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A Key Strategic Thrust of the Vision 1440H requires IDB to transform itself into a knowledge-based bank. This entails regularly developing and efficiently maintaining a knowledge repository of the institution for the benefit of the staff as well as our clients in our Member Countries.

Through its mandate, the Financial Product Development Center (FPDC) has constantly pursued streamlining product development knowledge across the IDB Group. This enables it to assess the existing financial products and identify gaps that can be filled with new and innovative products to better serve our Member Countries. This publication is a laudable step towards such a knowledge product. It encapsulates the essential knowledge of IDB’s Modes of Finance (the ‘products’) in accordance with the rulings of the IDB Shariah Committee, thereby bringing IDB’s clients even more closer to the institution with regards to its financial offerings.

The invaluable support provided by IDB experts in Shariah, Legal, Finance and Operations towards this effort is highly acknowledged. We eagerly hope that all stakeholders wholly benefit from this knowledge product and we invite them to work with us to keep improving our offerings.

Dr. Abdul Aziz Al-Hinai
Vice President, Finance
Islamic Development Bank
Acknowledgements

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The legal documentation from the Legal Department was used by the Center for the consolidation of the basic information and structures of the products. These were refined in successive meetings with inputs from Shariah, Legal, Finance and Operations experts following which the Legal Dept. reviewed the final version for publication.

Special Thanks to the Project Team Members (in alphabetical order)

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Introduction

This Manual provides the basic knowledge about the Islamic Development Bank’s Modes of Finance (the ‘products’).

The products are presented according to the following methodology.

1. Definition
2. How it works at IDB
3. Scope
4. Eligibility
5. Application Process
6. Legal Documentation
7. Effectiveness
8. Step by Step
9. Structure Diagram
10. Basic Terms and Conditions

Disclaimer: This Manual is for informational purposes only. The information contained herein is subject to change at the discretion of the Islamic Development Bank.
The Modes of Finance
AT A GLANCE
A. The Modes of Finance

Concessional

- Grant
  - Technical Assistance (TA) Grant
  - Special Assistance (SA) Grant
- Loan
  - Ordinary Loan
  - Technical Assistance (TA) Loan
  - Ordinary Capital Resources (OCR)
  - Islamic Solidarity Fund for Development (ISFD)

Ordinary

- Leasing (Ijarah)
- Istitna’a
- Instalment Sale
- Restricted Mudarabah
### A. The Modes of Finance

<table>
<thead>
<tr>
<th>Mode</th>
<th>Source of Funds</th>
<th>Tenor</th>
<th>Scope</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Concessional</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special Assistance (SA) Grant</td>
<td>A pool consisting of: Income of IDB Waqf Fund + An allocation from IDB OCR’s income</td>
<td>N/A</td>
<td>For support to Muslim communities in non-Member countries. Also for disaster relief in Member countries.</td>
</tr>
<tr>
<td>Technical Assistance (TA) Grant</td>
<td></td>
<td>N/A</td>
<td>For capacity building for Member Countries.</td>
</tr>
<tr>
<td><strong>Loan</strong></td>
<td>Ordinary Capital Resources (OCR)</td>
<td>Ranging from 15-30 yrs including a Grace Period of 3-10 yrs (see Page 12 also)</td>
<td>Ordinary loans are for long-term financing for projects in Member Countries. Technical Assistance (TA) loans are for feasibility studies for major projects in Member Countries. For long-term financing to target Millennium Development Goals.</td>
</tr>
<tr>
<td>Islamic Solidarity Fund for Development (ISFD)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Ordinary</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leasing</td>
<td>Ordinary Capital Resources (OCR)</td>
<td>Ranging from 10-20 yrs including a Gestation Period of 3-5 yrs</td>
<td>Financing to provide for capital equipment and fixed assets.</td>
</tr>
<tr>
<td>Istitna’a</td>
<td>Ordinary Capital Resources (OCR) and funds from Resource Mobilization</td>
<td></td>
<td>Financing to provide for constructing/manufacturing an Asset.</td>
</tr>
<tr>
<td>Instalment Sale</td>
<td></td>
<td></td>
<td>Asset Financing for the client with spot delivery, with repayment in instalments.</td>
</tr>
<tr>
<td>Restricted Mudarabah</td>
<td></td>
<td></td>
<td>Profit-sharing loss-bearing arrangement for business financing with restricted terms and conditions.</td>
</tr>
</tbody>
</table>
The Modes of Finance EXPLAINED
B1. Grant

Technical Assistance (TA) Grant
These grants are provided for technical assistance and capacity building activities in IDB’s Member Countries, with priority given to Least Developed Member Countries (LDMCs).

