



٤٠ عاماً من العطاء

40 years of dedicated service

40 ans d'efforts soutenus

Going forward

**10-Year Strategic Framework
1436H – 1445H (2015G – 2024G)**

Enhancing solidarity and well being

1 INTRODUCTION

Founded in 1973, the Islamic Development Bank Group (IDBG) celebrate its 40th anniversary at the 39th annual meeting of the Board of Governors in Jeddah in 2014. The occasion marks an opportunity for the Group to outline its next 10 year strategic framework in order to cope with the various challenges stemming from the rapidly changing global context and its own development and better respond to the needs of its member countries and the Muslim World at large.

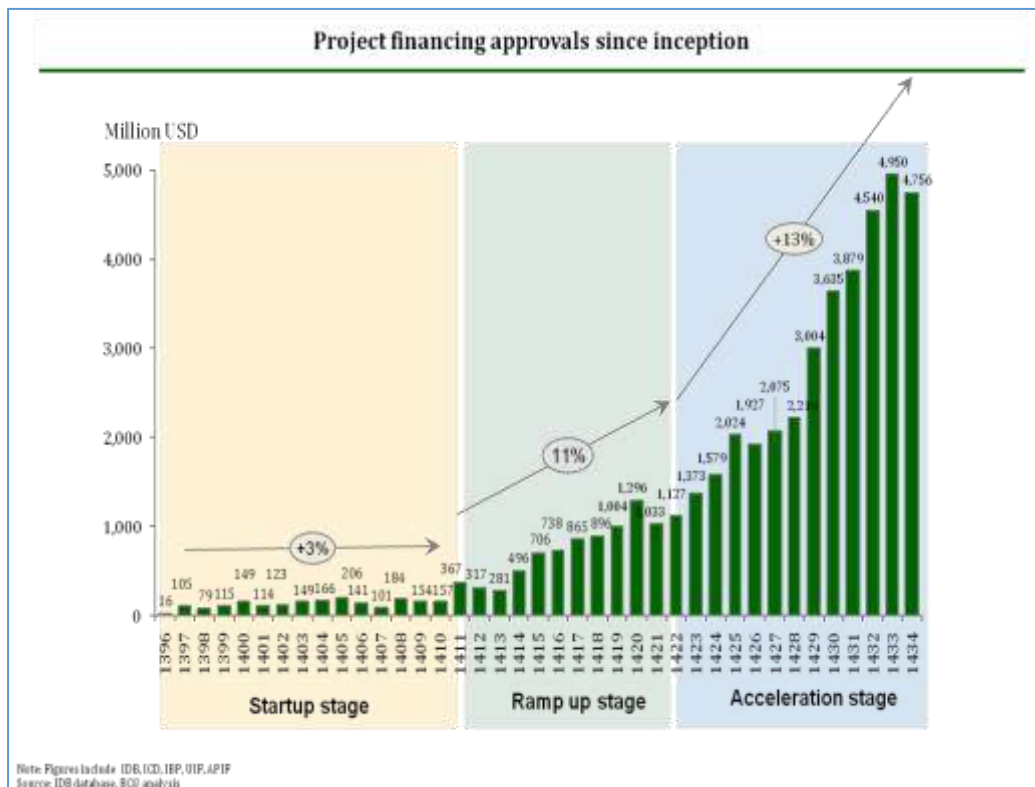
2 40 – YEARS OF SUCCESS

2.1 Three distinct stages of growth in IDBG's development journey

During its 40-year history, IDBG has grown remarkably in terms of its membership, capital and operations. It has developed an international reputation for its financial leadership and earned the respect and trust of its members for the quality and efficacy of its interventions.

Built international reputation through remarkable growth in membership, capital and operations

Figure 1: Project financing approvals since inception



There have been three stages in the Group's history:

The startup stage – From 1395 H to 1410 H

During this period, the Group laid its foundations, set direction and formulated initial guidelines. The first affiliate entity, Islamic Research and Training Institute

(IRTI), was created to serve as the research and training arm of IDBG with the responsibility to lead the development of Islamic finance sector in member countries (MCs). The project finance activities, focused mainly on economic infrastructure, industry and mining, grew moderately during this period. IDBG concentrated its efforts on launching various initiatives including a special program for Sahel countries affected by drought, a scholarship program for Muslim communities in non-MCs, an Islamic Banks Portfolio for Investment and Development (IBP), an Export Financing Scheme (EFS), and supported the establishment of The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

