

THE ROLE OF THE ISLAMIC DEVELOPMENT BANK (IsDB) IN SOCIO-ECONOMIC DEVELOPMENT IN ORGANIZATION OF ISLAMIC COOPERATION (OIC) COUNTRIES

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Abstract

The Islamic Development Bank (IsDB) serves as a pivotal institution in fostering socio-economic development among Organization of Islamic Cooperation (OIC) member countries. Despite its significant role in providing Sharia-compliant financing, technical assistance, and capacity-building programs, economic disparities among OIC nations persist, raising concerns about the effectiveness of IsDB's development initiatives. This study addresses the critical issue of how IsDB can enhance its impact in reducing these disparities while adapting to evolving global challenges such as climate change, digital transformation, and financial stability. This study analyzes the role, challenges, and opportunities of IsDB in addressing development issues through infrastructure investment, human capital development, and financial inclusion. Using a SWOT analysis approach, the study identifies internal strengths and weaknesses, as well as external opportunities and threats, that impact IsDB's effectiveness. The findings indicate that while Islamic financing mechanisms enhance financial inclusion and economic resilience, challenges such as bureaucratic inefficiencies, reliance on member-state contributions, and diverse regulatory frameworks hinder IsDB's operational efficiency. To optimize its role, strategic policy recommendations based on the SWOT matrix are proposed, focusing on strengthening financial mechanisms, expanding partnerships, and fostering innovation. This study highlights the importance of adaptive strategies in ensuring that IsDB remains a key driver of sustainable development in OIC nations.

Keywords: *Islamic Development Bank (IDB), Socio-Economic Development, Organization of Islamic Cooperation (OIC)*

Introduction

The Islamic world, represented by the Organization of Islamic Cooperation (OIC), is currently facing various complex socio-economic development challenges. The development gap among OIC member states remains a serious issue that requires a comprehensive approach. Some member countries, such as those in the Gulf region, have achieved rapid economic growth, while others continue to struggle with poverty and a lack of basic infrastructure. This disparity underscores the need for effective institutional mechanisms to facilitate inclusive and sustainable development across OIC nations.

The Islamic Development Bank (IsDB), as a multilateral Islamic financial institution, plays a strategic role in promoting development within OIC countries. Established in 1975, IsDB envisions itself as a leader in sustainable socio-economic development based on Islamic principles. To achieve this vision, IsDB prioritises financing, explores innovative funding mechanisms, and focuses on supporting countries that lag behind in achieving the Sustainable Development Goals (SDGs) while also advancing Islamic finance development (Robbani, 2024). Given the complexity of development challenges in OIC countries, understanding IsDB's contributions and limitations is crucial for enhancing its impact.

As an Islamic financial institution, IsDB possesses unique characteristics that distinguish it from conventional financial institutions. The application of Shariah principles in all financing and investment activities makes IsDB an ideal alternative that aligns with the values and needs of Muslim countries. The Islamic financial system, which emphasises justice, risk-sharing, and the prohibition of *riba* (interest), serves as the foundation of IsDB's operations in supporting development (Kisman, 2020). However, the effectiveness of IsDB's financial mechanisms in

addressing structural socio-economic disparities remains an area that requires further exploration.

Over the years, IsDB has undergone a significant transformation from a mere financing institution to a comprehensive development partner. Its role is no longer limited to providing capital but has expanded to include technical assistance, capacity-building, and facilitating economic cooperation among member states (Pericoli, 2020). This transformation aligns with the increasing complexity of development challenges faced by OIC countries. Despite these efforts, there is still a gap in assessing how IsDB's initiatives contribute to tangible socio-economic progress and whether its development framework effectively addresses disparities among OIC nations.

The era of globalisation presents both challenges and opportunities for OIC countries by expanding access to global markets and modern technology, which can accelerate economic and financial development. However, intensified global competition requires OIC countries to enhance their competitiveness and economic capacity to keep pace with the ever-evolving global landscape. In this context, IsDB's role becomes even more crucial in helping member countries optimise their economic potential while addressing sustainability challenges.

Furthermore, globalisation also affects environmental sustainability, as research indicates that while financial development and human capital improvements can help reduce carbon emissions, GDP growth and energy consumption tend to increase emissions, necessitating a more balanced policy approach to achieve sustainable development (Sheraz et al., 2021). Therefore, IsDB not only supports economic development in OIC countries but also holds a responsibility to promote green financing and investment in renewable energy to ensure inclusive and environmentally friendly economic growth.

