTION</b> .....	1
<b>II. DEVELOPMENT ACHIEVEMENTS</b> .....	2
1 Inclusive Social Development .....	3
1.1 Education .....	3
1.2 Health.....	4
1.3 Special Programs to Promote Solidarity.....	5
2 Fostering Islamic Finance Development .....	8
2.1 Islamic Research and Training Institute (IRTI).....	8
2.2 Technical Support Program.....	9
2.3 Islamic Financial Architecture Development .....	10
2.4 IDB Microfinance Development Program (IDB-MDP) .....	11
2.5 IDB Prize in Islamic Economics & Islamic Banking and Finance.....	11
2.6 Islamic Finance Awareness Enhancement .....	11
2.7 Cooperation, Alliances and Partnerships .....	12
2.8 Financial Product Development Centre (FPDC).....	12
3 Private Sector Development .....	13
3.1 The Islamic Cooperation for the Insurance of Investment and Export Credit (ICIEC) .....	13
3.2 The Islamic Corporation for the Development of the Private Sector (ICD).....	15
3.3 The International Islamic Trade Finance Corporation (ITFC) .....	16
3.4 Public-Private Partnership .....	17
3.5 Group Business Forum (Thiqah) .....	18
4 Infrastructure Development .....	18
4.1 Energy.....	19
4.2 Transportation.....	20
4.3 Urban Development.....	20
5 Enhancing Economic Cooperation between Member Countries.....	21
5.1 Trade Promotion and Cooperation Program (TCPP).....	21
5.2 Investment Promotion Technical Assistance Program (ITAP) .....	21
5.3 IDB WTO-related Program.....	22
5.4 Technical Cooperation Program (TCP) .....	22
5.5 Reverse Linkage (RL) Program.....	23
<b>III. CONCLUSION</b> .....	23
<b>Annex-I: Major Islamic finance instruments used by the IDB</b> .....	25
<b>Annex II: Contact Details</b> .....	27



## I. INTRODUCTION

The Islamic Development Bank (IDB) is a South-South development finance institution established in 1975 with the aim of fostering economic development and social progress of its member countries as well as Muslim communities in non-member countries.

It operates in accordance with the principles of Shari'ah (Islamic law) and its mission is to promote comprehensive human development, with a focus on the priority areas of alleviating poverty, improving health, promoting education, improving governance and prospering the people.

The membership of IDB has increased more than twofold from 22 countries in 1395H to 56 countries in 1435H, spanning four continents (Africa, Asia Europe and Latin America). The IDB Group has evolved from a single entity into a group comprising of five entities: Islamic Development Bank (IDB), Islamic Research and Training Institute (IRTI), Islamic Corporation for the Development of the Private Sector (ICD), Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), and International Islamic Trade Finance Corporation (ITFC). Together, they are called IDB Group (the Group).

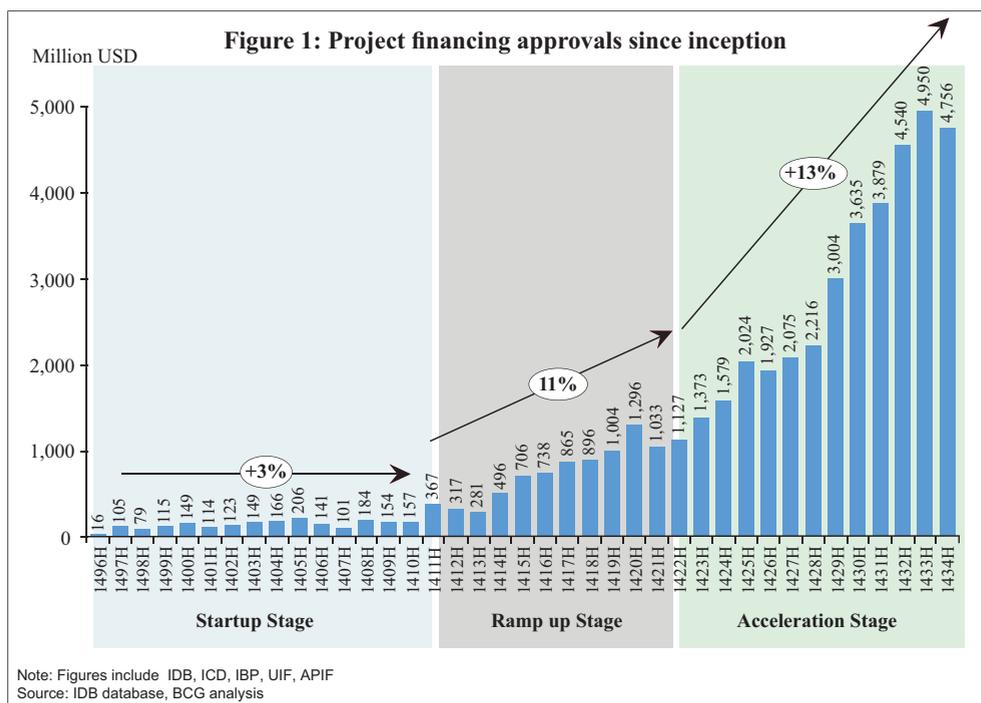
### Box 1.: The IDB Group Three-Stage Evolution

**Start-up Stage – From 1395H to 1410H (1975-1990):** During this period, the Group tackled challenges which are common to newly founded institutions and others which were unique to it since it had no comparable precedent to go by. The Bank laid its foundations, set directions, and formulated initial guidelines for its operations. Therefore, and despite the rapid extension of its membership base and the significant increase in its subscribed capital, growth of approvals was moderate (3 percent annual growth in project financing approvals – see the graph below) and activities were mostly focused on economic infrastructure and on industry and mining.

**Ramp-up Stage – From 1410H to 1422H (1990 – 2001):** In this stage, the membership base continued expanding and became even more diverse. In order to cope with this, the Group established four Regional Offices in Rabat (Morocco), Kuala Lumpur (Malaysia), Dakar (Senegal) and Almaty (Kazakhstan). The Group stepped up its growth rate (11 percent average annual growth in project financing approvals) to better respond to increasing needs.

**Acceleration Stage – From 1422H to 1435H (2001 – 2014):** During this phase, the IDB's membership base remained stable while approvals witnessed a rapid growth (13 percent annual growth on average in project financing approvals). This increase was mostly driven by a sharp rise in the focus on economic infrastructure, and the need to respond to the global financial and economic crisis. Acknowledging the rapidly changing world, particularly propelled by technology and networking, the Group embarked, in 1426H (2006), on the shaping of a compelling Vision of development together with its member countries. The Vision set the new strategic direction to 1440H (2020), for the Group to remain relevant to its member countries and the Muslim communities in non-member countries, and to continue to champion the development of the Islamic financial sector.

During the last 41 years, the Group has grown remarkably in capital, and operations as well as undergone significant transformation with a view to serving its mandate better (Box 1 and Fig. 1).



The IDB’s capital is derived from the contributions paid by its member countries. Its authorized capital has increased from ID2 billion in 1395H (1975) to ID100 billion in 1435H (2014) while its subscribed capital stood at ID50 billion with 98.6 percent of this amount subscribed by member countries as at the end of 1435H.

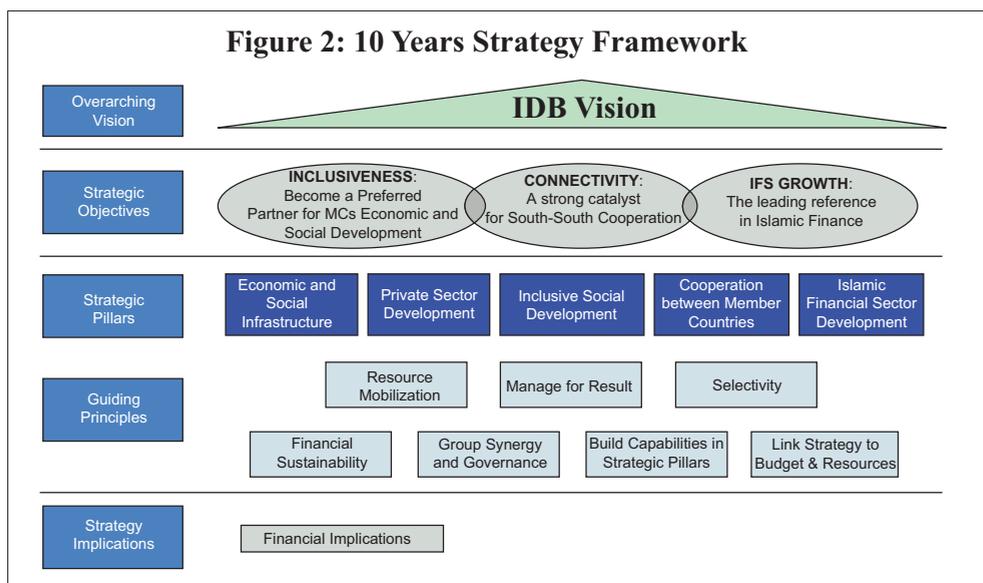
## II. DEVELOPMENT ACHIEVEMENTS

The IDB’s commitment to fostering economic growth in member countries is evident from the growth in the Ordinary Capital Resources (IDB-OCR) net approvals over 1396H-1435H at 12.2 percent on average. Between 1396H and 1435H, the IDB Group approved 7,613 projects and operations totaling ID70.1 billion (\$101.7 billion). Infrastructure received the largest share of IDB-OCR at 77 percent or ID22.2 billion (\$32.7 billion), followed by agriculture at 11 percent, education 8 percent, and health 3.5 percent.

