

ISLAMIC DEVELOPMENT BANK (IsDB)

Even though a signatory to the Paris Declaration, participation of the Islamic Development Bank in the 2008 Paris monitoring survey was limited, with only 2 entries (Afghanistan and Albania). Because of this restricted coverage, results cannot be relied upon to be representative and are thus not reported.

1) QUANTITY OF AID

1.1. Current/Recent Quantity Performance:

approval based	2006-2007* (US\$ mio)
ODA Net Approvals	422.9

*IsDB uses the lunar calendar, i.e. 2006-2007 corresponds to AH1427.
Source: IsDB (2007a, table 2.3, p38).

The Islamic Development Bank (henceforth IsDB) approvals for concessional financing projects stood at US\$ 422.9 million for the year AH 1427 (which is according to the lunar calendar the year ending January 2007), up 24% compared to AH1426 (Table 1.1). Disbursements from Ordinary Capital Resources (of which concessional financing makes up 25%) stood at Islamic Dinars (ID) 584 million (roughly US\$ 875 million) in AH 1427, up 34% compared to AH 1426. However, these disbursement figures include non-concessional financing (IsDB, 2007a, p45).

In 2002, the IsDB increased its authorized capital from 6 to 15 billion Islamic Dinars (just over US\$ 22.6 billion as of March, 2007) and the subscribed capital from ID 4.1 billion to ID 8.1 billion (roughly USD 12.2 billion). Based on this, it has substantially raised the number of approved operations and increased the amount of commitments by more than 150% to around US\$ 5.2 billion a year for 2006-2007. In 2005-2006 (=lunar year 1426 AH or year ending on January 30th), gross disbursements were US\$ 2.6 billion (IsDB, 2006a). As loan repayments are also high however, net resource transfers over 2003-05 were only around US\$ 450 million a year. (This paragraph relates to the whole of the IsDB Group's operations and thus also includes non-concessional financing).

1.2. Future Quantity Intent

The IsDB is planning to increase its aid further in the next 5 years, to well over US\$6 billion of annual commitments and US\$4 billion of disbursements. In particular, it has already mobilised in 2006-07 US\$2 billion of additional funding for a Fund for Poverty Reduction especially targeted at Africa, with an ultimate target of US\$10 billion (IsDB, 2007a, p31). Recently, the IsDB has announced the set up of a Clean Energy Fund related to the Clean Development Mechanism in the Kyoto Protocol. By December 2007, the Fund had collected pledges worth US\$ 759 million from IsDB founding members (AsiaPulse, 2007). See also section 4.4.

2) KEY AGENCIES/MECHANISMS

2.1 Agencies and Structures (see IsDB 2007b)

The IsDB's vision is to *"be the leader fostering socio-economic development in member countries and Muslim Communities in conformity with Shari'ah (Islamic Law)"*. The IsDB's mission is as follows: *"alleviating poverty, promoting human development, science and technology, Islamic economics, banking and finance, and enhancing cooperation amongst member countries along with our development partners"* (both quotes from IsDB, 2005, p1).

The IsDB Group consists of five major agencies: the Islamic Development Bank (IsDB) itself, the Islamic Corporation for Insurance of Investment and Export Credit (ICIEC), the Islamic Research and Training Institute (IRTI), the Islamic Corporation for the Development of the Private Sector (ICD), and since 2005 the International Islamic Trade Finance Corporation (ITFC).

Affiliated institutions/special projects include the IsDB infrastructure fund (IFF), which helps develop the infrastructure of member countries, the International Centre for Biosaline Agriculture (ICBA) and the Saudi Arabia project for the Utilization of Hajj Sacrificial Meat.

Headquartered in Jeddah (Saudi Arabia), the IsDB Group has regional offices in Almaty (Kazakhstan), Kuala Lumpur (Malaysia) and Rabat (Morocco) and is planning to open one in Dakar (Senegal). The IsDB has also field representatives in 13 member countries. It finances interest-free public and private projects and manages funds placed at its disposal by Islamic banks.