Special Assistance (SA) Grant
These grants are provided for social projects (schools, hospitals etc.) for the exclusive benefit of Muslim communities in Non-Member countries. They are also provided for disaster relief in Member countries.

Step by Step

1. Approval: Following a formal request from the Recipient, IDB processes the request and approves to provide a grant amount to the Recipient.

2. Signature: IDB and the Recipient sign the Grant Agreement.

3. Procurement: The Recipient signs a contract with a supplier/contractor/consultant to procure the goods/services.

4. Disbursement: The Recipient requests for IDB for disbursement. IDB disburses to the supplier/contractor/consultant directly.

5. Delivery: The supplier/contractor/supplier delivers the goods/service to the Recipient.
B1. Grant

1. Sign Grant Agreement
2. Signs contract for procurement
3. Disburses Grant Amount
4. Delivers goods and services
B1. Grant

Basic Terms and Conditions

• The request for the first disbursement is required to be submitted within six months from the date of effectiveness (which is the date of the signature of the Agreement), failing which the project is liable for cancellation.

• By the last date of disbursement, if any part of the Approved Amount is not utilized, IDB can cancel that part.

• Procurement of goods and services under the TA Grant Agreement has to be carried out in accordance with the Procurement Guidelines and policies of the IDB.

• Anti-corruption and anti-fraud provisions are included in all legal documents. To ensure compliance, IDB has the right to audit and examine the records and accounts of all parties related to the project.

• Depending on the type of the project, the Agreement may provide for opening a Special Account in the country of the Recipient in accordance with the Guidelines for Opening a Special Account provided by IDB.
B2. Loans

Definition

Long-term concessional facility that IDB provides for financing development in its Member Countries. IDB charges a service fee to cover its administrative expenses.

The different types of Loans are as follows.

- **Ordinary Capital Resources (OCR) Loans** - These loans are classified into 2 types depending on their scope of activities. The source of funds for these loans is the IDB’s Ordinary Capital Resources (as defined in Article 9 of IDB’s Articles of Agreement)
  - **Ordinary Loans** – Long-term concessional loans provided for financing development and infrastructure projects.
  - **Technical Assistance (TA) Loans** – Loans with soft terms to assist Member Countries in obtaining consultancy services to conduct feasibility and other such studies for major projects.

- **Islamic Solidarity Fund for Development (ISFD) Loans** – Loans with soft terms mainly directed at projects and programmes that aim for poverty alleviation, achievement of Millennium Development Goals (MDGs) and micro-finance programmes in various sectors (education, health etc.) in the Member Countries, especially Least Developed Member Countries (LDMCs).
**B2. Loans**

**Step by Step**

1. **Approval:** Following a formal request from the Borrower, IDB processes the request and approves to provide a loan to the Borrower.

2. **Signature:** IDB and the Borrower sign a Loan Agreement.

3. **Effectiveness:** The Borrower provides effectiveness documents to IDB which reviews the documents and declares effectiveness. Project implementation begins.

4. **Procurement:** The Borrower signs a contract with a supplier for procurement of goods/services.

5. **Disbursement:** The Borrower requests IDB for disbursement. IDB disburses to the supplier directly.

6. **Repayment Schedule:** At the end of the Grace period, the ‘Final repayment schedule’ is confirmed between IDB and the Borrower.

7. **Repayment:** The Borrower initiates repayment of the loan to IDB – “Principal Loan Amount + Service Fee”

8. The Borrower completes repayment of the loan.
B2. Loans

1. Sign Loan Agreement
2. Signs contract for procurement
3. Disburses Loan Amount
4. Delivers goods and services
5. Repays Principal Loan amount plus service fee