Of the cumulative Group approvals, the share of IDB-OCR was 41.8 percent, ITFC 23.1 percent, and ICD 2.7 percent. Others including pre-ITFC trade financing accounted for 29.1 percent, Unit Investment Fund (UIF) 2.2 percent, Awqaf Properties Investment Fund (APIF) 0.4 percent and Special Assistance operations 0.7 percent.

A regional breakdown of IDB Group net approvals in 1435H shows that Middle East and North Africa received the lion’s share of ID3.2 billion (\$4.8 billion), then Asia ID1.8 billion (\$2.7 billion), Sub-Saharan Africa (SSA) ID1.7 billion (\$2.6 billion), and Commonwealth of Independent States (CIS) ID390.2 million (\$592.6

**Figure 2: 10 Years Strategy Framework**



million). The top five beneficiaries of IDB Group approvals in 1435H were Egypt 18.9 percent (ID1.3 billion or \$2.1 billion), Bangladesh 17.1 percent (ID1.2 billion or \$1.9 billion), Morocco 7.3 percent (ID519.8 million or \$795.3 million), Pakistan 6.7 percent (ID476 million or \$729 million) and Turkey 4.4 percent (ID313.7 million or \$482.2 million).

In its effort to improve effectiveness and efficiency in serving member countries, the IDBG has developed a new 10 Years Strategy Framework (Fig. 2), which comprises three strategic objectives (inclusiveness, connectivity and Islamic financial sector growth), five pillars and one cross cutting or priority areas: Social development, Fostering Islamic Finance Development, Private Sector Development, Infrastructure Development, Enhancing Economic Cooperation and Capacity Development.

The IDBG’s achievements are cast along these five pillars in the following sections:

## 1. Inclusive Social Development

Social development has always been at the core of the IDB’s mission. Initiatives aimed at reducing poverty and promoting prosperity run through many of the Group’s activities. To fulfill its mission, the IDB focuses on social development especially promoting education and health. The Bank also launched a number of funds with the objectives of addressing poverty and promoting solidarity.

### 1.1 Education

In 1435H, the Bank approved 31 operations in favour of education sector in member countries for ID148.2 million (\$227.7 million). Cumulatively, IDB’s investment in the education sector in member countries reached \$3.3 billion targeting 530 operations, which benefited all education levels and sub-sectors.

Strategically, the Bank’s social sector financing in 1435H targeted basic education with a focus on underserved and hard-to-reach communities and on vocational education and training through its programs such as Education for Employment (e4e) and Technical Vocational Education and Training (TVET) reforms to transform current supply-driven services into a demand-oriented TVET system.

The Bank strives to achieve efficient resource allocation and effective policy dialogue with member countries. To this end, it has developed a new Education Sector Policy (ESP) in 1435H with the theme “improving learning for human dignity”. The policy identified three strategic areas for Bank’s interventions going forward: inclusive universal education focusing on bilingual education, skills development, and tertiary education.

In 1435H, the Bank scaled up its supervision and support for implementation of education operations by preparing Project Implementation Assessment Support Reports (PIASR) and Project Quarterly Progress Report which are both discussed with the executing agencies. This approach has helped to improve the sector portfolio and considerably decreased the number of problematic projects from 12 to four.

In a bid to avail more concessional financing to enhance sustainability in the education sector in member countries, the Bank is collaborating with the Global Partnership for Education (GPE) to pilot its Triple-Win innovative financing mechanism in the education sector. This follows the commitment made by the IDB on the occasion of 39<sup>th</sup> Annual Meeting of the IDB Board of Governors to mobilize \$400 million of ordinary resources to leverage \$100 million earmarked by the GPE to pilot the Triple Win buy-down program with the IDB. Under this arrangement, the country repays only the principal amount while the third party, the GPE, will pay the mark-up/administrative fee of the loan directly to IDB.

## 1.2 Health

The Bank’s investments in the health sector remain focused on three key thematic areas: (i) prevention and control of both communicable and non-communicable diseases; (ii) health system strengthening to improve access to and quality of healthcare services and (iii) alternative health financing to remove, to the extent that is possible, financial barriers to access, generate/mobilize additional financial resources for health, and make better use of available resources.

The Bank approved, in 1435H, 17 operations in the health sector for its member countries totaling ID100.8 million (\$153.8 million) covering various aspects of the national health system. Growth in health sector financing in 1435H grew impressively by 72 percent over the previous year. By the end of 1435H, the Bank’s cumulative financing for the health sector reached ID1.6 billion (\$2.3 billion) for 329 operations.

The outbreak of Ebola Virus Disease (EVD) in 1435H, which affected two IDB member countries (Guinea and Sierra Leone), has claimed thousands of lives and

strained their already weak health systems. In this regard, the Bank approved an emergency assistance grant of \$600 thousands to support Guinea and Sierra Leone and the international community efforts in controlling the EVD. It also approved a \$10 million grant through ISFD as seed finance to attract philanthropists and non-governmental organizations to contribute resources for EVD. It has extended a financing facility to Guinea amounting to \$34 million for strengthening its health system, of which \$6 million is earmarked for the Ebola control efforts.

In 2014, Saudi Arabia donated \$35 million to the IDB to support its Ebola fighting programme, funding equipment and specialised treatment centres in four West African countries. Under this grant, the IDB will setup treatment centers in countries where Ebola is endemic, Sierra Leone, Guinea and Liberia, as well as Mali where some cases have appeared.

### 1.3 Special Programs to Promote Solidarity

***The Islamic Solidarity Fund for Development (ISFD):*** This Fund was established as a Waqf<sup>1</sup> (i.e. Trust) with a target capital of \$10 billion. Its aim is to reduce poverty in IDB member countries by focusing on supporting pro-poor growth, human development (especially improvements in health care and education), and enhancing the productive capacity and sustainable means of income for the poor. The Fund is concessionary targeting the least developed member countries.

As at the end of 1435H, 44 member countries and IDB pledged capital contributions of \$1.7 billion and \$1 billion respectively, totaling \$2.7 billion. Of this amount, \$2.3 billion was paid-in capital, comprising \$700 million by IDB and \$1.6 billion by member countries.

In 1435H, the ISFD approved 14 projects totaling \$133.3 million including \$10 million grant for a multi-year program for Ebola Prevention and Control in West Africa. Cumulatively, ISFD's approvals reached \$433.4 million for 68 projects in 32 member countries. The sectoral focus of ISFD financing are agriculture (including rural development) accounting for 14 percent, education (including vocational training) 24 percent, microfinance 13 percent, energy 12 percent, health 7 percent and multisector 30 percent. The LDMCs are the main beneficiaries of ISFD activities, enjoying more than 80 percent of its financing.

***Awqaf Properties Investment Fund (APIF):*** *Awqaf* organizations, by mandate, are Islamic charitable entities that undertake myriad economic, social and cultural activities. In order to address the development needs of the *Awqaf* sector, the IDB established the *Awqaf* Properties Investment Fund (APIF) in 2001 and acts as *Mudarib* for the Fund. The objective of the APIF is to develop idle Waqf lands and renovate existing Waqf buildings, thereby transforming them into income generating assets. The income generated from APIF projects is used by the Waqf and by charitable

<sup>1</sup>The concept of Waqf (Islamic Endowment/Trust) implies that only the income which will be made from the investments of the Fund's resources will be available to finance its operations.

organizations to finance and support their activities in the social and charitable fields in favor of the poor, as well as in the religious and cultural fields.

The Fund has a capital of \$76.4 million funded by 15 participants who are mainly *Awqaf* organizations and Islamic banks including IDB. In addition, IDB has provided a Line of Financing of \$100 million to APIF to support its activities.