The ramp-up stage – From 1410 H to 1422 H

This period witnessed the expansion and diversification of IDBG's membership base. The enhanced focus on project finance operations helped IDBG achieve a double digit average growth rate of approvals. This operational growth was complimented with an increased field presence through the establishment of three regional offices in order to serve the member countries more effectively. During this time, there was enhanced focus on diverse strategic priorities through establishment of new entities such as the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) to increase the scope of MC trade transactions and facilitate foreign direct investment. The Islamic Corporation for the Development of the Private Sector (ICD) in 1420H to enhance efforts for private sector development. The commitment of IDBG to MC development was further demonstrated through its support in the establishment of International Islamic Finance Rating Agency (IIRA), and the Islamic Financial Services Board (IFSB) among other programs.

Enhanced focus on diverse strategic priorities through establishment of entities

The acceleration stage – From 1422 H to 1434 H

This period witnessed an unprecedented growth in approvals with the average annual growth of 13%. This growth dynamic was supported by a significant increase in internal resources and a successful track of mobilization of external resources through project co-financing and trade finance syndication. The establishment of the Islamic Solidarity Fund for Development (ISFD) in 1426H underlined its commitment to its Vision 1445H to alleviate poverty by mobilizing concessional resources. Reflecting the accelerated growth in its operations, the bank issued its first Sukuk to launch major developmental programs, such as the Special Programme for the Development of Africa (SPDA), Jeddah Declaration Initiative to address food crises, and supporting the Education for Employment (e4e) and Youth Employment Scheme (YES) for the Arab region. The establishment of International Islamic Trade Finance Corporation (ITFC) in 1429H and its rapid growth since inception increased IDBG's contribution to intra-trade between MCs.

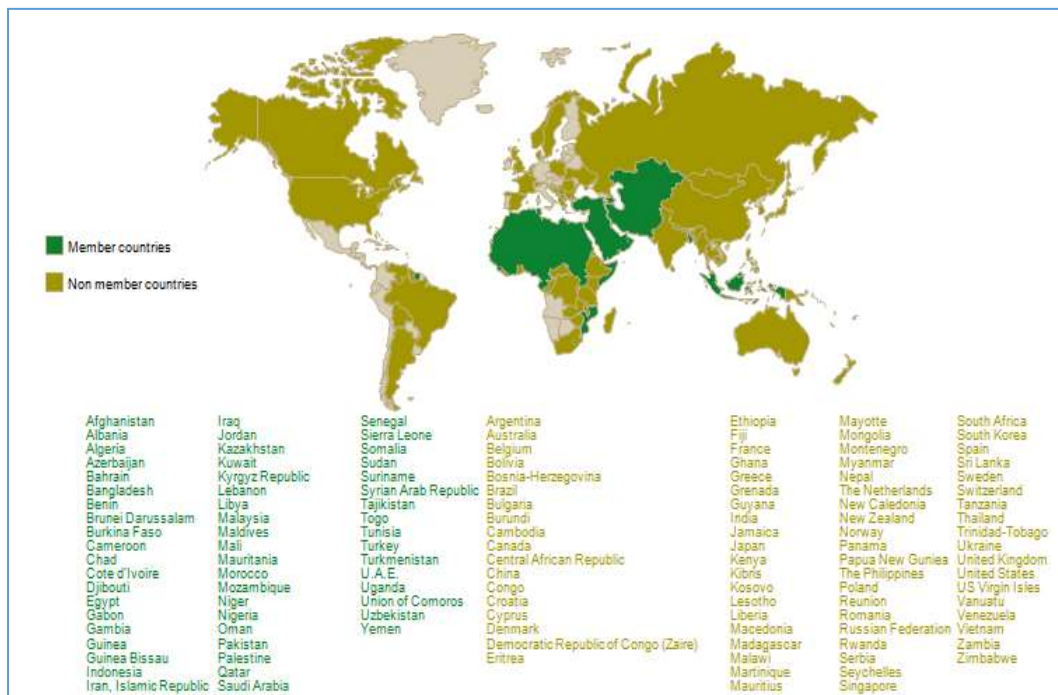
2.2 IDBG has contributed significantly to the development of the MCs and the Ummah