Islamic Development Bank (IsDB)

The IsDB was founded in 1973 and began operations in 1975. The Bank ensures that its financing is Shari'ah-compliant, i.e. in accordance with Islamic Law, so its operations have service charges rather than interest charges. As of March 2007, the IsDB counted 56 member states, with Saudi Arabia, Libya, Iran, Egypt, Turkey, the UAE and Kuwait being the largest shareholders (IsDB, 2006a).

The IsDB also manages the following specialized funds: (i) the Islamic Banks' Portfolio for Investment and Development (CFID) which channels available bank liquidities and injects them into projects in member countries. CFID will be merged with the new entity ITFC (see below). (ii) The IsDB Unit Investment Fund (IDB-UIF), which pools savings of institutional and individual investors of IsDB member countries and invests these savings in member and non-member countries. (iii) The Awqaf Property Investment Fund (APIF) – a trust fund managed by the IsDB, which invests in Awqaf (endowments) real estate. (iv) The World Waqf Foundation (WWF) for the needy. (v) The Fund for Poverty Reduction. (vi) the Waqf Fund, which primarily caters to the needs of the Muslim communities and organizations in non-member countries and Least Developed Member Countries (LDMCs). It places particular emphasis on social sector development. (vii) The Special Assistance Programme focusing mainly on the education and health sectors, but also on alleviating the suffering of communities afflicted by natural disasters or conflicts (in both member and non-member countries). And finally (viii) the Scholarship Programme.

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

Founded in 1992, ICIEC aims to increase the scope of trade among member countries by providing a variety of Shari'ah compliant insurance products. As of 2007, the ICIEC had 36 shareholders, including the IsDB.

Islamic Research and Training Institute (IRTI)

IRTI was founded in 1981 with the purpose of undertaking research and providing training for IsDB member countries to conform with Shari'ah law, and to further economic development and cooperation amongst them.

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

ICD was founded in 1999 and aims to be a multilateral financial institution promoting the development of the private sector in IsDB member countries, and to be a leader in the Islamic financial markets. All of its direct financing is Shari'ah-compliant.

International Islamic Trade Finance Corporation (ITFC)

Established in 2005, the primary objective of the ITFC is to facilitate intra-trade among member countries of the Organization of the Islamic Conference (OIC) using Shari'ah-compliant instruments.

2.2 Key Policies and Documents*IsDB Strategic Framework (IsDB, 2003)*

In 2003, the IsDB Group adopted a new strategic framework where it reiterates its vision, mission, core values, and redefines its medium-term objectives. The objectives now consist of: the Promotion of Islamic financial industry and institutions, poverty alleviation, and the promotion of cooperation among member countries. To achieve these objectives, the IsDB will focus on the following 6 priority areas: (i) human development; (ii) agricultural development and food security; (iii) infrastructure development; (iv) trade among member countries; (v) private sector development; and (vi) research and development in Islamic economics, banking and finance.

Vision 1440H 'A Vision for Human Dignity' (IsDB, 2006b)

In the year 1426 Hijrah (2005) the Islamic Development Bank set out its long-term strategic vision in its Vision 1440H (2020): “By the year 1440 Hijrah IDB 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” (IsDB, 2006b, p4).

Ouagadougou Declaration

In 2002, the IsDB committed itself to deliver US\$ 2 billion in concessional financing to African LDMCs for the period AH 1424-1428 (2002-2007). During the first four years of this 5-year period, the IsDB Group had approved 83% of this total (IsDB, 2007a, p39).

3) RECIPIENT COUNTRIES AND ALLOCATION CRITERIA**3.1. Recipient Countries**

Top 10 recipients of loans & TA by country (for 2006-2007*):

(based on net-approvals)	US\$m	% of total (loans+TA)
1. Pakistan	80.0	14.7%
2. Indonesia	62.4	11.5%
3. Morocco	56.8	10.4%
4. Senegal	43.4	8.0%
5. Nigeria	30.0	5.5%
6. Niger	28.4	5.2%
7. Burkina Faso	26.9	5.0%
8. Mali	16.1	3.0%
9. Tunisia	15.6	2.9%
10. Uzbekistan	15.0	2.8%
Total Top 10 Recipients	374.6	68.9%

*IsDB uses the lunar calendar, i.e. 2006-2007 corresponds to AH1427.