In 1435H, APIF approved nine projects totalling \$236.7 million. These projects involved financing the construction of residential or commercial/office buildings in UAE, Ethiopia, Guinea, UK and Switzerland as well as the purchase of existing office buildings in Belgium, Kenya, Saudi Arabia and USA. APIF also signed Memorandums of Understanding (MoUs) with charitable organizations in United Kingdom and Qatar to support their philanthropic activities.

Since its inception, APIF has approved 48 projects for an amount of \$1 billion covering 29 member countries and non-member countries. These approvals consisted of 36 projects for \$792.3 million for member countries and 12 projects for \$242.3 million for non-member countries. In terms of modes of financing, 36 projects were approved by way of leasing, eight projects under *Istisna'a*, two projects through equity participation, and two projects by *Murabaha*.

***World Waqf Foundation (WWF)***: This Foundation which came into being in 1422H (2001) has devoted its activities in 1435H to four major projects. These are the International Waqf Advisory House (IWAH), *Awqaf Capital (ACAP)*, India Education Waqf, and Waqf for Development (W4D).

On the International Waqf Advisory House (IWAH), it was approved by the WWF's Council of Waqifs which directed that it should be created under the umbrella of IDB Group and be incubated by the Islamic Research and Training Institute (IRTI). The aims of IWAH are to raise awareness and revive Waqf culture; bring together *Awqaf* Institutions and market their activities; organize international conferences; and pilot major research projects (*Awqaf Databank*, *Awqaf Legislation*, *Model Law*, etc.)

Concerning the *Awqaf*-based Cash Waqf Investment Firm or “*Awqaf Capital (ACAP)*”, its aim is to help meet the needs of individual philanthropists, public and private philanthropic institutions, for a world-class financial institution specializing in Cash Waqf Asset Management in order to provide high quality *Shari'ah* compliant investment services and address the specific needs of the Waqf Sector. The WWF is in the process of registering ACAP as an Investment Fund in the Kingdom of Bahrain. Its feasibility study was prepared by Ernst & Young.

For the India Education Waqf, which was originally established for supporting the training and educational activities of the Muslim community in India, it has a capital of \$50 million, comprising of \$25 million contribution from IDB and \$25 million to be raised from external donors, with the investment returns of the fund to be used in financing projects. WWF is now creating media material through a specialized company to facilitate resource mobilization.

As for the Waqf for Development Project (W4D), its aim is to inject the Waqf principle - not the returns - into the bottom of the pyramid (i.e. investing Waqf assets into socially responsible projects/doing business with the poor). It is an alternative asset class in which impact, economic empowerment and social returns are sought beyond solely the monetary returns. Through careful due diligence, and intelligent PPPP (Public/Private/Philanthropic/Partnership) risks can be mitigated and objectives achieved. The WWF is conducting a full feasibility study on mainstreaming a W4D approach in its work and the IDB Group.

**Special Assistance Program:** Muslim communities in non-member countries generally lag behind others in education and access to health services. Against this backdrop and in its global development outreach strategy, the IDB through its Special Assistance activities enhance the human capital of Muslim communities living in non-member countries. Since its inception, the activities have focused on developing and strengthening institutions in education, social and health care services, and the development of human capital. Diverse projects have been implemented in more than 81 countries in non-member countries covering Asia and Oceania, Africa, South and Central America, North America and Europe.

Broadly speaking, the IDB's special assistance activities cover relief assistance to member and non-member countries, support to education and health services in non-member countries, and capacity building initiatives through training. In 1435H, 25 special assistance operations were financed totaling \$4.7 million for Muslim communities, excluding the special program for India amounting to \$400 million for two projects in education, training, health, capacity building, and relief assistance. The IDB under its special assistance program approved projects for the first time for three countries - Italy, Lesotho, and Vanuatu.

Under its relief activities, the Bank in 1435H provided a total amount of \$4.9 million for Somalia (\$1.5 million), Yemen (\$0.3 million), Central African Republic (\$1 million), Palestine (\$1.8 million), Myanmar (\$0.1 million), and Iraq (\$0.2 million). The countries that benefited from 1435H development budget were Bosnia, Austria, India, New Zealand, UK, USA, Rwanda, Burundi, Italy, Thailand, Trinidad & Tobago, Vanuatu, Malawi, Kenya, Sri Lanka, Fiji, Guyana, Ethiopia, Germany, Rwanda, Lesotho & Cambodia.

**Trust Funds :** Up till 1421H, the Bank had only two trust funds (Al-Aqsa Fund and Al Quds Fund), which were established pursuant to the Arab Summit decision to provide immediate response to the needs of occupied Palestinian people. With the IDB's increased intervention in Palestine and other fragility states in the member countries, the number of trust funds has increased in recent years with the establishment of GCC Fund in 1427H, and the joining of other Arab funds thereafter.

Over the years, trust funds have been substantially expanded in providing financial assistance for development projects, emergency response, recovery and capacity-building. Apart from Palestine, new beneficiaries of the IDB's trust funds were

Somalia, Niger, Comoros and the minority Rohingya community in Myanmar. The most recent mandate was an SR1 billion trust fund for developing 75 mobile clinics in Afghanistan, Bangladesh, India, Kyrgyzstan, Pakistan, Uzbekistan and Yemen.

In 1435H, total new contributions reached \$661 million for the Al-Aqsa Fund, GCC Fund, Fael Khair Fund and other Arab funds. Since inception, cumulative trust funds' contribution reached \$2.6 billion. Of this, Palestine received about \$1.5 billion allocated for vital sectors including health, education, water and sanitation, agriculture, housing, municipal capacity, and economic empowerment.

***Saudi Arabian Project for Utilization of Hajj Meat:*** The Saudi Arabian Project for the Utilization of Hajj Meat is managed by the IDB and lies outside its normal operational activities. The project was specially assigned by the government of Saudi Arabia to the Bank, which implements it.

The project serves the pilgrims by performing on their behalf the sacrificial ritual of hajj. The Bank oversees the utilization of the Hajj meat in accordance with established religious norms. The meat is then distributed to the needy and poor in some of the member countries and to Muslim communities in non IDB-member countries.

In 1435H, 874,667 sheep were slaughtered under the project. Out of this, 674,167 sheep were distributed among the poor and needy people living in the Haram area in Makkah Al-Mukarrama and charities inside the Kingdom of Saudi Arabia as well as cows and camels. The remaining 200,500 sheep were distributed outside the Kingdom of Saudi Arabia.

## **2. Fostering Islamic Finance Development**

Islamic finance is unique to IDB Group's mandate and it is a key point of differentiation from other MDBs. As leading institution in fostering Islamic finance development, the Bank has been involved in many initiatives, including developing the requisite enabling environment for Islamic finance, establishing and supporting Islamic financial institutions, developing Islamic microfinance sector from the financial sector perspective and enhancing awareness about Islamic finance through organization and participation in various events. In addition, the Bank also works for the development of the Awqaf sector for charitable purposes. Key activities of the Bank in promoting Islamic finance during the year are presented below:

### **2.1 Islamic Research and Training Institute (IRTI)**

IRTI was established in 1401H (1981) to be the knowledge hub of the IDB Group. It conducts research, training, advisory and knowledge dissemination activities aimed at bringing the financial services in member countries in line with Islamic injunctions.

Apart from publishing books, journals, research papers and other publications, IRTI also undertakes a variety of programs designed to promote knowledge in Islamic finance. These include the IDB Prize for Islamic Economics, Banking and

Finance; IRTI Scholarships and Research Grants Programs; as well as collection and publication of data on Islamic financial institutions.

IRTI also collaborates with other institutions globally, including universities and regulatory authorities, towards advancing knowledge in Islamic finance through policy dialogues, workshops, seminars, lectures, etc.

During the year 1435H, IRTI produced 22 working papers dealing with tawarruq time deposit based on the wakalah principle; philanthropy in Islam; free market and state capitalism; analysis of Islamic endowment (Waqf) laws; regulatory and supervisory framework of Islamic Microfinance in Sudan; Maqasid al-Shari’ah-based Development Index; and integrating zakah, awqaf and Islamic Microfinance for Poverty Alleviation.

## 2.2 Technical Support Program

Under this Program, the Bank provides technical assistance (TA) for creating an enabling environment for Islamic finance development. Such TAs facilitate in developing legislation, regulations, *Sharia*’h governance mechanism, and supervisory framework for Islamic banks, *Sukuk* and *Takaful*. In addition, the TAs are also useful in creating a high-level strategy for Islamic finance sector development in the TA recipient countries. IDB’s TA activities under the Program, in 1435H, are shown in Table 1.