The development journey of the IDBG was marked by key contributions that significantly facilitated the development of its MCs, the promotion of Islamic finance, and the cooperation and solidarity between MCs and within the Ummah in general. These achievements embrace the following aspects:

Unique model of developmental assistance that combines developmental aspects, Shari'ah compliance and south-south cooperation

- **Establishing a unique model of development assistance** that combines the developmental aspect of MDBs, Shari'ah compliance as a guiding principle, and the principle of South-South cooperation among MCs;
- **Contributing to the socio-economic development** of MCs significantly, with targeted efforts in critical areas and periods. IDBG's interventions in energy, transport, agriculture, and health and education infrastructure have not only improved the quality of life of millions, but also created a vital base for economic growth and job creation. IDBG's assistance in times of hardship (natural disasters, conflicts, financial crises) provided MCs with much needed emergency relief and post-crisis support;
- **Promoting Islamic finance** by establishing Islamic financial institutions, creating new Islamic financial products, developing and sharing best practices and expertise. IDBG also supported Islamic financial institutions during times of market downturn and difficulties. IDBG serves as the only multilateral development bank dedicated to supporting the specific requirements of Islamic economics and finance and their global promotion;
- **Fostering economic cooperation** between and among MCs by facilitating intra-trade and investment and strengthening South-South solidarity through the transfer of resources to LDMCs and to Muslim communities in non-MCs.

Figure 2: IDBG has worked with 56 member countries and Muslim communities in non-member countries



Trust-based relationship with MCs due to political neutrality, high integrity and mutually acceptable conditionality of support

2.3 IDBG has built key strengths and uniqueness over its development journey

The identity and the achievements of IDBG throughout the course of its 40-year journey have enabled it to build key strengths and uniqueness that it can leverage for the next 10-year strategy. These include:

- ***Uniqueness of IDBG's constituency and South-South solidarity*** as a founding principle;
- ***Trust-based relationship with MCs*** due to political neutrality, high integrity and mutually acceptable conditionality of its support;
- ***Strong financial capacity*** for resource transfer to MCs, together with the confidence of MCs and rating agencies in the financial stability of IDBG (as reflected in its AAA rating);
- ***Leadership of Islamic finance development*** places IDBG uniquely among MDBs. This has been demonstrated by IDBG's support to the establishment of global Islamic financial sector institutions and advisory regulatory bodies and introduction of new financial products;
- ***Infrastructure financing expertise*** and specific in-depth knowledge of MCs development context, global relationships and extended partnerships base.

3 IDBG's 10-YEAR STRATEGIC FRAMEWORK

3.1 IDBG is cognizant of the evolving trends in the development landscape

A number of significant factors are expected to shape the strategic landscape of IDBG, both on the demand and the supply trends of development assistance in the coming 10 years.

Global megatrends will require countries to adapt to a changing context, since rapid integration and increasing connectivity generate both growth opportunities and exposure to globalized risks. The greater interdependence between and among MCs and the rest of the world has created demand for programs to address regional and global challenges. Environmental challenges are also likely to grow more acutely and some MCs will find themselves especially vulnerable to the impact of climate change.

Polarization of the demand landscape has resulted from the difference in the progress made by many "developing" and "transition countries" in terms of economic growth, particularly in the last 15 years, and the less advanced economies. While many countries have moved to a higher stage of economic development with more sophisticated needs, others are less advanced economies with more basic development needs. This polarization is further accentuated with some member countries being considered "fragile" or in "conflict" situations.

Increasing demand to overcome infrastructure bottlenecks, especially with the growing urbanization, that may potentially constraint the economic growth of MCs. Mobilization of financial resources still represents a widespread challenge especially for less advanced countries. For the more advanced MCs, the needs will

MCs witnessing significant change in the demand and supply trends on development assistance

revolve more around capacity development and knowledge support. A few fragile countries risk being left behind, and disadvantaged segments in some more advanced economies risk becoming marginalized due to increasing concerns of rising income inequality. Therefore, sharply focused social development interventions will be critical to address some of these gaps. Likewise, the private sector will play an increasingly important economic and social role, especially in middle-income countries, by providing broad-based income and employment.

Growth in the Islamic finance sector has been driven by the significant demand for Islamic finance securities, products and services. While IDBG holds a unique global position with recognized contributions, a stronger role will be required in the future in order to extend its leadership position.

