



ECONOMIC AND HUMAN DEVELOPMENT
PROGRAMS IN THE MUSLIM WORLD: A CASE
STUDY OF THE ISLAMIC DEVELOPMENT BANK
(IDB)

BY

FAKHRI BIN SUNGIT

A dissertation submitted in fulfilment of the requirement for
the degree of Doctor Philosophy (Islamic Thought and
Civilization)

International Institute of Islamic Thought and Civilization
International Islamic University Malaysia

SEPTEMBER 2015

ABSTRACT

This research examines the aims, objectives and achievements of the Islamic Development Bank (IDB) which was established for promoting the Islamic principles of brotherhood, solidarity and social justice among its Member Countries. The study involves inductive, deductive and descriptive methods in collecting and analyzing the data. The researcher employs library research to find selected documentations such as books, journals, theses and dissertations, articles, magazines, annual reports and the possible official documents and materials in the Bank. The stated objective of the IDB which is “to foster economic development and social progress of Member Countries and Muslim communities in non-Member Countries individually as well as jointly in accordance with the principles of *Shari'ah*”, is critically examined via the various activities and programs that have been carried out since its inception in 1975. The study analyzes the financing practices of the Bank that follow the guidelines of *Shari'ah* and *maqāṣid* based principles. The three dimensions of *maqāṣid* principles in the activities of Islamic banking and finance are evaluated namely, (i) Continuity of the Circulation of the Wealth, (ii) Continuity of the Investment of Wealth, and (iii) Achieving Comprehensive Communal Prosperity. The result shows that the Bank's objectives and development plans are in line with the principle of *maqāṣid*, but in reality the principles which are central to achieving social justice and public interests are still far from being realized. Thus, the study advises the Bank to reorganize the policies and orientation of the programs according to the outlook of the Islamic Human Development. Besides prioritizing the physical projects and development programs of economy, there should be space for the good governance and moral development through holistic educational programs and human capital venture.

خلاصة البحث

يختبر هذا البحث المقاصد والأهداف والإنجازات التي حققها البنك الإسلامي للتنمية (IDB) الذي أنشئ من أجل تعزيز مبادئ الأخوة الإسلامية والتضامن والعدالة الاجتماعية بين الدول الأعضاء فيه. استخدمت الدراسة الحالية الطرق الاستقرائية، والاستنتاجية والوصفية في إجراءات جمع، وتحليل البيانات. وقد وظف الباحث في هذا الدراسة البحوث المكتبية للحصول على الوثائق المختارة مثل : الكتب والمجلات والرسائل الجامعية والأطروحات والمقالات والمجلات والتقارير السنوية والوثائق الرسمية والمواد الممكنة والمتاحة في البنك. تم فحص الهدف المعلن من قبل البنك الإسلامي للتنمية (IDB) وتحديد ما هو تعزيز التنمية الاقتصادية والتقدم الاجتماعي بين الدول الأعضاء والمجتمعات المسلمة الأخرى في الدول غير الأعضاء بصفة فردية كذلك بالاشتراك وفقاً لمبادئ الشريعة . وقد تمّ الفحص بدقة متناهية من خلال الأنشطة المختلفة والبرامج التي تمّ تنفيذها منذ إنشاء البنك في عام 1975م. وتقوم الدراسة بتحليل ممارسات تمويل البنك التي تتبع المبادئ التوجيهية القائمة على المبادئ المقاصدية للشريعة. وقد تم تقييم الأبعاد الثلاثة للمبادئ المقاصدية في أنشطة الصيرفة والتمويل الإسلامي، وتحديداً هي (1) استمرارية تداول الثروة، (2) استمرارية استثمار الثروة، و (3) تحقيق الازدهار الاجتماعي الشامل. وقد أظهرت النتيجة أن الأهداف البنكية، وخطط التنمية من البنك الإسلامي للتنمية تتماشى مع مبادئ المقاصد الشرعية. بيد أن في واقع المبادئ التي تتكون من تحقيق العدالة الاجتماعية، والمصالح العامة، ما زالت بعيدة المنال. وبناءً على هذا المؤشر، تشير النتيجة إلى أنه على الرغم من التخلف الاقتصادي للمسلمين، فإنهم يواجهون أيضاً أزمة روحية. وقد توفر هذه الإشارة أن البنك الإسلامي للتنمية إلى جانب تحديد أولويات المشاريع المادية وبرامج التنمية الاقتصادية يجب عليه إتاحة مساحة للحكم الرشيد والتنمية الأخلاقية من خلال برامج تعليمية شاملة ومشروع رأس المال البشري.