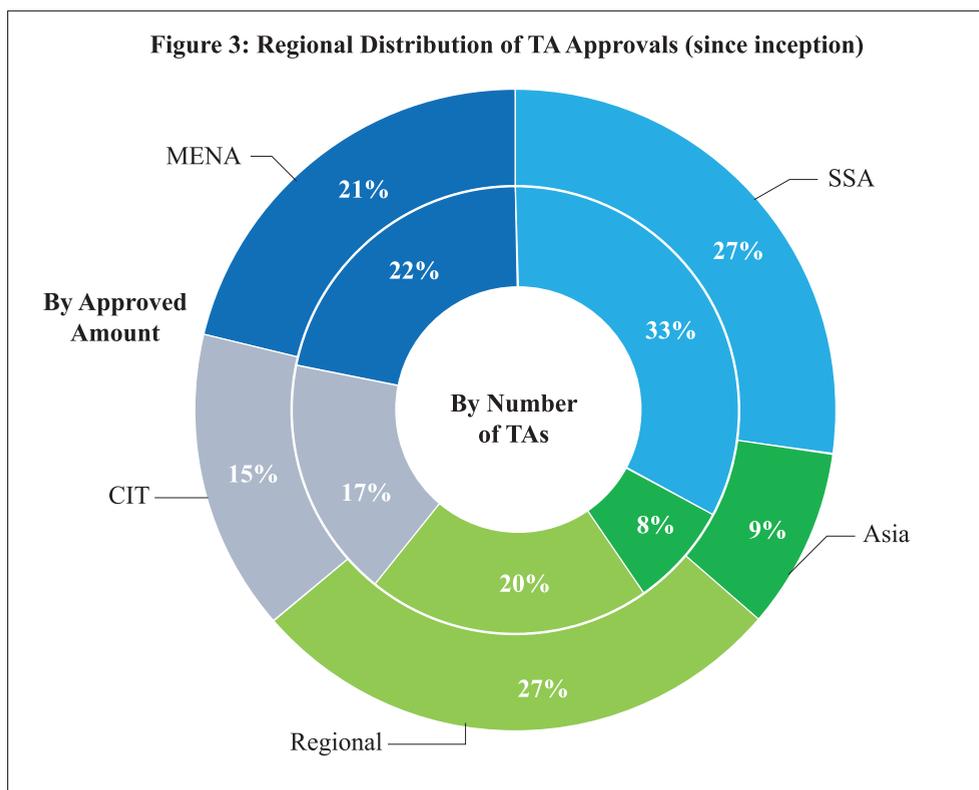
Several previously approved TA projects were also implemented in 1435H. These included projects in Djibouti, Indonesia, Kyrgyzstan, Kazakhstan, Libya, Mauritania,

**Table 1: TA approvals under Technical Support Program - 1435H**

S.No.	Country/ Institution	Executing Agency	Objective
1	Morocco	Bank Al Maghreb	Assist the Central Bank develop Sharia regulatory framework for Islamic banking
2.	Oman	Ministry of Finance	Provide a legal and financial adviser to Ministry of Finance to assist in issuing sovereign Sukuk
3.	Azerbaijan	International Bank of Azerbaijan	Assist Government of Azerbaijan to develop the legal framework for Islamic finance
4.	BCEAO*	BCEAO	Assist BCEAO to amend the regulatory and supervisory framework for IFIs and Islamic capital markets

\*Banque Centrale des États de l’Afrique de l’Ouest is the ‘Central Bank of West Africa States’ serving eight west African countries which comprise the West African Economic and Monetary Union (UEMOA): Benin, Burkina Faso, Côte d’Ivoire, Guinea-Bissau, Mali, Niger, Senegal, Togo.

**Figure 3: Regional Distribution of TA Approvals (since inception)**



Mozambique, Oman, Tajikistan, Tunisia and Uganda. The geographical distribution of the TA approvals (since inception) is shown in Fig. 3.

### 2.3 Islamic Financial Architecture Development

The Bank supports and contributes to the development of Islamic finance architecture. In this regard, it established and continued to assist the Islamic Infrastructure Institutions (IIIs) – such as AAOIFI, CIBAFI, IFSB, IICRA, IIFM, and IIRA – in various ways, including providing technical assistance, financing the development and implementation of standards and documentation, participating in their Board, Council, and Technical Committee meetings, and in other activities and events. IDB is also collaborating with the IIIs to seek ways and means of enhancing their

**Table 2: Technical Assistance Approvals for Islamic Infrastructure Institutions 1435H**

S.No.	Country/ Institution	Objective
1	CIBAFI	Assist CIBAFI in organizing Certified Islamic Banker (CIB) training in Mauritania & Yemen
2.	IIFM	Assist IIFM in developing documentation standards (i) Islamic Foreign Exchange Forward, and (ii) Collateralized Liquidity Management

effectiveness by promoting the adoption of their output by IDB member and non-member countries. IDB's TA activities for supporting IIIs, in 1435H, are shown in Table 2.

## **2.4 IDB Microfinance Development Program (IDB-MDP)**

Under this program, the Bank engages in a variety of activities to enhance financial inclusion. Such activities include providing technical assistance to develop the Islamic microfinance sector, assisting in establishing or strengthening Islamic microfinance institutions by way of equity participation and developing regulations for improving the enabling environment for Islamic microfinance.

Eight countries are benefiting under the program including Bangladesh, Indonesia, Sudan, Senegal, Tunisia, Egypt, Pakistan and Tajikistan. In some countries the projects completed, for instance in Sudan, the IDB has helped to establish the Irada microfinance institution (in partnership with Bank Al Khartoum) and Bank El-Ebdaa' (in partnership with AGFUND) which are self-sustaining institutions focusing on poverty alleviation through providing Islamic microfinance. In four countries, the IDB has finalized feasibility studies, which will elucidate the IDB's preferred way of collaborating with the respective countries for developing Islamic microfinance sector.

In 1435H, the Bank successfully organized the global contest 'Islamic Microfinance Challenge: Beyond Murabaha' in partnership with CGAP (Consultative Group to Assist the Poor), Al-Baraka Banking Group, Triple Jump and GIZ. The objective of the contest, with a \$100,000 grant award, was to recognize and reward innovation for the most successful, sustainable, scalable and replicable Islamic microfinance model. Wasel Foundation, a microfinance institution based in Pakistan, was declared the winner for its "Agricultural Financing Package" of *Salam* and *Ijara* products that target small farmers.

## **2.5 IDB Prize in Islamic Economics & Islamic Banking and Finance**

Established in 1408H (1988), this prestigious IDB Prize has so far been awarded to 31 scholars (jurists, economics, and bankers) and 4 institutions (research centres or financial institutions) from different parts of the world. It comprises a citation acknowledging the contribution of the prize winner and a cash award of 30,000 Islamic Dinars (approximately \$45,000). In 1435H, the Prize in Islamic Banking and Finance was awarded jointly to Shaikh Muhammad Taqi Usmani and Prof. Dr. Rodney Wilson.

## **2.6 Islamic Finance Awareness Enhancement**

The IDB enhances the awareness of Islamic finance and also promotes the organization and/or participation in seminars and forums of various international events. It also co-organized with IRTI, the 9<sup>th</sup> IDB Global Forum on Islamic Finance on the sideline of the 39<sup>th</sup> IDB Annual Meeting held in Jeddah in 1435H. During the

Annual Meeting, the IDB also organized a seminar on “Microfinance & MicroTakaful – Regulatory Developments”. In addition, the IDB actively participated in Islamic Finance Conference (Libya) and “Global Policy Forum” organized by Alliance for Financial Inclusion (Malaysia). IDB also organized a training seminar on Islamic finance for the staff of the Central Bank of Libya.

The IDB sponsored various Islamic finance awareness events globally. They included ‘IIRA Training Workshop’ organized by IIRA in Bahrain (December 2013), ‘Seminar on Islamic Microfinance’ organized by the Tunisian Association for Islamic Economics in Tunis (March 2014); ‘Awqaf Roundtable - World Islamic Economic Forum (June 2014); and ‘IICRA Annual Forum’ organized by IICRA in Dubai (October 2014).

## **2.7 Cooperation, Alliances and Partnerships**

The IDB forges strong partnerships with various multilateral, bilateral and donor institutions in order to explore joint activities, which will help develop the Islamic finance sector. To this end, it is actively implementing the Memorandum of Understanding that it signed with BCEAO, the World Bank, COMCEC, AGFUND and GIZ.

A Working Group comprising of the IDB Group and World Bank staff has been established. The Working Group is currently implementing joint projects for development of the Islamic finance sector, including the Islamic Financial Sector Assessment Program (IFSAP), the Global Islamic Finance Report, risk management and an annual symposium on Islamic finance. In addition, the IDB is also considering signing a Letter of Understanding with the International Monetary Fund for Islamic finance sector development.