Source: IsDB (2007a, annex table 2.3, p48-56).

The table above shows the top recipients of IsDB financing. The total number of countries receiving loans/TA from the IsDB in AH 1427 (2006-2007) was 40. The majority of the countries in the list are African, with the important exceptions of Pakistan and Indonesia, who occupy the top two spots (these figures should be interpreted with caution as it is possible some non-concessional financing flows are included, see annex I for a description of data sources).

Distribution among different groups of recipients (2006-2007 *):

(based on net-approvals)	US\$ mio	% of concessional financing
LDCs	220.0	52.0%
Africa	245.8	58.1%
Asia	166.5	39.4%
Other	8.7	2.1%
Regional allocations	1.9	0.4%
Total	422.9	100%

*IsDB uses the lunar calendar, i.e. 06-07 corresponds to AH1427.

Source: IsDB (2007a, table 2.3, p38).

The table above shows that the bulk of concessional financing goes to Africa, with 52% going to Least Developed Member Countries (see next section).

3.2. Allocation Criteria

3.2.1. Pre-selection criteria

Any country interested in the membership of an entity in the IsDB Group is required to fulfill three conditions namely, (i) membership of the Organization of the Islamic Conference (OIC), (ii) payment of its contribution to the capital of the entity, and (iii) acceptance of the terms and conditions that may be decided upon by the entity's Board of Governors. The IsDB classifies 28 members as Least Developed Member Countries (LDMCs) which are therefore eligible for highly concessional financing. These include the 22 member countries who are classified by the UN as LDCs, 2 member countries (Kyrgyzstan and Tajikistan) which are classified by the UN as

landlocked developing countries), and with four others (Albania, Azerbaijan, Uzbekistan, and Palestine) (IsDB, 2006a).

3.2.2. *Allocation criteria*

The IsDB endeavours to balance its portfolio among all member countries, striving to engage a new loan each year to each country except where there are serious problems of non-repayment of current loans. Furthermore, a project to be financed by an IsDB loan should technically not exceed Islamic Dinars 7 million, with loans exceeding this amount often co-financed with other Arab donors (see also section 5.5). Since 2002, the IsDB has made particular efforts to fund to key sectors in Least Developed African countries, allocating US\$2 billion to this purpose and, though not all of this money is concessional, most of its major recipients of concessional funding are in Africa. Similarly, the newly established IsDB fund to fight poverty in member countries can be expected to have the majority of its operations in Africa (see section 1.2).

4) AID POLICIES

4.1. Concessional loans

Terms Concessional loans

	Standard	LDMCs
Grant Element (%)	?	?
Maturity (years)	15 - 25	30
Grace Period (years)	3 - 7	10
Interest Rate (%)	0%	0%
Service charge (%)	1.5% - 2.5%	0.75%
Currency denomination	ID/SDR	ID/SDR

Source: IsDB (2000, p6).

The IsDB gives out loans and grants. Loans are interest-free (sharia'a compliant) but carry administrative charges ranging from 1.5% to 2.5% for standard loans and 0.75% for highly concessional loans to LDMCs. The amount of charges is fixed provisionally in funding agreements and finally after the last disbursement. Charges fall due irrespective of the level of disbursement. Loan repayments are spread over a period of 15 to 30 years with a grace period of 3 to 10 years depending on the project/recipient (see table above).

The IsDB also undertakes non-concessional financial leasing with an annual profit margin from 7.5% to 8% over a gestation period of 3 to 4 years, and large amounts of export funding operations with a profit margin of 6.5% and a repayment period of 9 to 24 months (IsDB, 2000).