Contemporary development challenges such as climate change, food security, and digital transformation also require IsDB to adopt innovative solutions. As a development institution, IsDB is expected to implement forward-thinking programmes that help member states address these pressing issues. Collaboration with international organisations is a key strategy in strengthening IsDB's capacity (Pericoli, 2020). Infrastructure development is one of IsDB's primary focuses in supporting the economic progress of OIC countries. Adequate infrastructure is not only essential for economic activities but also for improving people's quality of life. IsDB's infrastructure development initiatives cover various strategic sectors, including transportation, energy, and information technology (Siswantoro & Mahmud, 2023).

Beyond physical development, IsDB also places significant emphasis on social development and human capital enhancement. Education, healthcare, and poverty alleviation programmes are integral to IsDB's inclusive development strategy. This holistic approach reflects IsDB's understanding that economic growth must be accompanied by social welfare improvements. As part of its commitment to education, IsDB has allocated over USD 5 billion for more than 2,000 education projects, aiming to provide education access for 28 million out-of-school children by 2030 (Ahmad, 2020).

Despite these commendable efforts, there is a limited body of research that comprehensively assesses the socio-economic impact of IsDB's programmes across OIC countries. While many studies focus on technical financing aspects, in-depth analyses of the developmental outcomes and long-term effectiveness of IsDB's interventions remain scarce.

Against this backdrop, research on the role of IsDB in the socio-economic development of OIC countries is both relevant and necessary. This study aims to provide a deeper understanding of IsDB's contributions, identify challenges and opportunities, and propose recommendations to enhance its effectiveness in the future. In the broader effort to build a progressive and dignified Islamic civilisation, a comprehensive understanding of IsDB's role is strategically essential.

Research Methodology

This study employs a qualitative descriptive approach to analyze the role of the Islamic Development Bank (IsDB) in socio-economic development across Organization of Islamic Cooperation (OIC) member countries. The data used in this research is sourced from literature reviews, IsDB annual reports, academic publications, and secondary data from international organizations. The analysis is conducted using the SWOT (Strengths, Weaknesses, Opportunities, Threats) method to evaluate internal and external factors influencing IsDB's effectiveness in supporting development in OIC countries.

The research process begins with data collection on IsDB's policies, programs, and projects in various sectors, including infrastructure, education, healthcare, and renewable energy. Subsequently, the collected data is analyzed to identify IsDB's contributions, challenges faced, and opportunities that can be leveraged to enhance its effectiveness. The results of this analysis are then used to formulate policy recommendations based on the study's findings. Through this approach, the research aims to provide deeper insights into optimal strategies that IsDB can implement to strengthen socio-economic development in OIC countries.

Result and Discussion

The Role of Islamic Development Bank (IsDB) in Socio-Economic Development

As a Sharia-based multilateral financial institution, the Islamic Development Bank (IsDB) plays a strategic role in supporting socio-economic development in Organization of Islamic Cooperation (OIC) member countries. With a vision to become a leader in sustainable Islamic-based development, IsDB is committed to providing financing and technical assistance to address the various development challenges faced by its member states. One of IsDB's primary objectives is to reduce economic disparities among OIC countries, particularly between high-income nations such as those in the Gulf region and countries that are still lagging behind in achieving the Sustainable Development Goals (SDGs) (Robbani, 2024). To achieve this goal, IsDB prioritizes funding for development projects, explores innovative financing mechanisms, and promotes Islamic finance development across its member states.

In the context of globalization and intensifying economic competition, IsDB's role has become increasingly crucial in facilitating economic growth, infrastructure investment, and human capital development in OIC countries. The expansion of Islamic banking, driven by IsDB, also contributes to improving financial inclusion, enabling more people to access formal financial services and strengthening economic stability (Kabiru & Ibrahim, 2020). With a Sharia-based approach emphasizing justice, risk-sharing, and sustainability, IsDB plays a significant role in creating a more inclusive financial system and promoting long-term economic growth in OIC nations.

One of IsDB's key priority sectors is infrastructure development, including transportation, energy, and telecommunications, which plays a vital role in enhancing regional connectivity and economic productivity. The development of roads, bridges, and more stable electricity systems not only accelerates economic growth but also improves public access to essential services. IsDB's infrastructure project financing has been shown to contribute to increasing Gross National Income (GNI) per capita and reducing poverty levels in its member countries (Musa et al., 2023). Furthermore, Islamic finance-based infrastructure financing ensures that project funding upholds principles of justice and responsibility, preventing imbalances often found in conventional financial structures. However, in some cases, project implementation faces challenges, such as delays due to inconsistencies between conventional financial contracts and Sharia principles.