## **2.8 Financial Product Development Centre (FPDC)**

The Bank set up the FPDC to enhance the leadership of the IDB Group in the development and promotion of innovative Islamic financial products within the framework of the *Maqasid al-Shari’ah*. In 1435H, the Centre was involved in several activities as follows:

- Launched the ‘IDB Modes of Finance’ publication, a product manual of the financial products that are offered by IDB to its clients. The publication is available on the public website.
- Organized a workshop with IDB Operations Complex to identify issues in the existing financial products and pursue new ideas for innovation in this regard. An Action Plan is now being prepared for the issues.
- Assisted in the development of new strategies and products for utilizing the funds of the Islamic Solidarity Fund for Development (ISFD).
- Explored partnership mechanisms for resource mobilization by IDBG and investor appetite for the same.

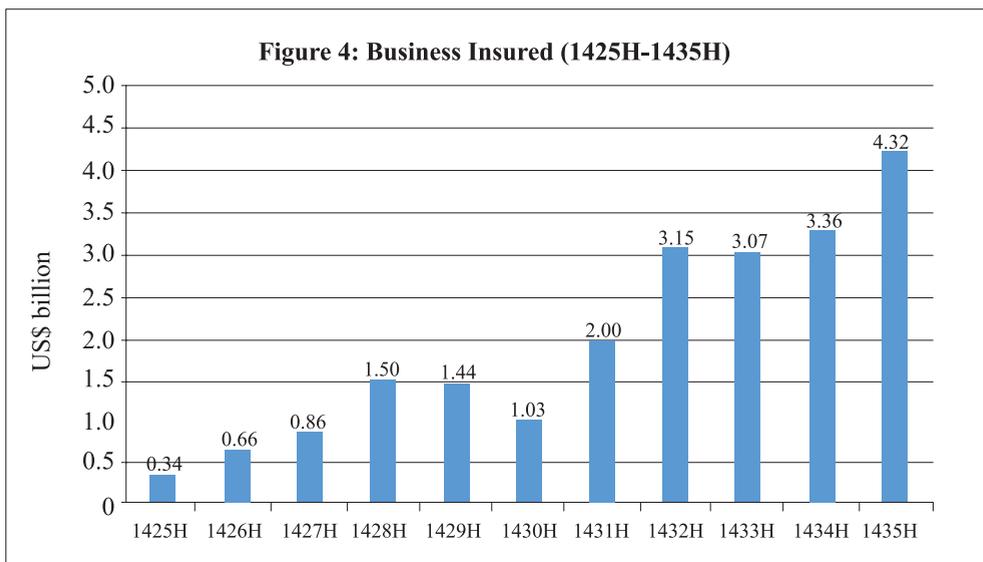
- Developed a set of alternatives to *Tawarruq* ‘Real Financing Instruments’. The products are now undergoing trial with financial institutions in the GCC as well as MENA region.
- Developed a product to implement LC-Confirmation for ITFC. IDB Group Shari’ah Committee approved the product. Product procedures and documentation are under development.
- Commissioned a technical report by a consultant on the S&P OIC-COMCEC Index. The report serves as a rich assessment tool for risk and portfolio managers across the globe. The Report has been accepted for publication in the *Borsa Istanbul Review*.
- Participated in more than 30 conferences and symposiums worldwide, with topics ranging from the future of derivatives in Islamic Finance to Positive Banking to IASB sessions on Islamic finance.
- Conducted six training programs and lectures to build capacity and create awareness about various aspects of Islamic Finance across regions.
- Established the Islamic Financial Engineering (IFE) Lab, which started operations at the Muhammad V University of Morocco. The Lab, the first of its kind in OIC Member Countries, aims at building a generation of pioneers in financial engineering that succeed in applying modern techniques to implement the objectives of the Islamic economics through ethical financial innovation. Twenty-one Ph.D. scholars are pursuing wide-ranging technical topics of Islamic finance such as pricing, structuring, risk management etc. Three of the scholars visited Malaysia and Bahrain to enhance their proposals after meeting Islamic financial experts, academic and practitioners.
- Pioneered and structured various Sukuk mechanisms, for both IDBG as well as its member countries.

### **3. Private sector development**

Since its inception, the IDB Group has been supporting the private sector development in member countries through investment and advisory services. Indeed, many of the Group’s financial and non-financial instruments are directed at private sector. The importance of private sector as an engine of growth and its key role in eradicating poverty and fostering an inclusive society has led to the establishment of some of the major IDB Group entities (such as ICD, ICIEC, ITFC) and to the development of dedicated programs and initiatives (such as PPP and Thiqah).

#### **3.1 The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC)**

The ICIEC commenced operations in July 1995 to facilitate the flow of foreign direct investment in member countries by providing Shariah compliant insurance and risk mitigation facilities. The objectives of the ICIEC are to provide: (i) export credit



insurance and reinsurance to cover non-payment of export receivables resulting from commercial (buyer) or non-commercial (country) risks and (ii) investment insurance and reinsurance against country risk, mainly the risk of exchange transfer restrictions, expropriation, war and civil disturbance and breach of contract. The corporation conducts its activities in conformity with the Shari’ah principles.

In 1435H, ICIEC business insurance operations increased by 26.5 percent to reach \$4.3 billion from \$3.4 billion in 1434H (Fig. 4) while the new commitments also witnessed a substantial increase of 63.6 percent to reach \$3.6 billion compared to \$2.2 billion in 1434H. Between 1417H and 1435H, insurance approvals issued totaled \$23.8 billion while the business insured amounted to \$22.2 billion with an overall claims ratio (claims paid over premium earned), the main indicator of credit insurance operations performance, at 22 percent, which is significantly below the industry’s ratio. The top six member countries that benefited from the ICIEC services since the inception of its business through 1435H were Saudi Arabia (26.5 percent), UAE (11.7 percent), Bahrain (11.1 percent), Pakistan (7.6 percent), Egypt (7.5 percent), and Turkey (4.6 percent).

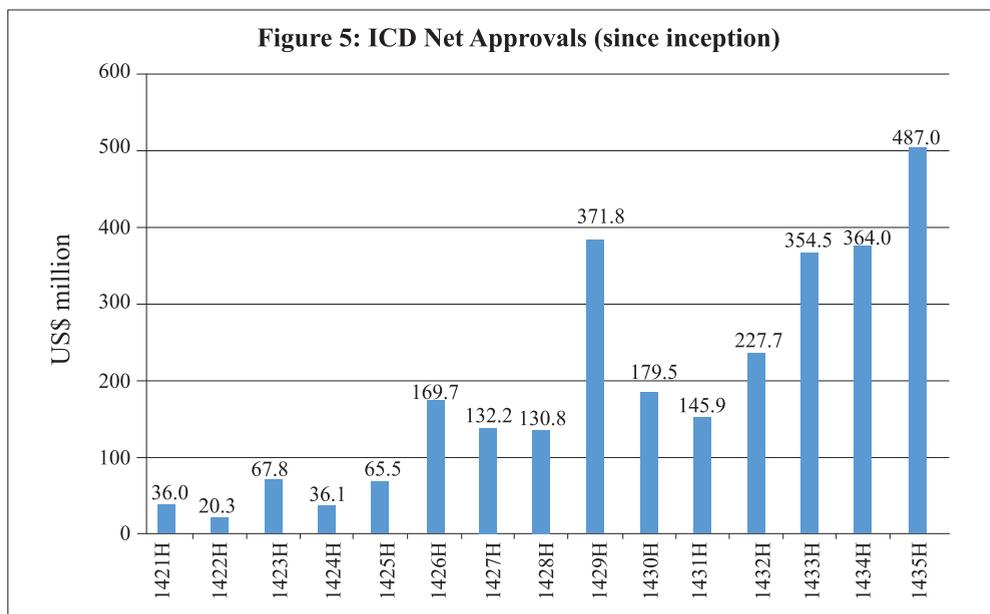
In its efforts at becoming the lead reinsurer in MENA region, ICIEC established in 2009 a Union of Commercial and Non-Commercial Risks Insurers and Reinsurers (AMAN UNION) including Export Credit Agencies (ECAs) from member countries of the Arab Investment and Export Credit Guarantee Corporation (DHAMAN) and the Organization of Islamic Cooperation (OIC). This organization aims at strengthening the cooperation between ECAs in terms of credit information, debt collection, inward insurance and co-insurance, training, technical assistance and any other forms of collaboration. More information is available at this site: [www.amanunion.net](http://www.amanunion.net).

ICIEC has been an active member of the Berne Union - the union of international credit insurers - which it joined in 2009. ICIEC has actively built cooperation agreements with a number of Berne Union members which helped in generating business through reinsuring projects that have strong developmental impact on member countries.