APPROVAL PAGE

The thesis of Fakhri Bin Sungit has been approved by the following:

Abdullah Al-Ahsan
Supervisor

Mohamed Aslam Mohamed Haneef
Internal Examiner

Mohamad Akram Laldin
External Examiner

Necdet Sensoy
External Examiner

Saim Kayadibi
Chairman

DECLARATION

I hereby declare that this thesis is the result of my own investigation, except where otherwise stated. I also declare that it has not been previously or currently submitted as a whole for any other degrees at IIUM or other institutions.

Fakhri Bin Sungit

Signature.....

Date.....

INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA

**DECLARATION OF COPYRIGHT AND AFFIRMATION OF
FAIR USE OF UNPUBLISHED RESEARCH**

**ECONOMIC AND HUMAN DEVELOPMENT PROGRAMS IN
THE MUSLIM WORLD: A CASE STUDY OF THE ISLAMIC
DEVELOPMENT BANK (IDB)**

I declare that the copyright holder of this thesis are jointly owned by the student and IIUM.

Copyright © 2015 by Fakhri Bin Sungit and International Islamic University Malaysia. All rights reserved.

No part of this unpublished research may be reproduced, stored in retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without prior written permission of the copyright holder except as provided below

1. Any material contained in or derived from this unpublished research may only be used by others in their writing with due acknowledgement.
2. IIUM or its library will have the right to make and transmit copies (print or electronic) for institutional and academic purpose.
3. The IIUM library will have the right to make, store in a retrieval system and supply copies of this unpublished research if requested by other universities and research libraries.

By signing this form, I acknowledge that I have read and understand the IIUM intellectual Property Right and Commercialization policy.

Affirmed by Fakhri Bin Sungit

.....
Signature

.....
Date

To my parents Sungit and Zaharah, and to my wife Herliyana and our children

Batrisyia, Muadz, Uzma, Danish and Husna.

ACKNOWLEDGEMENTS

I wish to express my deepest and warmest thanks first and foremost to Allah (S.W.T.) Who bestowed on me the strength, courage, health, patience and dynamism in accomplishing this humble study.

My sincere gratitude and indebtedness are due to my supervisor, Prof. Dr. Abdullah Al-Ahsan, who has extended invaluable help in the preparation of this thesis throughout the stages with patience and wisdom. His adroit supervision, knowledge and critical assessment of the contents have helped me to improve the quality of this study.

My special thanks also go to the Dean of ISTAC Prof. Dr. Mohamed Ajmal Abdul Razak Al-Aidrus, Sister Majdiah Othman, as well as the administration and the academic staff of ISTAC who were all friendly and helpful to me.

I duly appreciate sincere cooperation from my good friends Hairullfazli, Khairul Anuar Ahmad and my entire department mate of Shariah, Selangor International Islamic University College (SIUC) which greatly facilitated the completion of the study.

Last and most importantly, I owe a debt to my family especially my beloved parents Sungit and Zaharah, father and mother in law Md. Yusuf and Siti Roliah, wife Herliyana, and my children Batrisyia, Muadz, Uzma, Danish and Husna, from whom I received a great deal of material and spiritual support.