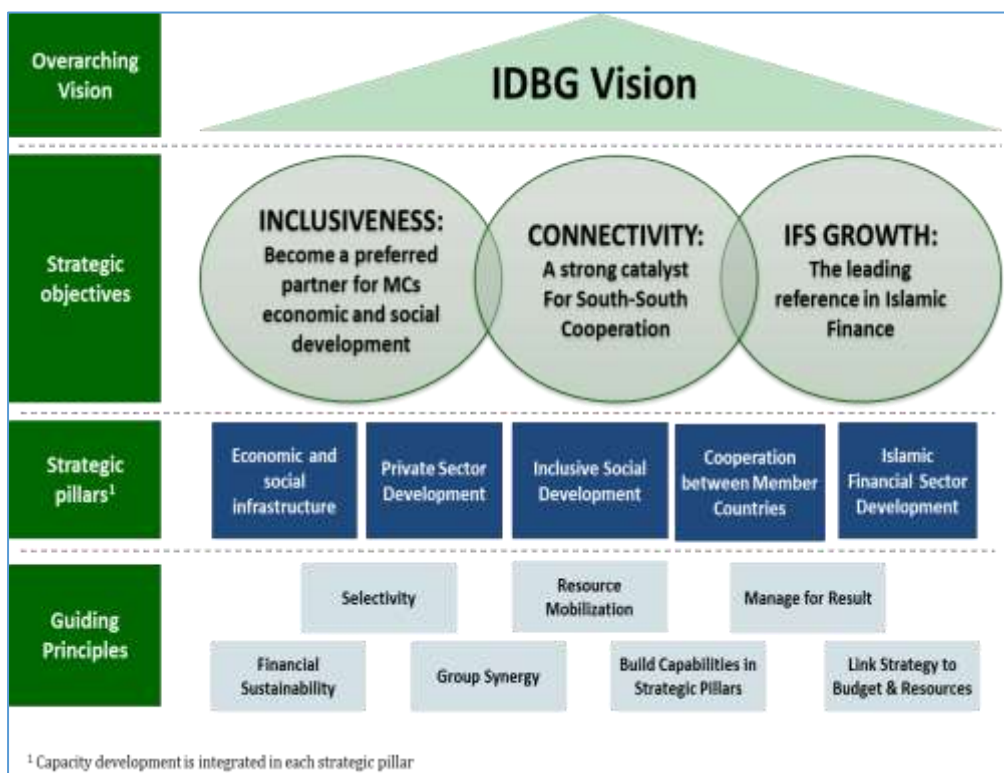
Continued decline in the share of financing from multilateral development banks (MDBs), as a capital source for member countries, given the emergence of private philanthropy and new official donors. Given this context, the role of MDBs has been evolving from a primarily financier role to that of a connector through partnership platforms and knowledge provider through knowledge platforms. This redefined role would increase the impact of MDBs without necessarily increasing their financial burden.

3.2 The 10-Year Strategic framework will enable IDBG achieve its ambitious Vision

Poverty, income inequality, and lack of access to many of the basic elements of well-being constrain the advancement of all MCs and threaten the stability and welfare of some of the most vulnerable. IDBG’s Vision remains relevant and will continue to be the compass through 1445H.

IDBG’s Mission and Vision 1440H continue to be aligned to MC needs and challenges

Figure 3: IDBG 10-Year Strategic Framework



The 10-Year Strategic Framework revolves around three strategic objectives, five strategic pillars/priority areas, and capacity development as a cross-cutting theme. It also incorporates seven guiding principles for effective and efficient implementation.

Strategic objectives: These strategic objectives of inclusiveness/solidarity; promoting the development of the Islamic financial sector; and connectivity for growth reflect the mandate of the IDB as espoused in its Articles of Agreement. These represent IDBG's unique mandate; the strengths and experiences accumulated over the past four decades and the relative position and potential of IDBG in the context of the evolving development landscape.

The objective of Inclusiveness is to focus on addressing the needs of the poorer and marginalized communities who represent a significant portion of the stakeholders of IDBG. The objective of Connectivity for Growth stems from IDBG mandate in promoting cooperation among its MCs in various forms, both in terms of private sector and public sector cooperation to enhance trade, investment, knowledge, and capacity development. The IDBG is unique among the MDBs as it has the development of the global Islamic Financial industry as a strategic objective.