### 3.2 The Islamic Corporation for the Development of the Private Sector (ICD)

The ICD focusses on the private sector in the Islamic world. The mission of the ICD is to complement the role played by the IDB by developing and promoting the private sector as a vehicle for economic growth and prosperity. The ICD focuses mainly on identifying opportunities in the private sector, providing a wide range of Shari’ah compatible financial products and services, and expanding access to Islamic capital markets. In practice, this takes the form of offering long-term and short term financing and advisory/arrangement services, establishing partnerships at the strategic or tactical level, targeting direct financing of the private sector, and injecting selective equity and debt products into projects that demonstrate strong potential to develop the private sector.

The net approvals of ICD in 1435H stood at \$487 million for 31 projects with disbursement reaching \$360.4 million. Disbursement for financial institutions reached \$181 million in 1435H. This brings the total approvals since inception to \$2.8 billion. For the last 5 years net approvals of ICD increased by more than 30 percent (Fig. 5).

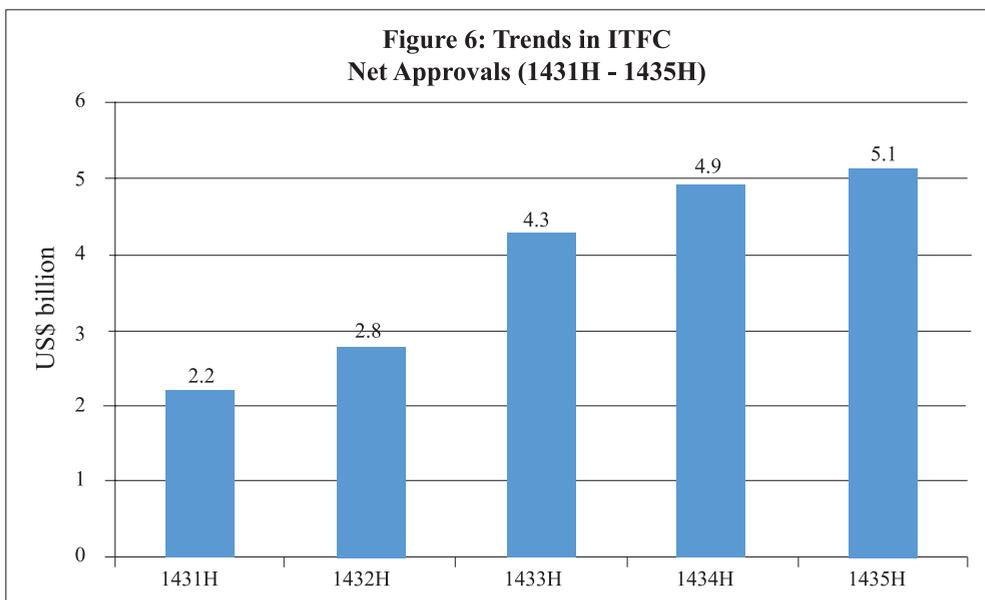


In 1435H, ICD approved \$204.5 million of direct investment in the corporate sector with \$110.6 million disbursed. More than half of new approved projects targeted high-impact sectors such as agribusiness, energy, industrial, and infrastructure. Meanwhile, in the area of advisory services, ICD successfully recorded \$4.6 million in revenue from its advisory services and an additional \$7 million in revenue from its asset management programs. It also approved \$68.8 million and disbursed \$36 million during 1435H for advisory services and asset management.

### 3.3 The International Islamic Trade Finance Corporation (ITFC)

The ITFC was established in 2005 with the mission to consolidate the trade finance business that was formerly undertaken by various windows within the IDB Group. To fulfill its purpose, ITFC is involved in the following activities (a) finance trade, alone or in cooperation with other sources of finance; (b) encourage and facilitate intra-trade and international trade of member countries; (c) assist member countries to have access to domestic and foreign funds, as well as access to financial markets for the purpose of financing trade; (d) assist in the development of investment opportunities; (e) develop and diversify financial instruments and products for trade financing; (f) provide technical assistance and training to banks and private and public institutions involved in trade finance in OIC member countries; (g) carry out any other activity or function that may be relevant or conducive to the attainment of its purpose.

Between 1396H and 1433H, ITFC approved trade financing of US\$ 26.7 billion, mainly driven by Energy. Over the past five years, ITFC has recorded improved growth in its trade operations by more than doubling its operations from \$2.2 billion in 1431H to \$5.1 billion in 1435H (Fig. 6). In terms of regional breakdown of



approvals in 1435H, MENA region received \$2.6 billion (50.4 percent), Asia \$2 billion (39 percent), Sub-Saharan Africa region \$515 million (10 percent), CIS \$15 million (0.3 percent) and Others (non-Member countries) \$12 million (0.2 percent). ITFC's disbursements reached \$2.8 billion in 1435H compared to \$4 billion a year ago, which is a decline of 29.6 percent.

A large proportion of ITFC's approvals in 1435H, which provided financing to both the public and private sectors, were syndicated from banks and financial institutions in the international markets totaling \$3.5 billion. Its main mode of financing is *murabaha*, in addition to using other modes such as Structured Trade Finance, Islamic Discounting and Letter of Credit opening/confirmation. ITFC's financing activities cover energy (crude oil and petroleum products), fertilizers, plastics, textiles, agricultural inputs, food items, sugar, coffee etc. Besides its direct operations with clients, including LDMCs, Lines of Financing under Two-Steps Murabaha are also provided to local banks to support SMEs in member countries.

In the area of capacity building, the ITFC's Trade Promotion and Cooperation Program (TCPP) is designed to enhance trade facilitation and strengthen cooperation among OIC member countries. Through the TCPP, the ITFC has launched Aid for Trade Initiative for Arab States (AFTIAS) and the UN Special Program for the Economies of Central Asia (SPECA) to address capacity constraints in its member countries. ITFC is also overseeing an IDB Group Trade Related Issues Committee (GTRC) which coordinates, mainstreams and synergizes all the Group trade-related activities meant for member countries. In addition, ITFC has prepared programming documents for Arab-Africa Trade Bridge Program which is aimed at promoting regional trade between African and Arab member countries of OIC. It has also joined international efforts in the creation of "Trade Facilitation Implementation Guide" which is an on-line information resource for trade practitioners, policy makers and academicians.

### **3.4 Public-Private Partnership**

The IDB participates in public-private partnership ("PPP") as a means of stimulating private sector growth. The PPP was introduced in 2006 (1426-1427H) as a financing model to support infrastructure development in member countries. Since then, PPP has accounted for almost a quarter of all IDB infrastructure financing, with total investment reaching \$3.5 billion.

PPP achievements with co-financing partners such as the IFC and ADB, during 2009-2014 (1430-1435H) include (i) installation of new 1,730 MW of power generation capacity, (ii) construction of refining capacity of 400,000 bpd (Saudi Arabia), (iii) development of fertilizer plants with production capacity of 3.295 million tons per annum, (iv) installation of production capacity of 0.576 million tons of aluminum per annum (UAE) and (v) development of new airports to cater for 3 million passengers per annum.

The IDB is active in Arab countries' private sector growth through the Arab Financing Facility for Infrastructure (“AFFI”), a partnership between the World Bank, the International Finance Corporation and the IDB. Launched in 2011 (1432H), the AFFI aims to foster infrastructure investment in Arab countries. The AFFI's Arab Infrastructure Investment Vehicle (“AIIV”) is key to achieving this goal. The AIIV is a private equity fund with target capital commitments of \$300 million, including a \$50 million seed contribution from the IDB. The fund aims to increase the volume of new ventures that can access senior debt by providing access to mezzanine instruments. The AIIV has an envisaged lifetime of 12 years, and consists of a Sharia compliant and conventional fund, both managed by EMP Arab Infrastructure Investment Advisors. The following African countries are eligible for AIIV investment: Algeria, Djibouti, Egypt, Libya, Mauritania, Morocco, Somalia, Sudan, and Tunisia.