TABLE OF CONTENTS

Abstract.....	ii
Abstract in Arabic.....	iii
Approval Page.....	iv
Declaration Page.....	v
Copyright Page.....	vi
Dedication.....	vii
Acknowledgements.....	viii
List of Tables.....	xiv
List of Figures.....	xvi
List of Abbreviations.....	xviii
CHAPTER 1: INTRODUCTION.....	1
Introduction.....	1
Statement of Problem.....	4
Research Questions.....	7
Research Methodology.....	8
Literature Review.....	9
The study on Economic Development in Muslim Countries.....	10
The Study of <i>Maqāṣid al-Sharī'ah</i> in Islamic Banking and Finance... ..	20
The Study of Islamic Development Bank.....	25
CHAPTER 2: THE ISLAMIC DEVELOPMENT BANK (IDB): AN OVERVIEW.....	29
Introduction.....	29
The Functions of IDB.....	30
IDB Member Countries.....	31
Head Office and Regional Offices.....	33
Mission and Vision.....	33
IDB Priority Areas.....	34
IDB Group, Special Funds and Affiliated Institutions.....	35
Entities in IDB Group.....	36
Islamic Research and Training Institute (IRTI).....	36
Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC).....	37
Islamic Corporation for the Development of the Private Sector (ICD).....	39
International Islamic Trade Finance Corporation (ITFC).....	40
Specialized Funds and Programs.....	41
Islamic Solidarity Fund for Development (ISFD).....	41
IDB Infrastructure Fund (IIF).....	42
<i>Awqāf</i> Properties Investment Fund (APIF).....	43
World Waqf Foundation (WWF).....	44
Scholarship Program.....	45

Special Program for the Development of Africa (SPDA).....	45
Affiliated Institutions and Special Project.....	46
International Centre for Biosaline Agriculture (ICBA).....	46
Saudi Arabia Project for the Utilization of Hajj Meat.....	47
Resource Mobilization Strategy.....	48
<i>Şukūk</i> (Islamic bond) and Islamic Money Market.....	48
IDB Unit of Account (Islamic Dinar).....	50
Financing Instruments.....	52
Loan Financing.....	52
Technical Assistance.....	52
Leasing.....	53
Installment Sale.....	53
<i>Istişnā'</i>	53
List of Financing.....	53
Equity Participation.....	54
<i>Murābahah</i>	54
Profit Sharing.....	55
Operations.....	55
The Principles of Operation.....	55
Project Financing Strategy.....	57
Project Cycle.....	59
Project Identification.....	59
Preparation.....	60
Appraisal/Negotiation.....	61
Technical.....	62
Institutional.....	62
Economic.....	63
Financial.....	64
Social.....	65
Environmental Impact.....	66
Approval and Signing.....	66
Implementation and Follow Up.....	66
Supervision.....	67
Procurement.....	68
Completion.....	68
Post Evaluation.....	69
The IDB Success Story.....	69
Modernizing Road Planning and Designing in Yemen.....	70
A Lifeline across the Niger River: The Bridge at Gao, Mali.....	71
Khanarc Canal Transforms Agriculture in Northeast Azerbaijan.....	72
Solar Power is turning on the Lights in Bangladesh.....	73
Power Plant Modernization Gives Sudan's Growth a Jolt.....	74
Social Safety Nets Program Transforms Lives of Millions.....	76
Support to Rural ICT Centers Gives a Boost to Small Businesses in Bangladesh and Egypt.....	78
Opening the Doors to Knowledge: Rebuilding Schools in Tajikistan...	80
Mini Hydropower Plants Brighten Rural Tajikistan.....	81
From Darkness to Light: Rural Electricity in Morocco.....	83

Increasing the Potential of Higher Education in Indonesia.....	84
Microfinance Makes Businesses Successful in Guinea.....	85

CHAPTER 3: SOCIAL OBJECTIVES OF THE IDB: IMPLEMENTING MAQĀSHID PRINCIPLES IN ISLAMIC BANKING AND FINANCE..... 88

Introduction.....	88
Introduction to <i>Maqāshid al-Sharī'ah</i>	88
<i>Maqāshid al-Sharī'ah</i> and <i>Maṣlahah</i>	91
Ḍarūriyyāt, Ḥajjiyyāt and Taḥsiniyyāt.....	95
Justice as an Uppermost Objective of <i>Sharī'ah</i>	97
<i>Maqāshid</i> Principles in Islamic Banking and Finance.....	100
<i>Sharī'ah</i> Objectives in Financial Activities and Banking.....	101
Continuity of the Circulation of the Wealth.....	102
Continuity of the Investment of the Wealth.....	105
Achieving Comprehensive Communal Prosperity.....	108
<i>Sharī'ah</i> Mechanism for the Effective Implementation of its Objectives in Financial Activities and Banking.....	111
Prohibition of Hoarding.....	112
Prohibition of Squander, Extravagance and Stinginess.....	113
Prohibition of Usury (<i>ribā</i>).....	115
Social Objectives and <i>Maqāshid</i> Based Principles of IDB.....	117
Modes of Financing in the IDB.....	118
Analysis from Legalistic and <i>Maqāshid</i> Perspective.....	120
<i>Waqf</i> Program in the IDB.....	126
<i>Waqf</i> Institution.....	127
Special Assistance Program.....	127
Scholarship Programs.....	129
Technical Cooperation Program.....	135
Comprehensive Communal Prosperity in the IDB.....	136
<i>Waqf</i> as a mean to achieve “The Continuity of Wealth Circulation”.....	137
The Financing as a mean to achieve “The Continuity of the Investment of the Wealth”.....	139
The Outcomes of Islamic Banking and Finance Activities in the Member Countries.....	141
The Development of Islamic Finance Industry.....	142
The Penetration of Islamic Banking and Finance in Member Countries.....	148
Analysis on the Outcomes of Islamic Banking and Finance.....	152