Strategic pillars: The five strategic pillars were chosen based on IDBG's unique mandate, its core strengths and capabilities (especially those acquired during the expansion over the last decade) and the relative position and potential of IDBG in the context of the evolving development landscape. In addition, capacity development is recognized as a cross-cutting theme that underpins the achievement of the strategic pillars and strengthens the institutional and social capabilities of the member countries.

Guiding principles: In order to deliver on the strategic pillars, it is essential for IDBG to build on its competitive advantages and optimize its human and capital resources. To that end, the seven principles outlined in the strategic framework will guide the implementation of the strategy and enable IDBG to become a more effective and efficient organization.

Capacity development is recognized as a cross-cutting theme that underpins the achievement of the strategic pillars

3.2.1 Pillar 1: Economic and social infrastructure

Infrastructure development is a cornerstone of achieving inclusive economic growth. It is broadly defined to include social infrastructure (notably in health and education), and agricultural and urban infrastructure. Funding needs for infrastructure in IDBG's MCs are massive—well beyond the financing available from governments, and other MDBs. Beyond the use of its own resources, infrastructure is an area where there are extensive opportunities for IDBG to leverage its extensive experience in project structuring and financing and mobilizing external resources from other development partners.

Enormous need for infrastructure financing, especially in LDMCs that face a huge funding shortfall

The strategic scope of IDBG's infrastructure engagement over the next 10 years will encompass both "hard" elements, such as physical build-out and capacity development elements, such as training and education from the managerial level down and cover all aspects, from planning to implementation. This is in line with best MDB practice that holds that infrastructure projects should include capacity building and a selection of value offering layers, packaged and closely linked with project financing. It has been proven that when systematically linked with

capacity building, infrastructure development is more economically and socially productive.

IDBG will continue to emphasize infrastructure development to address vital needs across sectors, including energy, education, transport, health, water and agriculture. In line with the experience of IDBG and other MDBs, infrastructure projects will increasingly incorporate capacity development to ensure effective and efficient project implementation and sustained benefits to MCs from infrastructure investments.

Aspiration

Ten years from now, IDBG aims to become the institution of choice for project structuring and financing on infrastructure in MCs and a trusted advisor in the design of infrastructure programs. The strategic scope of IDBG's infrastructure engagement over the next 10 years will encompass both physical build-out as well as capacity development.

3.2.2 Pillar 2: Private sector development

Private sector development is critical for broad-based development and establishes the foundation for sustainable job creation. With data from socio-economic megatrends showing unemployment rates expected to rise over the next 10 years due to population growth among other factors, the need to provide employment will take on growing importance, especially among the young. Establishing a robust and self-sustaining private sector is also critical for economic and social stability and has become especially important for MCs today given the demands of an increasingly integrated global economy.

IDBG will prioritize job creation through support of and partnership with financial institutions to address needs to local companies, especially Small and Medium Enterprises (SMEs), in employment intensive sectors. In addition to this, IDBG will enhance efforts towards financial market development through the promotion of strong financial market intermediaries and investments in Islamic financial institutions.

Private sector is essential for broad-based economic development and sustained job creation

Aspiration

Ten years from now, IDBG aims to at least have doubled its private sector footprint and become an even greater contributor as a catalytic source of support for entrepreneurship and financial sector breadth in MCs – leading support for domestic enterprises (including making them competitive internationally) and helping them attract foreign investment to generate broad based growth and to create more and better quality jobs.

3.2.3 Pillar 3: Islamic finance sector development

Islamic finance has grown steadily in recent years. Islamic finance institutions and windows have proliferated and it is clear that there is considerable pent-up demand for Islamic finance securities, products and services—both nationally and globally. Islamic finance is at the core of what makes IDBG unique among

MDBs—both by mandate and by experience. For almost 40 years IDBG operated as a source of Islamic finance and a proponent of the establishment of infrastructure institution for the Islamic Financial Service Industry. With the start of Sukuk issuance in recent years, IDB has also started raising finance from the market, thereby adding to its presence and expertise in this field.

IDBG will lead the development of the Islamic finance sector development in member countries and globally

Although Islamic finance has progressed in some MCs, in most MCs it is still nascent and requires stronger leadership and support. Relevant MCs express considerable interest in having IDBG more engaged—whether to help develop the institutional framework for the sector, support individual institutions, help with international Islamic finance operations or share the benefits and lessons of their experience.