### **3.5 Group Business Forum (Thiqah)**

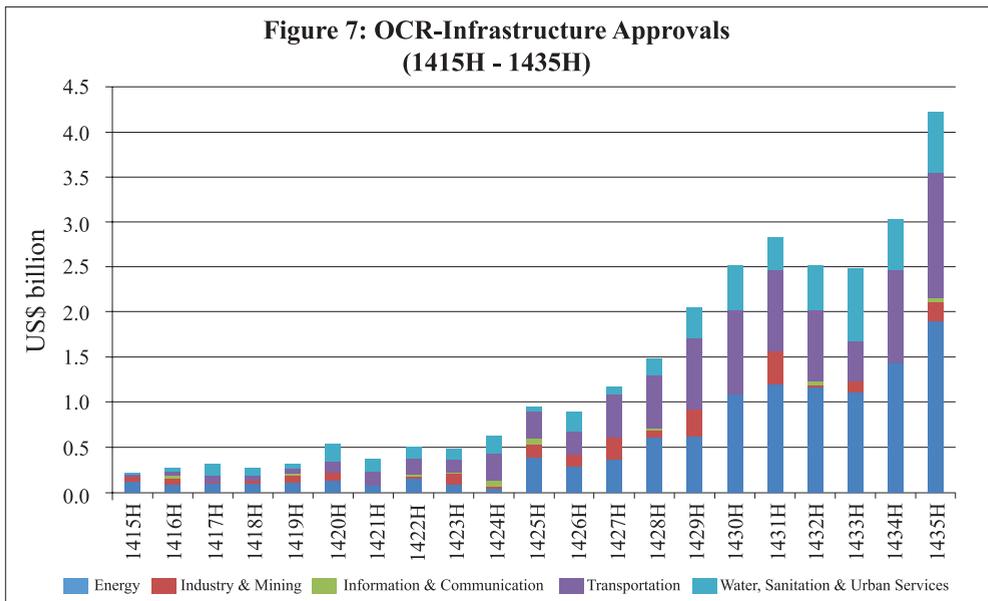
*Thiqah* is the leading business platform of the IDB Group serving the private sector in member countries. Through facilitation and catalyst roles, *Thiqah* aims at: (1) Assuring investments and export credit as well as other success factors, all through one platform of the IDB Group (ii) Guaranteeing the factors needed for successful investment, (iii) Providing investment opportunities, (iv) Monitoring investment climates in member countries, (v) Building and sharing businessmen/businesswomen databases covering all member countries, and (vi) Transferring successful models and best practice in investment projects among member countries.

In 1435H, *Thiqah* coordinated the participation of IDB Group in several international and regional conferences and forums, organized and/or assisted in the promotion of various events including Global Islamic Economy Summit, Al-Madina Investment Forum, First Arab States Regional South-South Development EXPO, G8 Deauville Partnership Investment Conference, AgriTech 2014, Annual Investment Meeting (AIM), World Investment Forum (WIF), First Investment Forum on OIC Plan of Action for Cooperation with Central Asia, 10th World Islamic Economic Forum (WIEF) and Palestine Trade and Business EXPO 2014.

## **4. Infrastructure Development**

Infrastructure development has traditionally been a key strength of IDB Group. Almost 80 percent of requests for IDB financing from member countries are in infrastructure sector - energy, water, transport and telecommunication. This is reflective of the significant infrastructure financing gap that exists in member countries and the increasing realization that infrastructure development is vital for reducing poverty and improving people's lives.

Since its inception, the IDB has financed approximately ID20.2 billion (\$34 billion) worth of infrastructure operations in its member countries, 75 percent, or \$22.3 billion, of which has been provided in the last eight years (2006-2014) (Fig. 7). This



is a significant scaling up in direct response to increasing infrastructure financing needs by member countries, enabling them to effectively compete in an increasingly globalized world and benefit from the new G20 initiative.

The active infrastructure portfolio of the Bank reached 190 projects for \$15.9 billion, of which 25 percent has been disbursed. In 1435H, the Bank approved 51 infrastructure operations for ID2.8 billion (\$4.2 billion) which financed electricity generation and transmission, transportation, and water and sanitation infrastructure. During 1435H, the Bank also disbursed \$1.5 billion for active and continuing infrastructure projects, demonstrating the Bank’s continued strong commitment to help create an enabling environment in its member countries. In 1435H, energy accounted for the largest allocation of infrastructure financing at 44.9 percent, followed by transportation 33 percent, water and sanitation 16.1 percent, industry and mining 5 percent and information and communication 1 percent.

#### 4.1 Energy

Access to reliable and affordable energy is the basic requirement for modernization, industrialization and poverty reduction. Since inception in 1396H, the IDB has financed over US\$ 32.8 billion, worth of energy projects in its member countries. In 1435H, the Bank approved 16 energy projects (including two using the PPP modality) totaling ID1.2 billion (\$1.9 billion) for ten member countries - Bangladesh, Burkina Faso, Benin, Cameroon, Egypt, Pakistan, Senegal, Morocco, Mauritania, and Uganda. As is evident, special focus is being given to the development of energy projects in Africa to reduce energy poverty.

Increased awareness regarding the environmental impact of fossil fuels (without adequate safeguard mechanisms) has brought renewed attention to the urgent need of

developing indigenous renewable energy (RE) resources as well as promoting energy efficiency enhancement (EEE) initiatives. In this regard, supporting environment friendly self-sustainable energy projects became a key priority of the Bank. In 1435H the Bank launched a new three-year, \$180 million initiative called “Renewable Energy for Poverty Reduction” (REPoR), and a partnership platform called the “Renewable Energy Alliance for the Poor” (REAP). Under this initiative, the Bank approved the Solar Rural Electrification Project in Burkina Faso. The project will contribute to improving the living conditions of rural populations by allowing them to have access to electricity through decentralized hybrid electrification solutions (mini-grids and solar household systems).

## **4.2 Transportation**

Transport sector, as an indispensable catalyst for accelerated growth and economic development, continues to remain one of the highest priorities of IDB member countries. Transport sector projects approved by the Bank effectively contributed to the economic prosperity and social well-being of the member countries and played a strategic role in the opening up of peripheral, isolated and landlocked countries and regions. The IDB has also joined the multilateral development bank community (since the Rio+20 meeting in 2012) in enhancing its commitment to transport sustainability by ensuring that its transport infrastructure projects are safe, more efficient, and economically sustainable and environmentally friendly.

In accordance with the IDB Group infrastructure development priorities, transport financing activities concentrated on road, railway and aviation sector developments particularly for the least developed countries in Sub-Saharan Africa. The overarching goal has been to promote regional integration among neighboring countries. Transportation sector projects approved in 1435H amounted to ID909.5 million (\$1.4 billion). This brings the total approval to transportation sector since inception to \$10.6 billion.

## **4.3 Urban Development**

Migration from rural to urban areas in member countries is posing increased developmental challenges of saturation of urban infrastructure, especially water supply, sanitation, solid waste management, and social housing. This demographic transformation requires securing suitable and affordable urban infrastructure in an efficient and timely manner. In this context, to foster urban development, the Bank approved \$6.24 billion, between 1396H-1435H.

In 1435H, the IDB approved 10 operations for an amount of \$479 million. These projects will be implemented in Bahrain, Iran, Côte d’Ivoire, Lebanon, Mali, Senegal and Nigeria. The projects in Mali, Lebanon and Côte d’Ivoire are being implemented in partnership with other co-financiers, namely, AfDB, AFD, EIB, EU, KFAED and the World Bank in addition to the Italian government, WADB, WAEMU and EBID with an approximate total amount of co-financing participation of \$453 million. Key

development indicators for current commitments include: (i) provision of aggregate potable water treatment capacity of 640,000m<sup>3</sup>/day, (ii) connecting 1 million new households to potable water supply, (iii) providing aggregate wastewater treatment capacity of 680,000m<sup>3</sup>/day, (iv) connecting 1.15 million new households to network sewerage services, (v) supplying four million people with access to solid waste collection services, and (vi) providing affordable housing to forty thousand families.

The IDB also approved \$100 million for the construction of modern rural housing project in Uzbekistan in 1435H. The project involves building 1,000 houses for low-income young families in rural areas as part of the government's efforts to provide quality housing and slow down urbanization in the major cities of the country. By breaking down the construction contracts into smaller sizes, the project will also help develop small contractors in the country.

## **5. Enhancing Economic Cooperation between Member Countries**

The principle of promoting cooperation between member countries is deeply rooted in IDB's mission. Strengthening economic ties through enhancing intra-OIC trade, promoting foreign direct investment and competitiveness, and other forms of cooperation between MCs is at the core of IDBG's mandate.

### **5.1 Trade Promotion and Cooperation Program (TCPP)**

This program is managed by ITFC and focuses its activities on trade facilitation and cooperation among OIC member countries. In recent years, TCPP has launched major initiatives such as "Aid for Trade Initiative for Arab States (AFTIAS)", and UN Special Program for the Economies of Central Asia (SPECA) to address capacity constraints of its member countries.

TCPP, through ITFC, has prepared programming documents for Arab-Africa Trade Bridge Program to promote regional trade between African and Arab member countries. It also joined international efforts in the creation of "Trade Facilitation Implementation Guide" which is an on-line information resources guide for trade practitioners, policy-makers and academicians.

### **5.2 Investment Promotion Technical Assistance Program (ITAP)**

This program is aimed at building the capacity of investment promotion agencies (IPAs) of member countries and in improving their investment climate as well as in identifying and promoting promising investment opportunities.