4.2. Types of Assistance

The IsDB provides three main types of financing: projects, balance of payments support to promote trade among member countries, and technical cooperation. It can also finance equity participation that should not exceed 1/3 of the project capital.

Between 2003 and 2005, 61% of financing was channeled to the promotion of exports of Islamic countries, 37% to projects and 2% to technical assistance. However, net approvals for recent years have been around 50% trade finance and 50% projects, with technical assistance declining to less than 1% (IsDB, 2006a and 2007a). In the most recent financial year (AH 1427 or 2006-2007), 65% of funding approvals for least developed member countries were trade finance, 16% for projects and 14% for leasing. However, Sub-Saharan African LDMCs receive about 60% project finance and 40% trade finance. HIPC analysis shows similarly that IsDB money is largely (between 50% and 66%) project-focused.

The IsDB has approved participation in HIPC debt relief packages for all its member countries (20 out of a total of 40 eligible HIPCs) that have reached decision point status. The only exceptions are Mozambique, where the IsDB had no exposure and Guinea-Bissau, where “delivery of the IsDB’s share of debt relief is yet to be finalized” (IsDB, 2007a ,p40). Costs for full debt relief to HIPCs is estimated at US\$ 164.1 million (as of end-June 2007 in NPV terms – see IDA and IMF, 2007, p77).

In terms of quality of technical assistance (TA), most IsDB TA focuses on training. HIPCs indicate that it is at best moderately aligned with Government priorities or building capacity, with best practice found in the Gambia.

4.3. Channels of Assistance

Barring trade financing programmes, IsDB projects are directed towards sector ministries, project execution agencies, and sometimes directly to private developers. However, HIPCs indicate that between 75% and 100% of IsDB resources are captured on-budget, with best practice occurring in the Gambia, Guyana, Mauretania, Mali and Sierra Leone.

4.4. Sectors and Projects

IsDB’s priority sectors for projects are: human development, rural development and food safety, infrastructure development, private sector development, research and development in Islamic economics, and banking and finance. As the table below shows, in the most recent year public utilities received most funding, though in most years transport and communications, and social services are close behind. However, it is trade that is the privileged sector given the large amount of trade financing. At the end of 2007, the IsDB announced the setting up of a Clean Energy Fund, aimed at motivating the private sector to participate in clean energy projects. As of mid-December 2007, pledges to the fund by IsDB founding members stood at US\$ 759 million (AsiaPulse, 2007).

Distribution of Loans&TA by Sector for AH 1427 (2006-2007):

based on net-approvals	No of projects	US\$ mio	% of total
Agricultural and Agro-Industry	19	126.5	7.7%
Industry and Mining	6	216.1	13.1%
Social Sectors (including education &health)	49	365.1	22.1%
Transport and Communications	19	450.8	27.3%
Public Utilities	26	480.3	29.1%
Financial Services & Other sectors	21	13.4	0.8%

Total	140	1652.2	100.0%
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Note: Total includes non-concessional financing flows.

Source: IsDB (2007a, table 2.2, p32)

All projects the IsDB finances are in principle included in the borrowing country's existing planning framework (for example, the PRSP), even though for the newly established poverty fund "*The type of interventions will be dictated by a country's special needs and circumstances, in addition to the ongoing PRSPs*" (IsDB, 2007a, p31). However, due partly to the large amount of import financing, HIPCs suggest that not all IsDB resources are for top priority sectors or projects. Best practice (75-100% aligned) is in the Gambia and Sierra Leone.

4.5. Flexibility

IsDB aid does help finance Balance of Payments deficits and its trade financing helps countries protect themselves against external import price shocks (e.g. through the Import Trade Financing Operations or ITFO). However, it does not provide this type of finance in a very flexible way. Most countries benefiting from IsDB resources get their aid through one loan agreement a year, and the scope for extra resources outside of this framework is quite limited. This is also what HIPC analysis shows, with most countries finding no flexibility but a few (notably Guinea-Bissau) indicating higher flexibility because IsDB funding has filled import gaps more rapidly than other donors.