CHAPTER 4: ECONOMIC AND HUMAN DEVELOPMENT PROFILING IN MEMBER COUNTRIES..... 156

Introduction.....	156
The Strength Outlook on Member Countries.....	156
The Largest Share of Young Population.....	157
Positive Trend of Total Reserves.....	158
The Biggest Share in Crude Oil Reserves.....	160
The Biggest Share in Natural Gas Reserve.....	162
Among the Top Producers of Major Agricultural Products.....	163

Diversity of Intangible Heritage.....	165
Some Member Countries' Profiling	167
Analysis on the Relation of Sustainable Livelihood and Natural Resources	169
Human Development Performance.....	177
Human Development Trends in Member Countries	177
Education and Health	181
Descent Work	193
Education and Health.....	187
The Challenges of IDB	199
Natural Resources and Economic Development.....	200
Good Governance Issues	206
Development in Muslim and non-Muslim World	209
Conclusion	212

CHAPTER 5: THE IDB'S PLANS, ACTIVITIES AND DEVELOPMENT PROGRAMS.....217

Introduction.....	217
Strategic Thrusts And Targets Of The IDB.....	218
The <i>Maqāṣid</i> of IDB's Strategic Thrusts	222
<i>Darūriyyāt</i>	223
<i>Ḥajjiyyāt</i>	224
<i>Tahsiniyyāt</i>	224
The IDB's Action Plans And Related Projects	226
The IDB Operations: Employment Impact up to 2005	227
Member Country Partnership Strategy (MCPS).....	231
Islamic Solidarity Fund for Development (ISFD).....	236
Microfinance Support Program (MFSP).....	237
Vocational Literacy Program (VOLIP).....	238
Sustainable Village Program (SVP).....	239
Other Development Programs	241
Employment Program	241
Special Program for the Development of Africa (SPDA).....	243
Jeddah Declaration of Food Security	246
IDB Infrastructure Fund (IIF).....	248
Overall Analysis of the Activities and Development Programs of the IDB in Member Countries.....	249
40 Years Assessment Study on the IDB	250
The Analysis on the 40 Years Assessment Report	252
Credit Ratings	253
Financing Activities	254
The Reports on Poverty Alleviation	255
The Results from Strategic Thrusts and Targets of the IDB.....	261
Analysis on the Annual Rate Reduction.....	273
The Result of Poverty Trends.....	277

CHAPTER 6: CONCLUSION AND RECOMMENDATIONS.....	266
Conclusion.....	266
IDB at a Glance.....	266
Financing Activities of the Bank.....	267
The Reformation of the IDB.....	269
Concluding Remarks.....	271
Recommendations.....	272
Establishing Research and Development (R&D) of IDB for Islamic Human Development.....	274
Exploring Cooperative as Social Business Innovation.....	275
Discovering Gold Dinar as a Main Currency in Member Countries....	277
Investing in Human Capital.....	279
Further Research.....	280
 BIBLIOGRAPHY.....	 283
 APPENDIX I: BOARD OF EXECUTIVE DIRECTORS OF THE IDB.....	 299
APPENDIX II: CORPORATE PROFILE OF THE IDB.....	301
APPENDIX III: BASIC ORGANIZATION CHART.....	302
 GLOSSARY.....	 303
 INDEX.....	 309