- Contractor / Supplier
- Borrower
## B2. Loans

### Repayment Tenures and Service Fee

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Tenor</th>
<th>Service Fee (if calculated on Annual basis)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ordinary Capital Resources (OCR)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High Income Countries</td>
<td>15 yrs including a Grace Period of 3 yrs</td>
<td>Up to 1.5% p.a.</td>
</tr>
<tr>
<td>Middle Income Countries</td>
<td>20 yrs including a Grace Period of 5 yrs</td>
<td></td>
</tr>
<tr>
<td>Least Developed Member Countries</td>
<td>25 yrs Including a Grace Period of 7 yrs</td>
<td></td>
</tr>
<tr>
<td>Technical Assistance (TA) Loans</td>
<td>16 yrs including a Grace Period of 4 yrs</td>
<td></td>
</tr>
<tr>
<td><strong>Islamic Solidarity Fund for Development (ISFD)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High poverty content</td>
<td>30 yrs including a Grace Period of 10 yrs</td>
<td>Up to 0.75% p.a.</td>
</tr>
<tr>
<td>Low-income countries</td>
<td>25 yrs including a Grace Period of 7 yrs</td>
<td>Up to 2.00% p.a.</td>
</tr>
<tr>
<td>Middle Income countries</td>
<td>20 yrs including a Grace Period of 5 yrs</td>
<td></td>
</tr>
<tr>
<td>High income countries</td>
<td>15 yrs including a Grace Period of 3 yrs</td>
<td></td>
</tr>
</tbody>
</table>
B2. Loans

Basic Terms and Conditions

- IDB charges a service fee to cover its administrative costs. It ranges from a minimum of 0.75% upto a maximum of 2.00% per annum (OCR: 1.75% - ISFD: 2.00%) of the principal amount.

- All loan amounts are to be repaid in semi-annual, equal and consecutive instalments throughout the tenure of repayment.

- The service fee accrues for payment immediately upon signature of the Loan Agreement, upto a maximum of 4% of the total service fee until the first disbursement.

- The request for the first disbursement is required to be submitted within six months from the date of effectiveness, failing which the project is liable for cancellation.

- By the last date of disbursement, if any part of the Loan Amount is not utilized, IDB can cancel that part.

- The Borrower bears all taxes, charges, fees, dues and cost-overruns related to the loan.

- Depending on the type of the project, the Agreement may provide for opening a Special Account in the country of the Borrower in accordance with the Guidelines for Opening a Special Account provided by IDB.

- Anti-corruption and anti-fraud provisions are included in all legal documents. To ensure compliance, IDB has the right to audit and examine the records and accounts of all parties related to the project.
B3. Leasing (Ijarah)

Definition

A contract of letting on lease, under which the owner of an Asset sells a definite usufruct of the Asset in exchange for a periodic definite reward (the rent).

How it works at IDB

IDB operates the ‘Lease-to-Own’ structure on a medium to long-term basis. IDB (as Lessor), purchases an Asset and subsequently transfers the ‘right to use it’ (usufruct) to the Client (Lessee) for a rental payment for a specific period (the lease period). Throughout this lease period, IDB retains the ownership of the Asset. At the end of the lease period, IDB transfers the title of the Asset to the Client as a gift.

Scope

To provide for fixed assets and capital equipment (movable assets in certain cases) such as machinery and equipment for projects.
B3. Leasing (Ijarah)

Eligibility

IDB approves lease financing for projects that are technically sound and economically viable, and are of high priority to the member country. Such financing may be extended to governments, government-backed entities as well as private sector companies.

Application Process

Applicants have to request for IDB financing either through the office of the IDB governor in their particular country (usually the Ministry of Finance, Economy or Planning) or directly to IDB for private sector and quasi-sovereign applicants. The request has to be supplemented with a feasibility study of the project. For private sector and quasi-sovereign companies, additional documentation may be required.
B3. Leasing (Ijarah)

Legal Documentation

A. **Lease Agreement**: This Agreement provides for the terms and conditions of the Lease operation, including the mark-up rate, tenor of financing. A Grant Agreement, which provides for the transfer of the title of the Asset at the end of the Lease period, is also attached as an annex.

B. **Agency Agreement**: Through this Agreement, the Lessee is appointed to act as an agent on behalf of IDB, to procure the Asset.

C. **Service Agency Agreement**: Through this Agreement, the Lessee is appointed to act as an agent on behalf of IDB, for the maintenance of the Asset. It includes the provisions for repairs and insurance of the Asset.

The Agreements are required to be signed between IDB and the Lessee within six months from the date of IDB’s approval.

Effectiveness

For the Agreements to be effective, the Lessee will have to provide ‘effectiveness documents’ which are listed in the Agreements.

The Agreements are required to become effective within six months from the date of signature, failing which they are liable for cancellation.
B3. Leasing (Ijarah)

Step by Step

1. **Approval**: Following a formal request from the Client, IDB processes the request and approves the Leasing arrangement whereby it will procure fixed Assets and lease them to the Client, who promises to take Assets on Lease.

2. **Signature**: IDB and the Client sign the Lease, Lease Agency and Service Agency Agreements.

3. **Effectiveness**: The Client provides effectiveness documents to IDB which reviews the documents and declares effectiveness. Project implementation begins.