4.6. Predictability

The IsDB uses a strategic intervention framework for the overall allocation of its resources, and reaches multi-year commitment agreements with member states, but its disbursements in each country do not have an agreed multi-year timetable. In its most recent annual report, the IsDB indicates total disbursement volumes have more than doubled since 2000, with also a small increase in disbursement ratio's (=amount disbursed during a year as percentage of amount available for disbursement at the beginning of that year) between 2005-2006 and 2006-2007 (IsDB, 2007a, p45). Some HIPCs report multi-year commitment frameworks in place (eg Guinea-Bissau, Mali, Sierra Leone and Uganda). IsDB performance in disbursing in the financial year expected by HIPCs is highly variable, with only Mali assessing disbursements match expectations.

4.7. Conditionality

The IsDB does not impose additional policy-related conditions on project implementation or macro-economic conditionalities on import support (apart from repaying IsDB debt service on schedule). As a result, though HIPCs indicate considerable delays due to strictly enforced procedural conditions precedent, there are none due to policy conditions.

4.8. Policy Dialogue

The IsDB does not engage closely in macro-economic policy dialogue, but does discuss sectoral policy issues especially when cofinancing with other lenders. Some HIPCs (notably the Gambia, Mozambique, Guinea-Bissau and Mauritania) assess its engagement as actively supporting Government policies and programmes rather than the positions of other donors.

IsDB disbursements are not at all linked to BWI programmes but, if relations with the BWIs are suspended, it does not enter into new loans. HIPC's therefore give it medium to high scores in assessing its independence of the BWIs, with best practice in the Gambia, Mali, Sierra Leone and Uganda.

5) AID PROCEDURES

5.1 Conditions Precedent

The first stage in the project/programme cycle is for a public institution in the prospective recipient country to officially submit to IsDB a funding application, which, after the decision of the IsDB technical staff committee, will be forwarded by the management organs to the Executive Board and Board of Governors for approval. The application must be subjected to a feasibility study. No disbursements can be made before the effective date of the funding agreement. Grant agreements become effective upon their signature. For loans, the following documents are required within 12 months of signature: a legal opinion and documents indicating all debt service is current. Beyond this period, the agreement will become null and void, unless IsDB grants an extension.

In terms of conditions precedent, the IsDB usually requires the setting up of a project unit, and the opening of a separate bank account.

The IsDB also generally requests counterpart funding from the recipient government or the private developer to pay local currency costs. However, for least developed countries, these funds can sometimes be paid from the loan resources.

According to HIPC's, in most countries the IsDB insists on significant counterpart funding, with the lowest levels cited in Sierra Leone. Many projects are also co-financed by other lenders, potentially delaying effectiveness and disbursements unless procedures are fully harmonised.

HIPC's generally see IsDB conditions precedent as rather numerous, cumbersome and complex, and as causing considerable disbursement delays, with the exception of Cameroon and Mozambique.

5.2 Disbursement Methods

Three disbursement methods are used by the IsDB:

- Reimbursement for payments already made;
- Direct payment to the service provider;
- Reimbursement agreement (IsDB's irrevocable undertaking to pay deliveries made or services to be supplied).

IsDB has no provisions for advances, and the most common procedure is direct payment. Only expenditures approved by IsDB are subject to subsequent reimbursements.

According to the HIPC-CBP survey, IsDB disbursement methods are predominantly reimbursements and direct payments, with more reimbursements in the Gambia and

Sierra Leone. Delays related to disbursement methods are often considerable (3-6 months), though the Gambia, Mali and Sierra Leone suggest that they can be shorter.

5.3 Disbursement Procedures

The IsDB generally allows the national project monitoring agency, which may be a public or private entity, to handle preparation of budgets and accounts and to conduct audits (though the last two can be checked separately by IsDB if necessary). Separate bank accounts are also generally required.

According to HIPC's, IsDB generally insists on 1-2 disbursement procedures additional -to Government's, and is most flexible in the Gambia, Sierra Leone and Mozambique.