LIST OF TABLES

<u>Table No.</u>		<u>Page No.</u>
1.1	Total External Debt (Million U.S. Dollars)	5
2.1	Statement of IDB Share Capital Subscription As at 29/12/1432H (November. 25, 2011) Year End 1432H Authorized Capital: ID 30 Billion	32
2.2	Illustrative Calculation of Currency Amounts in the New SDR Basket (as of 30 December 2005)	51
3.1	The Distribution Modes of Financing from 1396H (1975) until 1435H (2013)	119
3.2	Summary of Operations Approved from the IDB Special Assistance and <i>Waqf</i> Fund for Member Countries and Muslim Communities in Non-Member Countries (Amount in Million USD)	129
3.3	IDB Scholarship Program for Muslim Communities in non-Member Countries Progress until 1424H (2003-2004)	130
3.4	IDB Merit Scholarship Program (MSP) – Statistics on Selection from 1420H (1998-1999) to 1424H (2003-2004)	132
3.5	M.Sc. Scholarship Program in Science and Technology for IDB Least Developed Member Countries Statistics on Selection until 1424H (2003-2004)	134
4.1	Crude Oil Production (Thousand Barrels/Day)	161
4.2	Natural Gas Production (Billion Cubic Feet)	163
4.3	Selected Member Countries and Economic Status	168
4.4	African OIC Member Countries	173
4.5	Middle East and Central Asian Member Countries	174
4.6	East Asia, Pacific and South American Member Countries	176
4.7	Human Development Index Trends, 1980-2011	178

4.8	Education and Health	183
4.9	Comparing Performance in Education for Selected Countries, 2009	188
4.10	Descent Work in Member Countries	194
4.11	Inequality Levels Vary Across Regions (GINI indices)	208
4.12	Selected Most Developed Countries in the World	210
5.1	Strategic Thrusts and Targets of the IDB 1440H (2020) Vision	219
5.2	Sectoral Distribution of Net IDB-Approved Projects, Operations, and Technical Assistance	228
5.3	IDB Group MCPS Exercise in Selected Member Countries since 1431H (2010)	233
5.4	Implementation Status of Completed MCPS (end-1432H/2011)	235
5.5	Estimated Employment Impact of VOLIP	239
5.6	The approved programs and those under review process of YES for the selected countries	241
5.7	Unemployment Rate, (Percentage of Total Labor Force)	243
5.8	The IDB Group Annual Financing Plan (1429H-1433H/2008-2012) (Amount in US\$ million)	244
5.9	The IDB Group Approvals by Sector (1429H-1433H/2008-2012)	245
5.10	Cumulative Approvals by Country (1428H-1433H/2008-2012)	246
5.11	AARR Yearly Reduction for IDB and MDG's Target in the Member Countries	257
5.12	Actual Annual Rate Poverty Reduction (1990-2009) and (2010-2012)	257

LIST OF FIGURES

<u>Figures No.</u>		<u>Page No.</u>
3.1	Global Assets of Islamic Finance (Billion USD) from 2000-2011	143
3.2	Regional Distribution of <i>Shari'ah</i> -Compliant Assets 2011	144
3.3	Regional Growth in Global Assets of Islamic Finance	145
3.4	Country Level-Decomposition of <i>Shari'ah</i> Compliant Assets 2011	146
3.5	Member Countries by Largest <i>Shari'ah</i> -Compliant Assets, (US\$ Billion, 2011)	147
3.6	Islamic Finance Penetration in Selected Member Countries	149
3.7	Islamic Finance Infrastructure in Member Countries	152
4.1	Population by Age Group, Percentage of Total 2011	158
4.2	Total Reserves including Gold, Percentage of GDP	159
4.3	Percentage Share of Total Reserves Including Gold in the World	159
4.4	Top 10 OIC Member Countries by Total Reserves, 2011	160
4.5	Proven Crude Oil Reserves, Billion Barrels, 2011	160
4.6	Proven Crude Oil Reserves, Percentage of Total Global Reserves, 2010	161
4.7	Proven Natural Gas reserves, Billion Standards Cubic Metres, 2011	162
4.8	Proven Natural Gas Reserves, Percentage of Total Global Reserves, 2011	162
4.9	Top 20 Producers of the Major Agricultural Products	164
4.10	Top 20 Producers of the Major Agricultural Products	166