Beyond physical infrastructure, IsDB has made significant investments in human capital development, which serves as the foundation for long-term economic growth. The scholarship and education assistance programs provided by IsDB have supported thousands of students from OIC countries in accessing higher education, particularly in science, technology, and Islamic economics. To date, IsDB has allocated over \$5 billion for educational projects, focusing on underprivileged communities and aiming to provide education access for 28 million out-of-school children by 2030 (Ahmad, 2020). In the health sector, IsDB finances the construction of hospitals, healthcare centers, and vaccine distribution, which contributes to improving public health and reducing mortality rates from infectious diseases. In addition to building healthcare infrastructure, IsDB also focuses on enhancing the quality of healthcare professionals, particularly in low- and middle-income countries, where challenges such as unequal distribution of healthcare workers, a lack of medical personnel data, and low retention rates continue to hinder access to quality healthcare.

To improve food security, IsDB has initiated various programs to support sustainable agriculture in OIC countries. Through its agricultural modernization programs, IsDB provides financing for irrigation system improvements, fertilizer distribution, and farmer training to boost agricultural productivity. This initiative aims to reduce member countries' dependence on food imports while ensuring a stable and sustainable food supply for communities.

As an Islamic financial institution, IsDB utilizes Sharia-compliant financial instruments such as Sukuk, Murabaha, Ijarah, and Istisna' to support economic development. These instruments not only provide alternative financing aligned with Sharia principles, but also play a crucial role in funding infrastructure projects and fostering sustainable economic growth in OIC countries (Islamic Development Bank Institute (IsDBI), 2022). Additionally, Sukuk has become the primary instrument for replacing traditional financial systems, offering financial, trade, and investment facilities for Islamic countries. Through this financial inclusion program, IsDB aims to strengthen the financial stability of its member states and promote Islamic finance-driven economic growth.

With the increasing global awareness of climate change, IsDB has also taken part in financing green energy projects, including solar, wind, and hydropower initiatives. These investments are intended to reduce reliance on fossil fuels while accelerating the transition toward renewable energy sources. By engaging in such projects, IsDB not only helps member countries meet their carbon emission reduction targets, but also creates new economic opportunities in the sustainable energy sector.

The role of IsDB in socio-economic development has had a significant impact across various OIC countries. Investments in infrastructure, education, healthcare, and renewable energy have accelerated economic growth, improved public welfare, and strengthened financial stability in member states. Case studies from multiple OIC countries indicate that IsDB-backed programs have successfully reduced poverty, improved access to healthcare and education, and boosted industrial and trade sector expansion. However, the effectiveness of these programs still largely depends on the capacity of member states to manage projects efficiently and optimize the allocated funds.

Despite its substantial contributions, IsDB also faces various challenges in implementing its programs. One of the main obstacles is bureaucratic inefficiencies in fund disbursement and management, which often cause delays in project execution. Additionally, disparities in access to IsDB financing among member countries remain a challenge, as some states lack adequate administrative and regulatory capacity to manage the provided funds. Another key issue is the variation in Sharia financial regulations across OIC countries, which can hinder the standardized implementation of Islamic finance projects.

Therefore, further efforts are needed to improve operational efficiency, strengthen international cooperation, and develop innovative strategies to optimize IsDB's contributions in supporting socio-economic development in OIC countries.

Challenges and Opportunities for the Islamic Development Bank (IsDB) in Socio-Economic Development

In carrying out its role as a Sharia-based multilateral financial institution, the Islamic Development Bank (IsDB) faces various challenges

and opportunities that impact its effectiveness in supporting socio-economic development in Organization of Islamic Cooperation (OIC) member countries. These factors can be categorized into internal and external factors, which can be analyzed using the Strengths, Weaknesses, Opportunities, and Threats (SWOT) approach.

1. Internal Factors

As a Sharia-based multilateral financial institution, the Islamic Development Bank (IsDB) plays a crucial role in supporting socio-economic development in Organization of Islamic Cooperation (OIC) member countries. Therefore, analyzing its internal conditions is essential to understanding the extent to which IsDB can optimize its role in sustainable development.