4. **Procurement**: IDB appoints the Client as its Agent, to sign a contract with a Supplier to procure the Assets and supervise, monitor and take delivery of the Assets. The Client also insures the Assets in the name of IDB during the lease period.

5. **Disbursement**: IDB pays the price of the Assets directly to the Supplier.

6. **Delivery**: The Client (now the Lessee), as IDB Agent, takes delivery of the Assets from the Supplier.

7. **Rental payment**: Lessee pays fixed periodical rentals to IDB over the agreed lease period.

8. **Transfer of Title**: At the end of the lease period, IDB transfers ownership of the Assets to the Lessee, as a gift.
B3. Leasing (Ijarah)

1. Sign Lease, Lease Agency & Service Agency Agreements
2. Signs contract on behalf of IDB for procurement
3. Pays Purchase Price of Asset
4. Delivers Asset
5. Leases Asset
6. Pays lease rentals
7. Transfers title of Asset at the end of lease period

Beneficiary/Lessee

Contractor / Supplier
B3. Leasing (Ijarah)

Basic Terms & Conditions

Project, Rental & Mark-up

• The land for the Project has to be free from all kinds of liens and encumbrances and the Lessee should have a lawful and valid title of the land.

• The calculation of the rental is based on the Capital Cost of IDB, plus a fixed or floating mark-up. In case of a floating mark-up, there is a floor and a cap and the rental of the first 6 months is known to the parties.

Procurement

• The Lessee, as IDB’s agent, will:
  ➢ abide by the IDB’s Procurement Guidelines and Procedure in procuring/constructing the Asset.
  ➢ negotiate and agree with the supplier/contractor on the price, specifications and delivery of the Asset.
  ➢ take delivery of the Asset on behalf of IDB.
  ➢ use the Asset in a proper manner, repairing any defections (under the Service Agency Agreement)
  ➢ will not sub-lease, charge, pledge, mortgage or dispose of the Asset without IDB’s prior written consent.
B3. Leasing (Ijarah)

Insurance, Repairs and Major Maintenance

- The Lessee, as IDB’s agent, will ensure that the leased Asset is comprehensively insured during the Leasing period with an acceptable Islamic insurance company in IDB’s name, at IDB’s cost and in accordance with prevalent practices.
- The Lessee will also act as a service agent, carrying out major maintenance and repairs at the cost of IDB.

Rental payment

- The rental is to be paid semi-annually throughout the lease period. The first rental will be paid six months from the end of the Gestation period.
- Payment of the rental on the leased Asset will be made on due dates in a freely convertible currency acceptable to IDB in accordance with the actual rental payment schedule.

Disbursements

- The request for the first disbursement is required to be submitted within six months from the date of effectiveness, failing which IDB has the right to cancel the project.
- By the last date of disbursement, if any part of the Approved Amount is not utilized, IDB can cancel that part.

Anti-corruption and anti-fraud provisions are included in all legal documents. To ensure compliance, IDB has the right to audit and examine the records and accounts of all parties related to the project.
B4. Istisna’a

Definition

A sale where an Asset is transacted before it comes into existence. A purchaser orders a manufacturer to manufacture a specific Asset according to the purchaser’s specifications and deliver it at a pre-agreed delivery date for a pre-agreed price, which is payable either in lump sum or instalments at any time as agreed.

How it works at IDB

IDB operates Istisna’a on a medium to long-term basis, wherein IDB appoints the Purchaser (client) as its Agent who gets the Asset constructed/manufactured. When the Asset is constructed/manufactured and accepted by the Purchaser, IDB transfers the title of the Asset to the Purchaser. The Purchaser then pays the Sale price of the Asset in deferred payments.

Scope

Infrastructure projects and trade in capital goods within and among member countries.
B4. Istisna’a

Eligibility

IDB approves Istisna’a financing for projects that are technically sound and economically viable, and are of high priority to the member country. Such financing may be extended to governments, government-backed entities as well as private sector companies.

Application Process

Applicants have to request for IDB financing through the office of the IDB governor in their particular country (usually the Ministry of Finance, Economy or Planning) or directly to IDB for private sector and quasi-sovereign applicants. The request has to be supplemented with a feasibility study of the project. For private sector and quasi-sovereign companies, additional documentation may be required.
B4. Istisna’a

Legal Documentation

- **Istisna’a Agreement**: This Agreement provides for the terms and conditions of the Istisna’a operation including the Sale price, tenor of financing, description of the Asset, delivery terms and date and its payment schedule.