4.11	Gross Domestic Product, PPP Current USD, 2011	177
4.12	Average Adult Literacy Rates, 1999-2008	186
4.13	Average Public Education Expenditures, Percentage of GDP, 1999-2008	187
4.14	Percentage of Comparative Health Statistics between OIC Member Countries and World	190
4.15	Average Total Health Expenditure as percentage of GDP, by Income Groups, 1997-2007	191
4.16	Average Private Health Expenditure as percentage of Total Health Expenditure, by Income Groups, 1999-2007	192
4.17	Average Public Health Expenditure as percentage of Total Health Expenditure, by Income Groups, 1999-2007	193
4.18	Total Unemployment Rate (percentage of Total Labor Force)	199
4.19	GERD, Percentage of World Total	203
4.20	Researchers per Million People	211
5.1	HDI Average Growth, 1980-2005	231
5.2	Global Food Price Index, 2002-2011, (US\$ million)	247
5.3	Number of Undernourished People in OIC, (million)	248
5.4	Sector Diversification of IIF	249
5.5	Evolution of the IDB Net Approvals in US\$ Million (1395H/1975 – 1434H/2013)	250

LIST OF ABBREVIATIONS

2SMF	2 Step Murābahah Financing	HHD	High Human Development
AARR	Average Annual Reduction Rate	HIPCs	Heavily Indebted Poor Countries
APIF	Awqaf Properties Investment Fund	HPI	Human Poverty Index
BCG	Boston Consulting Group	IBs	Islamic Banks
c.	copyright	Ibid.	(<i>ibidem</i>); in the same place
CAGR	Compounded Average Growth Rate	ICBA	International Centre for Biosaline Agriculture
CASS	Country Assistance Strategy Study	ICD	Islamic Cooperation for the Development of the Private Sector
CIP	Community Infrastructure Project	ICDT	Islamic Centre for Development of Trade
CIT	Member Countries in Transition	ICIEC	Islamic Corporation for the Insurance of Investment and Export Credit
CPI	Corruption Perception Index	ICT	Information Communication Technology
CSI	Civil Society Index	ID	Islamic Dinar (equivalent for one Special Drawing Right of IMF)
EU	European Union	IDB	Islamic Development Bank
EAP	East Asia and Pacific	IDB-STATCAP	IDB Statistical Capacity Building Initiative
e.g.	(<i>exempligratia</i>); for example	IFC	International Finance Corporation
ECA	Europe and Central Asia	IFIs	Islamic Finance Institutions
etc	(<i>et cetera</i>); and so forth	IFS	Islamic Finance Sector
E4E	Education for employment	I-HDI	Islamic Human Development Index
ESP	Education Sector Policy	IIF	Islamic Infrastructure Fund
FAO	Food and Agricultural Organization of the United Nations	IIUM	International Islamic University Malaysia
FDI	Foreign Direct Investment	IMF	International Monetary Fund
FIRR	Reasonable Rate of Return	IPL	International Poverty Line
GCC	Gulf Cooperation Council		
GDP	Gross Domestic Product		
GNP	Gross National Product		
GPE	Global Partnership for Education		
H	Hijrah		
HDI	Human Development Index		

IRTI	Islamic Research and Training Institute	OECD	Organization for Economic Cooperation and Development
ISFD	Islamic Solidarity Fund for Development	OEO	Operation Evaluation Office
IT	Information Technology	OIC	Organization of the Islamic Cooperation
ITFC	International Islamic Trade Finance Corporation	PIASR	Project Implementation Assessment Support Reports
LDCs	Least Developed Countries	PLS	Profit Loss Sharing
LDLICs	Least Developed and Low Income Countries	PPP	Purchase per Parity
LDMCs	Least Developed Member Countries	P.B.U.H.	Peace be upon him
LHD	Less Human Development	PCR	Project Completion Report
LIFDCs	Low Income Food Deficit Countries	PMU	Project Management Unit
MCs	Member Countries	Q&A	Question and Answer
MCPS	Member Country Partnership Strategy	R&D	Research and Development
MDGs	Millennium Development Goals	RLs	Reverse Linkages
MENA	Middle East and North Africa	SAR	Staff Appraisal Report
MFSP	Microfinance Support Program	S.O.P.	Standard Operation Procedure
MHD	Medium Human Development	S.W.T.	Subhānahu wa Ta'ala (Praise be to Allah and The Most High)
MOUs	Memorandum of Understandings	SESRIC	Statistical, Economy and Social Research and Training Centre for Islamic Countries
MPI	Multidimensional Poverty Index	s.l.	no place of publication
MPWH	Ministry of Public Work and Highways	SME	Small Medium Enterprise
MSP	IDB Merit Scholarship Program	SPDA	Special Program for the Development of Africa
n.d.	no date	SSA	Sub-Saharan Africa
n.d.	no place: no publisher	SVP	Sustainable Village Program
NDFIs	National Development Financing Institutions	TA	Technical Assistant
NGOs	Non-Governmental Organization	TVET	Technical Vocational Education and Training
No.	number	UAE	United Arab Emirates
NOE	National Office of Electricity	UIF	Unit Investment Fund of the IDB
Non-PLS	Non-profit loss sharing	UN	United Nations
OCR	Ordinary Capital Resources	UNDP	United Nations Development Program
		USD	United State Dollar