Aspiration

Ten years from now, IDBG aims to become a proactive partner for Islamic finance institutions and the leading source of advice, regulatory standards and benchmarks on Islamic finance for MC governments and global Islamic securities markets. IDBG also aims to be the most visible and leading authoritative reference in the sector, as a creator and disseminator of knowledge and a promoter of product innovation.

3.2.4 Pillar 4: Inclusive Social Development

As MCs grow and reach stability, there are segments of the population with dire needs that remain unmet. Populations in fragile MCs and some Muslim communities in non-MCs also face many urgent needs. Although inclusive growth-oriented interventions are a source of lasting improvements, some of the neediest groups still risk being left behind. IDBG has carried out several activities to address their needs. IDBG's social development strategy will encompass core areas like health, education, crisis support, the empowerment of women, and extreme poverty alleviation. These issues not only reflect areas critical to IDBG's MCs, but are also issues in which IDBG can play a strong and differentiating role. IDBG will leverage its valuable base of experience in promoting social development through these interventions.

Social development in order to “leave no one behind” has been at the core of IDBG’s mandate

Solutions to deal with urgent problems faced by the neediest segments of the population building on IDBG's experience are in line with IDBG Vision, and are, therefore, a natural priority area. These activities involve very different modus operandi from traditional project financing: they are sharply targeted at specific population segments; they are aimed at specific, pressing needs, and require quick, effective response capabilities.

Further, the approach needs to be blended with longer-term economic development and capacity development program toward self-development and sustained growth.

Aspiration

Ten years from now, IDBG aims to become a renowned orchestrator of targeted interventions to serve the urgent needs of disadvantaged populations in MCs and in Muslim communities in non-MCs through proactive resource mobilization, knowledge and implementation channels for capacity development. In doing so,

IDBG will become a preferred vehicle for donors aiming to foster social development in MCs and support Muslim communities in non-member countries.

3.2.5 Pillar 5: Cooperation between MCs

Strengthening economic ties (notably through trade, transport infrastructure, and cross-border investment) and promoting other forms of cooperation (including facilitating knowledge exchange) between MC is at the core of IDBG's mandate and the OIC 10-Year Plan of Action. IDBG is unique among MDBs for its emphasis on trade finance. Moreover, as a South-South group of institutions, IDBG is well-placed to facilitate knowledge transfer across MCs. Cooperation is the only activity that looks at MCs both as a provider and recipient, complements the resources of IDBG, and helps in building mutually beneficial relationships among and between MCs.

IDBG will promote cooperation by providing and promoting resource and knowledge sharing, business networking within and across borders, and strengthening partnership between MCs as a whole. This will enable it to differentiate itself from a pure financier to a financier, connector, catalyst, and ultimately a trusted advisor of MCs.

Aspiration

Ten years from now, IDBG aims to become the primary connecting platform for MCs to cooperate with each other by transferring resources (trade and investments) and expertise (knowledge and best practices). Reverse linkage will be the primary modality to connect MCs in the future. In the process, IDBG intends to make a transition from its primary role as a 'financier' to a 'connector'.

Cooperation looks at MCs as both 'providers' and 'recipients' and builds mutually beneficial relationships between the MCs

4 TRANSFORMATION INTO A WORLD CLASS ORGANIZATION

The guiding principles for the strategy will guide the implementation of the strategy and enable IDBG's transformation into a world class organization as envisioned in its Vision 1440H elaborated in 1427 H (2006 G).

1. **Selectivity:** Tailoring interventions to member country needs in compliance with developmental sustainability criteria adopted by leading development banks
2. **Linking strategy to budget and resources:** Supporting strategic priorities with required capital resources, budget allocation and resources mobilization
3. **Financial sustainability:** Maintaining the fine balance between the developmental mandate and the financial sustainability of the Group
4. **Resource mobilization:** Enhancing resource mobilization efforts with particular focus on mobilizing concessional resources
5. **Group synergy:** Maximizing internal synergies through a coordinated and integrated approach across the Group
6. **Developing capabilities in strategic pillars:** Reallocating capacities from non-strategic areas and enhancing capabilities in each strategic pillar
7. **Managing for result:** Ensure impact, effectiveness and efficiency by focusing on results both externally with member countries and internally within IDBG

Adopt guiding principles to transform into a world class organization as envisioned in the Vision 1440H