- **Istisna’a Agency Agreement**: This Agreement lists the guidelines to be abided by the Purchaser for procurement of the Asset. The Client acts as an agent on behalf of IDB.

The Agreements are required to be signed between IDB and the Purchaser within six months from the date of IDB’s approval.

Effectiveness

For the Agreements to be effective, the Purchaser will have to provide ‘effectiveness documents’ which are listed in the Agreements.

The Agreements are required to become effective within six months from the date of signature, failing which they are liable for cancellation.
Step by Step

1. **Approval**: Following a formal request from the Purchaser, IDB approves the Istisna’a arrangement whereby it agrees to construct/manufacture an Asset and sell it to the Purchaser. The Purchaser promises to buy the Asset when constructed/manufactured.

2. **Signature**: IDB and the Purchaser sign the Istisna’a and Agency Agreements.

3. **Effectiveness**: The Purchaser provides effectiveness documents to IDB which reviews the documents and declares effectiveness. Project implementation begins.

4. **Procurement**: The Purchaser, as IDB’s Agent, signs contracts with,
   a. A Consultant (for detailed design, control and supervision, wherever required); and
   b. A Constructor/Manufacturer (to construct/manufacture the Asset).
   The Purchaser insures the Assets in the name of IDB during the construction period. Construction/manufacturing begins.

5. **Disbursement**: IDB initiates stage payments directly to the Consultant as well as the Contractor.

6. **Delivery**: Following inspection and acceptance at the end of the construction/manufacturing, the title of the Asset is transferred to the Purchaser, who is now liable to pay the Sale Price in accordance with the Istisna’a Agreement.

7. **Payment of Sale Price**: The Purchaser pays the Sale price to IDB in instalments.
B4. Istisna’a

1. Sign Istisna’a & Istisna’a Agency Agreements
2. Signs contract on behalf of IDB for construction
3. Pays Purchase Price of Asset in stages
4. Delivers Asset
5. Transfers title of Asset for Sale Price
6. Pays Sale Price

(a) Consultant
(b) Constructor/Manufacturer

Beneficiary/Purchaser
B4. Istisna’a

Basic Terms & Conditions

Terms of the Project

- IDB will construct/manufacture the Asset for the Purchaser, in its capacity as the financier/vendor, according to the pre-determined specifications.
- The land for the Project has to be free from all kinds of encumbrances and the Purchaser should have a lawful and valid title of the land.
- The legal documentation will clearly indicate that the Purchaser is acting as an Agent for and on behalf of IDB during the construction/manufacturing period of the Asset.
- The Purchaser will provide IDB with all progress reports and any other reports and information requested by IDB.
- Following inspection and acceptance at the end of the construction/manufacturing, the title of the Asset will be transferred to the Purchaser, who will now be liable to pay the Sale Price in accordance with the Istisna’a Agreement.
Disbursements
- The request for the first disbursement is required to be submitted within six months from the date of effectiveness, failing which the project is liable for cancellation.
- By the last date of disbursement, if any part of the Approved Amount is not utilized, IDB can cancel that part.
- The approved amount is disbursed in accordance with the IDB Disbursement Procedures and relevant provisions in the legal documentation.

Insurance
- The Purchaser, as IDB’s agent, will ensure that until the final acceptance of the Asset, it is comprehensively insured with an acceptable Islamic insurance company and that IDB is named as a loss payee under the insurance policies.

Anti-corruption and anti-fraud provisions are included in all legal documents. To ensure compliance, IDB has the right to audit and examine the records and accounts of all parties related to the project.
B5. Instalment Sale

Definition

A credit sale of an Asset, delivered on spot, in which the purchaser can pay the price of the Asset at a future date, either in lump sum or instalments.

How it works at IDB

IDB operates Instalment Sale on a medium to long-term basis, wherein IDB purchases an Asset and sells it to the Purchaser (client) at an agreed Sale Price (cost plus a mark-up). The Purchaser pays the Sale Price in instalments. The ownership/title of the Asset is transferred to the Purchaser on the date of delivery of the Asset.

Scope

To provide for assets such as equipment and machinery for developmental projects.
B5. Instalment Sale

Eligibility

IDB approves Instalment Sale financing for projects that are technically sound and economically viable, and are of high priority to the member country. Such financing may be extended to governments, government-backed entities as well as private sector companies.

Application Process

Applicants have to request for IDB financing through the office of the IDB governor in their particular country (usually the Ministry of Finance, Economy or Planning) or directly to IDB for private sector and quasi-sovereign applicants. The request has to be supplemented with a feasibility study of the project. For private sector and quasi-sovereign companies, additional documentation may be required.
B5. Instalment Sale

Legal Documentation

**Instalment Sale Agreement:** The Agreement provides for the procurement function of the Purchaser (as an Agent of IDB), the terms and conditions (as an annex) as well as the Sale Price, tenor of financing, etc.