VHHD	Very High Human	WHO	World Health
	Development		Organization
Vol.	volume	WTO	World Trade
VOLIP	Vocational Literacy		Organization
	Program for Poverty	WWF	World Waqf Foundation
	Reduction	YES	Youth Employment
			Support

CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

The issue of economic and social progress remains as one of the major subjects of economic and human development discourse in the Muslim world. It is clear that the Organization of the Islamic Cooperation (OIC) was aware of the potential for economic growth in the Member Countries. As Islam aims in promoting the principle of social justice, brotherhood and unity within the Islamic economic framework, OIC has initiated remarkable contributions in this respect. It can be seen from the creation of Financial and Economic Development in the OIC General Secretariat in 1972 to act as “the nucleus of a specialized agency in the financial and economic fields of interest in member state”.¹

In addition to the principle of unity and solidarity in the Islamic economic system, OIC established The Islamic Development Bank (IDB) as an international financial institution in pursuance of the Declaration of Intent issued by the Conference of Finance Ministers of Muslim Countries held in Jeddah in Dhūl Qa‘dah 1393H, corresponding to December 1973.² In the Third Summit Conference held in 1981 the OIC declared that:

“We consider that the innate qualities of the Muslim *ummah* point the way to unity and solidarity, to progress and achievement, to prosperity and power. It possesses the Book of God and the *Sunnah* of the Holy Prophet (peace be upon him). In them can be found a complete way of life leading us,

¹“OIC Resolution: 8/3,” <<http://www.oic-oci.org>> viewed on 10 October 2012.

²The IDB practices lunar *Hijrah* year for their financial year and annual reports. The Islamic calendar is a lunar calendar consisting of 12 months in a year of 354 and 355 days instead of the Gregorian year which consists of 365 and 366 days. The researcher will employ both *Hijrah* and Gregorian year in this writing afterwards.

guiding us along the path of goodness, righteousness, and salvation...It (Qurān and *Sunnah*) enables us to break the shackles of subservience and mobilize in us the spiritual strength to utilize to the fullest extent our inherent capabilities”.³

In pursuance to the Declaration of Intent by OIC, the establishment of IDB is to complement the noble objective of Islamic economic and social justice as is ordained in the Qurān and *Sunnah*. Therefore, the objective of IDB was designed based on the Islamic principles of brotherhood and solidarity, and promoting social justice among the Member Countries. The stated objective of IDB is identified as:

“To foster economic development and social progress of Member Countries and Muslim communities in non-Member Countries individually as well as jointly in accordance with the principles of *Sharī‘ah*”.⁴

Based on the formatted objective of IDB, the Bank has to play major roles and responsibilities in developing the economic growth as well as human development in the Member Countries and all Muslim communities in non-Member Countries in accordance to *Sharī‘ah*.⁵ The objective of the Bank implies to the comprehensive concept of justice through equal distribution of wealth and economic prosperity for Muslims all over the world. One should also keep in mind that the IDB is seen as the social institution that provides financing services and implements a *Sharī‘ah* based system in its activities of Islamic banking and finance.

The creation of ethical Islamic banking and finance, in the form of Islamic social banking, as part of civil society should be the next stage of financial

³The Mecca declaration of the third Islamic summit conference, <<http://www/oic.org/English/conf/is/3/3rd-is-sum.htm>> viewed on 10 October 2012.