Table 1 Internal Factors

Strengths	
1	Sharia-based financing model
2	Funding for infrastructure and priority sectors
3	Positive impact on investment and economic growth
4	Support for renewable energy and sustainable development
5	Partnership with international organizations
Weaknesses	
1	Dependence on funds from member states
2	Lack of focus on the private sector
3	Bureaucracy and operational efficiency
4	Diverse sharia regulations in member states
5	Limited access to conventional financial markets

Source: (Aliqoriev, 2023; Musa et al., 2023; OECD, 2020; Pericoli, 2020; Sevinch, 2024; Siregar & Susanto, 2023)

The Islamic Development Bank (IsDB) operates with significant strengths that support its role in member countries. One of its primary strengths is its Sharia-based financing model, which adheres to Islamic principles and provides an ethical alternative to conventional financial systems (Aliqoriev, 2023). This model not only aligns with the values of member countries but also facilitates funding for projects that uphold Islamic principles.

The Bank's funding is directed toward infrastructure and priority sectors such as education, health, and agriculture in OIC member countries (Sevinch, 2024). These investments have demonstrated a positive impact on economic growth and have attracted further investments (Musa et al., 2023). By focusing on these critical areas, IsDB supports the basic needs of member countries while promoting long-term development.

Additionally, IsDB places significant emphasis on renewable energy and sustainable development, aligning with global efforts to combat climate change (Aliqoriev, 2023). Its projects in this field enhance resilience and ensure that economic progress does not come at the expense of environmental sustainability. Another key strength of the Bank is its ability to form partnerships with international organizations (Pericoli, 2020). These collaborations enable resource mobilization, knowledge sharing, and the implementation of high-impact projects. By leveraging its global network, IsDB expands its reach and effectiveness in addressing the socioeconomic challenges of its member countries.

However, despite these strengths, the Bank faces several weaknesses that could hinder its operational efficiency and overall effectiveness. One critical challenge is its dependence on financial contributions from member states, which limits its ability to diversify funding sources

(Pericoli, 2020). This dependency creates vulnerability to fluctuations in member contributions, potentially impacting its financial stability. Another weakness is the limited focus on private sector engagement, despite its significant potential as a driver of economic growth (Siregar & Susanto, 2023). Without adequate involvement from private enterprises, opportunities for innovation and resource diversification remain untapped.

Bureaucratic processes and low operational efficiency also pose challenges, slowing down project implementation and reducing the Bank's agility in responding to emerging needs (Sevinch, 2024). Streamlining these processes is essential to enhancing the Bank's effectiveness. Furthermore, the diversity of Sharia regulations across member countries adds complexity in standardizing practices (Pericoli, 2020). These variations complicate project execution and limit the development of a unified framework for Islamic finance.

Finally, IsDB's limited access to conventional financial markets restricts its ability to leverage additional resources (OECD, 2020). Expanding access to these markets could provide greater financial flexibility and enhance the Bank's capacity to support its member countries. Digitalization and regulatory reforms are crucial steps to address these weaknesses and effectively leverage the Bank's strengths. By overcoming these structural challenges, IsDB can enhance its capacity to fulfill its mandate and support sustainable socioeconomic development across its member countries.

2. External Factors

In navigating the dynamics of the global economy, IsDB faces various external opportunities and challenges that can influence its effectiveness in OIC countries. Thus, a thorough understanding of

these external conditions is crucial for IsDB to develop adaptive strategies that can maximize opportunities while mitigating potential risks.

Table 2 External Factors

Opportunities	
1	Increasing investment in islamic economy
2	Investment in renewable energy sector
3	Digitalization and fintech innovation
4	Strengthening collaboration with multilateral organizations
5	Increasing role in food security and agriculture
Threats	
1	Political and economic instability in member countries
2	Fluctuation in global commodity prices
3	Competition with conventional financial institutions
4	Limitations in financial infrastructure in several member countries

Source: (Aliqoriev, 2023; Musa et al., 2023; OECD, 2020; Pericoli, 2020; Sevinch, 2024)

The Islamic Development Bank (IsDB) has a critical role in promoting socio-economic development across its member countries, yet weaknesses in financial infrastructure often hinder its impact. Many member countries face challenges like outdated systems, limited integration of digital financial tools, and insufficient regulatory frameworks. These issues, combined with global economic pressures and complex international regulations, exacerbate vulnerabilities. For example, in Indonesia, administrative bottlenecks have slowed the implementation of IsDB-supported educational projects, highlighting the need for streamlined systems and processes (IF-CAF, 2022; Pericoli, 2020).