The Agreement is required to be signed between IDB and the Purchaser within six months from the date of IDB’s approval.

**Effectiveness**

For the Agreement to be effective, the Purchaser will have to provide ‘effectiveness documents’ which are listed in the Agreement.

The Agreement is required to become effective within six months from the date of signature, failing which it is liable for cancellation.
B5. Instalment Sale

Step by Step

1. **Approval:** Following a formal request from the Purchaser, IDB approves the Instalment Sale arrangement whereby it agrees to purchase an Asset and sell it to the Purchaser. The Purchaser promises to purchase the Asset once it is delivered.

2. **Signature:** IDB and the Purchaser sign the Instalment Sale Agreement.

3. **Effectiveness:** The Purchaser provides effectiveness documents to IDB which reviews the documents and declares effectiveness. Project implementation begins.

4. **Procurement:** The Purchaser, as IDB’s agent, signs a contract with a supplier to procure the goods. The Purchaser insures the Assets in the name of IDB during the transit period.

5. **Disbursement:** IDB pays the purchase price of the Assets directly to the supplier.

6. **Delivery:** The Purchaser, as IDB Agent, takes delivery of the Assets from the Supplier.

7. **Sale:** Upon delivery, IDB sells the Assets to the Purchaser at Sale Price on deferred basis.

8. **Payment of Sale Price:** The Purchaser pays the Sale Price to IDB in instalments.
B5. Instalment Sale

1. Sign Instalment Sale Agreement
2. Signs contract on behalf of IDB for procurement
3. Pays Purchase Price of Asset
4. Delivers Asset
5. Sells the Asset at Sale Price
6. Pays Sale Price in instalments

Beneficiary/Purchaser

Supplier
B5. Instalment Sale

Basic Terms & Conditions

Procurement

• As per the legal documentation, the Agreement defines the Agency role of the Purchaser, wherein IDB authorizes the Purchaser to act as its Agent to purchase the Asset and receive delivery on its behalf.

• The Purchaser, as IDB’s agent, will:
  a. abide by the IDB’s Procurement Guidelines and Procedure in procuring the Asset;
  b. negotiate and agree with the supplier on the price, specifications and delivery of the Asset; and
  c. take delivery of the Asset on behalf of IDB.

Sale

• Immediately upon the delivery of the Asset, the sale will be concluded by an exchange of an offer from the Purchaser and acceptance by IDB.
B5. Instalment Sale

Disbursements

- The request for the first disbursement is required to be submitted within six months from the date of effectiveness. If not, then IDB has the right to cancel the project.
- By the last date of disbursement, if any part of the Approved Amount is not utilized, IDB can cancel that part.

Insurance

- The Purchaser, as IDB’s agent, will ensure that the Asset is adequately insured (until delivery) at the cost of IDB with an acceptable Islamic insurance company and that IDB is named as a loss payee under the insurance policies.

Anti-corruption and anti-fraud provisions are included in all legal documents. To ensure compliance, IDB has the right to audit and examine the records and accounts of all parties related to the project.
B6. Restricted Mudarabah

Definitions

Mudarabah
A profit-sharing loss-bearing contract in which one party (Rab al-maal) provides capital and the other party (Mudarib) provides expertise to manage a business enterprise. Any profit earned is shared in a pre-agreed ratio and any loss is borne solely by the capital provider (Rab al-Maal), except in case of negligence and misconduct from the Mudarib.

Restricted Mudarabah
Restricted Mudarabah is a variant of Mudarabah that is used by IDB, wherein the Mudarib (the entity) is bound by certain restrictions on the sectors/areas/projects into which it can invest the Mudarabah capital. These restrictions are agreed upon upfront in the Restricted Mudarabah Agreement (RMA).

Scope
Investment in specific sector projects such as sustainable agriculture, renewable energy, youth employment programs etc.
B6. Restricted Mudarabah

Eligibility

IDB approves Restricted Mudarabah for investments that are focused on strategic thrust areas (sustainable energy, agriculture etc.) and are of high priority to the member country. Funds for investment may be extended to governments, government-backed entities as well as private sector companies.