⁴About IDB, <<http://www.isdb.org>> viewed on 10 October 2012.

⁵Member Countries (MCs) refer to the members of the Organization of the Islamic Cooperation (OIC). In the context of Islamic Development Bank (IDB), the basic condition for membership is that the prospective member country should be a member of OIC, pay its contribution to the capital of the Bank and be willing to accept such terms and conditions as may be decided upon by the IDB Board of Governors. The researcher will use the word Member Countries as Muslim world afterwards.

development in the economy of Muslim world.⁶ Besides providing funds through *Sharī'ah* modes of financing, the Bank should explore the mechanism of using unilateral-based contract⁷ such as *hibah* (gift) and *waqf* fund for comprehensive economic and human development in the Muslim world. It will create a strong motivational system to induce the individual to render his best in his own interest as well as in the interest of society. Consequently, it encourages the growth of socio-economic development and promotes social justice as it is ordained in the *Maqāṣid* principle. Ibn Khaldūn emphasized the role of investment by saying,

“And now that wealth does not grow when hoarded and amassed in safe. It rather grows and expands when it is spent for the well-being of the people, for giving them their rights, and for removing their hardship”⁸.

From the above quote mentioned by Ibn Khaldūn, the role of financial institutions is to grow and expand the wealth for the sake of the well-being of the people and giving them rights and justice for their lives and consequently, reducing poverty, hunger, malnutrition and degeneration of the society.

Considering the concept of social banking as an institution to promote economic development and social progress of the people, this research attempts to study on the Islamic Development Bank (IDB) as a case study, with a special reference to the *maqāṣid*-based principle of the Bank as well as the economic development indications in the Muslim world.

⁶A social bank is a bank concerned with the social and environmental impacts of its investments and loans. An Islamic banking is grounded by *Maqāṣid al-Sharī'ah* principles that stimulate social justice and comprehensive development of the societies. It must be against the interest-based system that upholds capitalism principles.

⁷Unilateral contract is one-sided or one party makes a promise in exchange for an act by another party. It emphasizes on one party making an express promise, or undertaking a performance without first securing a reciprocal agreement from the other party, for example to give a donation and gift.

⁸Umer Chapra, *Muslim Civilization: The Causes of Decline and the Need for Reform*, (UK: The Islamic Foundation, 2008), 24.

1.2 STATEMENT OF THE PROBLEM

IDB has been established with the objective of being a catalyst of economic and social progress of Member Countries. Despite the noble intention and awareness of the Bank towards economic and human development over the past 40 years, the achievement does not seem to have made any significant breakthrough. One of the issues was the issues of food production. Chapra (1992) stressed on the very framework of economic development to actualize *Maqāṣid al-Sharī'ah* by fulfilling the basic needs of the people. It includes overcoming the issues of living, poverty as well as hunger. In a resolution on the subject the OIC agriculture ministers noted in 1994 that,

“In many Islamic countries the food security situation has not only been precarious but has been showing a deteriorating trend in the recent past”.⁹

The resolution then stressed “the need to resort all necessary efforts with a view of ensuring food security in all OIC Member Countries at the earliest”. The overall food situation in Muslim countries has deteriorated further since 2004.

According to World Bank, one billion people lived in poverty all over the world in 2002. Out of this, 400 million or 40 percent of this population live in OIC countries which are below the absolute poverty line.¹⁰ In fact, the incidence¹¹ of poverty in 56 OIC Member Countries is amounted to twice the average for the developing world. The Makkah Declaration was therefore quite timely in calling for action to meet the critical challenge facing the *ummah*.¹² In this context, and according to the recent World Bank classification by their level of indebtedness, 22

⁹Resolution ¼ MFSAD (Minister on Food Security and Agricultural Development), <<http://www/oic-oci.org>> viewed on 10 October 2012.

¹⁰PovcalNet, “World Bank Database.”

¹¹Most of the researchers employ the word “incidence” to indicate the Head Count Ratio or the percentages of total population living in poverty, whereas the word “magnitude” is to indicate the numbers of population living in poverty. See Nabil (2000, 2001), Musa (2010), and Zeinelabdin (1996).

¹²<<http://www.ishrathusain.iba.edu.pk>>. viewed on 15 October 2012.