In 1435H, ITAP provided a technical assistance to the Sierra Leone Investment and Export Promotion Agency (SLIEPA). The only remaining component is a promotion campaign where a staff of SLIEPA will be hosted by UNIDO in Bahrain to undertake a road show in the GCC countries with a view to promoting investment opportunities in Sierra Leone to investors in the GCC. A similar program is approved for the

Gambia Investment and Export Promotion Agency (GIEPA). The last component of familiarization to the IDB Group is expected to be undertaken in early 1436H.

In addition, ITAP provided a technical assistance to KAZNEX INVEST, the investment promotion agency (IPA) of Kazakhstan, by sponsoring two staff members for a five-day familiarization visit to Malaysia to learn best practices of the Malaysian Investment Development Authority (MIDA) and the Malaysia External Trade Development Corporation (MATRADE).

### **5.3 IDB WTO-related Program**

The aim of this program is to assist OIC member countries in understanding the WTO agreements and coping with their policy implications.

In recent years, the program has been focusing on WTO accession, trade facilitation, trade negotiation skills and promotion of regional cooperation and integration. Through the program, the IDB organized nine activities in 1435H, including one consultative meeting at the ministerial level on the sideline of the 9<sup>th</sup> WTO Ministerial Conference in Bali on 2 December 2013.

The meeting brought together ministers of trade from IDB member countries to discuss and exchange views on the issues on the agenda of the Conference. In addition, under the program, the IDB organized seven workshops and seminars on accession-related issues in Azerbaijan and Sudan. They were the implication of WTO package of measures on Arab countries in UAE; the post-Bali package for African countries in Morocco; trade remedy measures for UEMOA member countries in Côte d'Ivoire; trade negotiation simulation skills for Arab countries in UAE; Doha negotiations and accession to WTO for OIC countries in Turkey; and local content development for accession to WTO in Kazakhstan.

### **5.4 Technical Cooperation Program (TCP)**

This a South-South cooperation program which supports the transfer and exchange of skills, knowledge and know-how among member countries. It is a tripartite scheme involving a technical donor, a beneficiary, and the IDB as a facilitator. It covers the organization of seminars, on-the-job training courses, and recruitment of experts for capacity development purposes, and augmenting skills and enriching the experience of technical and professional staff.

Between 1403H and 1435H, TCP financed 2,166 operations for \$51.2 million. Of this, 675 were in the form of regional operations for \$19.8 million while 1,491 operations totalling \$31.3 million benefited member countries directly. In terms of approvals - which were mainly in the areas of health, education, agriculture, information communication technology and Islamic economics & finance - priority was given to the LDMCs and countries which do not benefit from IDB's other financing windows.

TCP approved 63 operations for an amount of \$1.5 million in 1435H, of which 15 were related to regional operations benefiting 25 member countries. During the

year, priority was given to operations which could lead to the initiation of Reverse Linkage activities.

## **5.5 Reverse Linkage (RL) Program**

The Bank's Reverse Linkage initiative is a South-South co-operation mechanism whereby member countries agree to exchange expertise, knowledge and technology with the Bank serving as a connector and catalyst. The initiative promotes solidarity and partnerships among IDB member countries with different development levels and needs.

In 1435H, the Bank initiated and piloted several new projects including water quality treatment between Burkina Faso and Morocco, artificial insemination of livestock between the Kyrgyz Republic and Indonesia, rice production between Brunei and Malaysia and the ophthalmic field between Niger and Turkey.

During the year, the Bank expanded its partnership with a view to strengthen its implementation capacity and increase its financial resources available to RL projects. In this regard, new partnerships were forged with bilateral institutions, such as the Turkish Cooperation and Coordination Agency (TIKA), the Moroccan Agency for International Cooperation (AMCI) and the State Ministry of National Development Planning of Indonesia (BAPPENAS) as well as with other OIC institutions such as the Statistical, Economic, and Social Research and Training Institute of Islamic Countries (SESRIC). These partnerships were made through Memorandums of Understanding (MoUs) that were signed during the year.

Throughout the year, the Bank also participated in various South-South Cooperation knowledge events in order to share its RL experience. Some of the events where these experiences were shared include HLM2 with the World Bank (WB) and South Arab States Regional South-South Development Expo 2014 with the United Nations Office for South-South Cooperation (UNOSSC).

## **III. Conclusion**

With the rapidly changing development landscape, member countries are, more than ever before, confronted with unprecedented challenges - such as volatile oil prices, youth unemployment, political instability, and disease - which require coordination, timely intervention and effectiveness in delivering development services. In the next decade, a new Ten-Year Strategy Framework was developed and endorsed by the IDB Board of Governors. The Strategy, which has five pillars - economic and social infrastructure, private sector development, inclusive social development, cooperation among member countries, Islamic financial sector development, plus a cross-cutting one (capacity development), was designed to position the IDB Group as a value-added partner in the socio-economic development of its member countries. In order to implement the strategy, the IDB Group has developed institutional performance indicators and result-based targets for short and long-term actions.

With this new framework, ten years from now the Group is expected to be a partner-of-choice in its member countries (MCs), an authoritative reference in Islamic finance, and the most prominent facilitator of cooperation between MCs, and with Muslim Communities in non-MCs.

To achieve this vision, the management is developing plans for the Ten Years Strategy implementation and working with the BED on the organizational, operational, and financial changes needed to further enhance the Bank's effectiveness and efficiencies.



## Annex-I: Major Islamic finance instruments used by the IDB

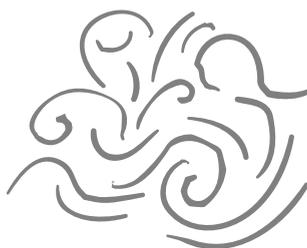
The instruments used by the IDB are loan, leasing, instalment sale, technical assistance, equity participation, profit sharing, Istisna'a, Murabaha, and lines of financing extended to NDFIs. A brief explanation of each is given below:

- **Loan:** This mode of financing is used for projects expected to have a significant socio-economic impact, with a long implementation period, and which may not be revenue generating. Loans are given to governments or public institutions mainly in Least Developed Member Countries (LDMCs) for the implementation of infrastructure and industrial projects.
- **Leasing (Ijara):** This is a medium term mode of financing for the rental of capital equipment and other fixed assets such as plant, machinery, and equipment for industrial, agro-industrial, infrastructure, transport, etc., both for the public and private sectors. Lease financing is also provided for acquiring ships, oil tankers, fishing trawlers, etc. After the end of the rental period the Bank transfers the ownership of equipment to the lessee as a gift.
- **Instalment Sale:** Instalment Sale is similar to Leasing. The major difference is that in Instalment Sale the ownership of the asset is transferred to the beneficiary on delivery. Under this mode of financing the Bank purchases equipment and machinery, and sells it to the beneficiary at a higher price.
- **Equity Participation:** Under this mode of financing, the Bank participates in the equity capital of existing or new companies in the public and private sectors. The Bank's participation is limited to one-third of the equity capital of the company.
- **Profit Sharing:** This is a form of partnership in which two or more parties pool funds to finance a venture. The partners share the profit (or loss) in proportion to their contribution to the capital.
- **Line of Financing to NDFIs:** Under this category the Bank extends financing through equity, leasing, and instalment sale to the NDFIs in member countries to promote the growth of small and medium scale industries, mainly in the private sector.
- **Istisna'a:** Istisna'a is a mode for trade and project financing for the promotion of trade in capital goods and the enhancement of productive capacity. It is a contract for manufacturing goods or other assets in which the manufacturer agrees to provide the buyer with goods identified by description after they have been manufactured in conformity with this description within a certain time and for an agreed price. This new mode will enable the Bank to finance working capital and thus contribute to the enhancement of productive capacity in member countries.

- **Murabaha:** This mode of financing is used in the financing of foreign trade, both imports and exports. The Bank purchases the commodity requested and re-sells it to the beneficiary. In the case of import financing, the period of financing is up to 30 months, while, in case of export financing, it may extend up to 120 months.

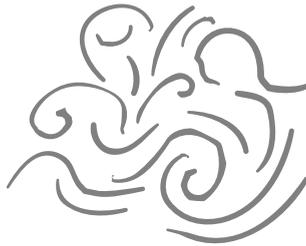
In addition to the above, Technical Assistance (TA) is a form of grant and/or a loan for project-related tasks such as a feasibility study and design, for the supervision of implementation, and for tasks of an advisory nature such as the definition of policies, sector plans, institution-building, research, etc. Technical Assistance is mainly extended to LDMCs.

*Source: [http://www.isdb.org/irj/portal/anonymous/idb\\_faq\\_en](http://www.isdb.org/irj/portal/anonymous/idb_faq_en)*



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