5.4 Procurement Procedures

Chapter 3 of the IsDB's disbursement manual (IsDB, 2000) on procurement opens by stating that *"goods and services (other than consultancy services) be procured, ordinarily, through International Competitive Bidding, open to suppliers and contractors from all countries of the world"*. However, the next paragraph effectively limits most procurement to member countries: *"Exceptions to this rule are (...) where the required goods and services are available in the Bank's Member Countries. Furthermore, where it is ascertained that there are sufficient number of Member Countries which have the production capability to manufacture a certain plant, equipment or machinery according to the required standards and which may be interested in providing after-sales services, the bidding for such plant, machinery or equipment will be restricted to the Bank's Member Countries."*

HIPC's have found that IsDB policies are not overly restrictive, because goods and services can be procured reasonably competitively through ICB from IsDB members (or occasionally non-members). Delays related to procurement can be quite substantial, but in some cases (notably Sierra Leone and Gambia) they are kept to a minimum.

5.5 Coordination

In 1975, the "Coordination Group" was set up, with the aim of harmonizing operational linkages among 8 Arab aid institutions, which often act as co-financers of the same projects. The members are: (i) The Islamic Development Bank (IsDB), (ii) the Arab Gulf Programme for UN Development (AGFUND), (iii) the Arab Fund, (iv) Arab Bank for Economic Development in Africa (BADEA), (v) OPEC Fund for International Development, (vi) Kuwait Fund for Arab Economic Development, (vii) Abu Dhabi Fund for Arab Economic Development and (viii) the Saudi Fund for Development. The Group publishes common guidelines and procedures (e.g. the ones listed in World Bank, 2005). Their adoption is not obligatory as it is left to the discretion of each individual institution to utilize the guidelines as appropriate, but they are generally utilized, especially when Arab agencies are co-financing projects.

IsDB actively endeavours to ensure coordination and co-financing with other Arab institutions (e.g. BADEA, the Kuwait and Saudi Funds). It also coordinates with the AfDB, AsDB, EBRD, ECOWAS Fund, EIB, and World Bank, especially in the financing of projects. In 2006-2007 (AH 1427), it provided 20% of the amount committed in co-financed projects valued at US\$1.8 billion (which includes non-

concessional flows). The IsDB also has specific co-operation agreements with UN agencies, notably UNDP and UNIDO (IsDB, 2007a, p71).

Key Sources Consulted (*All internet sources were accessed on 14 and 15 April 2008*)

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ANNEX 1: DATA SOURCES FOR ISLAMIC DEVELOPMENT BANK ODA

The Islamic Development Bank does not report aggregated or disaggregated ODA data to the OECD/DAC. The figures used in this profile come from the IsDB's annual reports (IsDB 2006a and IsDB, 2007a). Some remarks regarding the numbers:

- The numbers for net ODA (table in section 1.1) and regional allocation table in section 3.1 are taken from table 2.3 (IsDB, 2006a, p77 for the year AH 1426 and IsDB, 2007, p38 fir AH 1427).
- The numbers for the top 10 recipients are taken from the annex to table 2.3 in the same annual reports, not taking into account operations linked to equity participations, leasing or Istisna's, but including TA or loans that are combined with Istisna'a (=sharia'a compliant financial product). Hence, it is not entirely clear/sure that these numbers do not include non-concessional financing flows.
- Numbers on sectoral allocation are taken from table 2.2 in the respective annual reports.
- The main problem is that all data in the annual reports is on a net-approval basis. The only mention of disbursement figures is on p45 of the AH 1427 annual report, but this involves total 'Ordinary Capital Resources' (loans+TA) which includes non-concessional financing (IsDB, 2007a, p45).
- Another problem with all figures being on a net-approval basis is that totals do not include unforeseen disbursements for emergency assistance like the US\$ 250 million for a special assistance to Lebanon, the emergency aid worth US\$ 500m to Indonesia, Maldives, Somalia, India, Sri Lanka and Thailand or the Pakistan-assistance package worth US\$ 502 million (numbers from IsDB, 2007a, p30 and 36).

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