Application Process

Applicants have to request for IDB financing through the office of the IDB governor in their particular country (usually the Ministry of Finance, Economy or Planning) or directly to IDB for private sector and quasi-sovereign applicants. The request has to be supplemented with a feasibility study of the project. For private sector and quasi-sovereign companies, additional documentation may be required.
B6. Restricted Mudarabah

Legal Documentation

Restricted Mudarabah Agreement: The Agreement lists the terms and conditions of the operation, including the investment plan, profit-sharing ratio, duration etc.

The Agreement is required to be signed between IDB and the Mudarib within six months from the date of IDB’s approval.

Effectiveness

For the Agreement to be effective, the Mudarib will have to provide ‘effectiveness documents’ which are listed in the Agreement.

The Agreement is required to become effective within six months from the date of signature, failing which it is liable for cancellation.
B6. Restricted Mudarabah

Step by Step

1. **Approval:** Following a formal request from any potential entity, IDB processes the request and approves the Restricted Mudarabah in order to provide capital to the entity (the Mudarib) for investment in a specific sector. Both parties agree to share the profits of the investment on a pre-agreed ratio. Any loss is solely borne by IDB, except in case of negligence and misconduct from the Mudarib.

2. **Signature:** IDB and the Mudarib sign the Restricted Mudarabah Agreement.

3. **Investment:** The Mudarib invests the capital into projects (in the pre-agreed specific sector) which generate profits.

4. **Profit-sharing:** The profits are shared by the Mudarib and IDB according to the pre-agreed ratio.
B6. Restricted Mudarabah

1. Sign Restricted Mudarabah Agreement
2. Provides capital
3. Invests in specific projects
4. Generates profits
5. Share the profits
6. Any genuine loss borne solely by IDB
B6. Restricted Mudarabah

Basic Terms & Conditions

Disbursement
- The request for disbursement is required to be submitted within a period before the proposed disbursement date as specified in the Agreement.
- The request for disbursement has to be accompanied by a tentative list of projects that will benefit from the investment.
- The request for disbursement may require to be supplemented with any other document, as specified in the Agreement.

Liquidation of the Mudarabah Operation
- Upon the maturity of the Mudarabah arrangement, the Mudarib will liquidate the assets of the Mudarabah operation.
- Following the liquidation by the Mudarib, IDB will receive “Mudarabah Capital + IDB’s share of Profits”
- If the profit is greater than what was agreed upon, the excess will be retained by the Mudarib, as an incentive.
B6. Restricted Mudarabah

Authority and Responsibilities of Mudarib

- The Mudarib will have conducted the relevant feasibility studies to determine the financial viability of the projects that will be invested in.
- The Mudarib will ensure that the financing will be used only for Shariah-compliant ventures.
- The Mudarib will invest only in those projects which will return not be less than the anticipated profit as mentioned in the Agreement.
- The Mudarib will submit progress reports to IDB, as and when requested.
B7. Equity Participation

Definition

A mode of financing whereby IDB makes strategic long-term investments with the objective to maximize its developmental objectives. These investments are usually in the equity of Shariah-compliant industrial, agro-industrial projects, Islamic banks and financial institutions of its Member Countries.

The Investment Process

- Deal Sourcing and Screening
- In-depth Analysis
- Due Diligence and Clearance
- Approval and Disbursement
- Monitoring
- Exit
<table>
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<tr>
<th>Industry Group</th>
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<tr>
<td>Agro &amp; Food Industry</td>
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<td>Industrials</td>
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<tr>
<td>Energy &amp; Construction</td>
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</tbody>
</table>
B7. Equity Participation

Features

- IDB does not acquire majority or controlling interest in the share capital of a company.
- Investments do not exceed one-third of the company’s capital.
- Investments do not provide IDB with control or the ability to exercise any significant influence over the financial and operating policies of such companies.
- Investments are sold at a time when IDB considers it appropriate.
Methods of Disbursement
Methods of Disbursement

Upon submission of the relevant documents (contracts, authorizations etc.), IDB can disburse the amounts for any approved project through any of the following methods.

1. **Direct Payment:** IDB disburses directly to the supplier/contractor/consultant.

2. **Payment against Letter of Credit:** On the basis of a Letter of Credit (LC) issued by a local bank of the Beneficiary, IDB issues an Irrevocable Commitment to Reimburse (ICR) for the requested amount.

3. **Special Account:** Wherever applicable, a Special Account can be opened for easy and timely disbursement (small contracts, minor expenses etc.) of the Project. It can be opened at the Central Bank or any local commercial bank acceptable to IDB, with a single deposit amount not exceeding USD 500,000.

Depending on the type of project, IDB may use other methods of disbursement, in accordance with IDB Guidelines for Disbursement.
Sources of Funds
IDB Sources of Funds

D1. Ordinary Capital Resources (OCR)

**EQUITY**

i. The capital subscribed in accordance with Article 5;

ii. Deposits placed with the Bank pursuant to Article 8;

iii. Amounts received in repayment of loans, from the sale of equity holdings;

iv. Amounts received in repayment of loans, from the sale of equity holdings and as income from investments related to ordinary operations and;

v. Any other funds received by the Bank or placed at its disposal, or income received which does not form part of IDB Waqf Fund Resources and Trust Fund Resources.

**RESOURCE MOBILIZATION**

i. Funds mobilized from the Islamic capital market for medium and long term funding requirement;

ii. Funds mobilized from the Islamic capital market by issuing Sukuk (Islamic Bonds) on a Public and Private Placement basis;

iii. Funds mobilized from the Islamic money market for short-term funding requirement;

iv. Funds mobilized from the Islamic money market on a short and medium term basis through commodity Murabaha placements.
D2. Islamic Solidarity Fund for Development (ISFD)

ISFD is a Waqf/trust fund under the IDB. Its capital consists of voluntary contributions from the Member Countries (MCs) of the Organization of Islamic Cooperation (OIC) as well as IDB.

For its activities, the Fund utilizes:

i. income from the Waqf;

ii. funds derived from its operations; and

iii. other resources received by the Fund.
D3. IDB Waqf Fund

In 1417H, the “Special Accounts of the Islamic Development Bank - Ordinary Capital” consisted of
- Special Reserve;
- Special Assistance; and
- Special Account for Least Developed Member Countries.

In 1418H, the balances of these accounts, together with the related assets and liabilities, were transferred to the Special Account Resources Waqf Fund (the “Waqf Fund”).

The balance of ‘Special Reserve Account’ formed the balance of the Waqf Fund principal amount.

The Waqf Fund derives its income from the following sources:

I. Return from cash and cash equivalents and fixed deposits with banks;
II. Profit on managed investment;
III. Net income from deposits of the Unit Investment Fund (UIF); and
IV. Investment in Murabaha and other funds.
### E. Glossary

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Concessional Modes of Finance</td>
<td>Financing facilities that are provided with soft terms and conditions.</td>
</tr>
<tr>
<td>Ordinary Modes of Finance</td>
<td>Financing facilities that are provided at market rates.</td>
</tr>
<tr>
<td>Effectiveness</td>
<td>The adequate state of a signed Agreement following the submission of documents to satisfy all conditions, as required by a Financing Agreement. (Opinion of a Legal counsel, provision of guarantee etc.)</td>
</tr>
<tr>
<td>Gestation Period</td>
<td>The period from the first date of disbursement upto the last date of disbursement</td>
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<tr>
<td>Grace Period</td>
<td>A period allowed to the Beneficiary before commencing repayment to IDB.</td>
</tr>
<tr>
<td>Implementation Period</td>
<td>The period starting from the date of effectiveness upto the completion date of the works/procurement of a project.</td>
</tr>
<tr>
<td>Mark-up</td>
<td>A profit margin (additional amount) above the actual cost of IDB for acquiring assets/goods/commodities.</td>
</tr>
<tr>
<td>Resource Mobilization</td>
<td>A process of generating resources from the Islamic financial/capital markets.</td>
</tr>
<tr>
<td>Service Fee</td>
<td>A fee payable by a Borrower to IDB for the processing and monitoring of a loan.</td>
</tr>
<tr>
<td>Supplier/Manufacturer/Contractor/Constructor</td>
<td>An individual or a firm selected to supply, manufacture or construct Assets, commodities or equipment against a specific contract.</td>
</tr>
<tr>
<td>Waqf</td>
<td>An endowment or a charitable trust devoted exclusively for Islamic purposes.</td>
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</tbody>
</table>
The Financial Product Development Center (FPDC) was established in Muharram 1432H (December 2010). Its main purpose is to enhance the leadership of the Islamic Development Bank Group in the development and promotion of innovative Islamic financial products within the framework of the Maqasid al-Shariah. This is accomplished while further strengthening the financial soundness and relevance of the IDB Group.

The Center is the focal point for the development of new and innovative financial instruments at IDB Group, and for this purpose it also collaborates with various institutions in the Islamic financial industry.

**Strategic Objectives**

The Center has three major strategic objectives:

- Developing Business Process for new product development.
- Building capacity of product developers.
- Designing new financial products.

These three objectives are summarized by the “3Ps” that the Center works along: Process, People, and Products.