Increasing investment in the Islamic economy offers IsDB significant opportunities to expand its influence and support sustainable development (Aliqoriev, 2023). The growing global interest in Islamic finance and its ethical principles aligns well with IsDB's mission, enabling the bank to mobilize resources for impactful projects. This potential is further enhanced by the increasing awareness of Shariah-compliant financial solutions in both Muslim and non-Muslim markets.

Another promising area lies in investments within the renewable energy sector. Many member countries are rich in natural resources suitable for renewable energy projects, such as solar and wind power (Musa et al., 2023). By financing these initiatives, IsDB can contribute to energy sustainability while addressing climate change challenges. This also opens up opportunities for long-term economic benefits and energy independence for member states.

Digitalization and fintech innovation present transformative opportunities to enhance financial inclusion and efficiency (Pericoli, 2020). By adopting advanced financial technologies, IsDB can improve access to financial services for underserved populations and streamline its operational processes. These innovations enable member countries to overcome traditional barriers in their financial systems, fostering broader participation in economic activities.

Strengthening collaboration with multilateral organizations further amplifies IsDB's ability to mobilize resources and implement large-scale projects (Pericoli, 2020). Partnerships with entities such as the United Nations and World Bank facilitate knowledge sharing, co-financing opportunities, and the scaling of development initiatives. These collaborations ensure that IsDB's projects align with global development goals while addressing the specific needs of its member

countries. Additionally, IsDB's expanding role in food security and agriculture provides a crucial pathway to support rural development and combat poverty (Sevinch, 2024). Investments in sustainable agricultural practices and infrastructure help ensure food availability, improve livelihoods, and bolster economic resilience in member countries reliant on agriculture.

Despite these opportunities, IsDB faces significant threats, starting with political and economic instability in some member countries (Pericoli, 2020). Such instability can disrupt project implementation, create financial uncertainties, and erode investor confidence. Addressing these risks requires robust contingency planning and adaptive project designs to maintain progress under challenging conditions.

Fluctuations in global commodity prices also pose a major threat to member states, especially those with economies heavily reliant on resource exports. These price shifts can lead to economic instability, reduced fiscal revenues, and constrained development budgets, affecting IsDB's ability to finance projects effectively (OECD, 2020). Competition with conventional financial institutions further challenges IsDB's efforts to attract clients and resources. Conventional banks often have broader networks and more established systems, making it imperative for IsDB to emphasize its unique value proposition, such as Shariah-compliant financing and a focus on socio-economic impact (Pericoli, 2020).

Lastly, limitations in financial infrastructure across several member countries remain a persistent obstacle. Weak regulatory frameworks, underdeveloped capital markets, and insufficient technological integration hinder the efficient utilization of IsDB's resources

(Aliqoriev, 2023). Addressing these gaps requires a concerted effort to modernize financial systems and build institutional capacities.

Policy Recommendations for the Islamic Development Bank (IsDB) in Socio-Economic Development

In addressing the challenges and opportunities in socio-economic development across Organization of Islamic Cooperation (OIC) member countries, the Islamic Development Bank (IsDB) must formulate strategic and adaptive policies. SWOT analysis provides a comprehensive understanding of IsDB’s internal and external conditions, serving as the foundation for designing effective policy recommendations. By leveraging its strengths, addressing weaknesses, seizing opportunities, and mitigating threats, IsDB can optimize its role in promoting inclusive and sustainable development. Therefore, SWOT-based policy recommendations are essential to enhancing IsDB’s effectiveness in fostering economic growth, financial stability, and social welfare among its member countries.

Table 3 SWOT Strategies

	Strength	Weakness
Opportunities	<div>1. Expanding Islamic Financing to Renewable Energy and Agriculture Sectors</div> <div>2. Digitizing Islamic Financial Services to Enhance Inclusion</div>	<div>1. Regulatory Reform and Standardization of Islamic Law in OIC Countries</div> <div>2. Strengthening Financing for the Private Sector and Islamic MSMEs</div>

Threats	<div>1. Diversifying Funding Sources to Mitigate Global Economic Risks</div> <div>2. Strengthening the Role of IsDB in Economic Stability and Financial Diplomacy</div>	<div>1. Modernizing Bureaucratic Processes and Increasing Operational Efficiency</div> <div>2. Strengthening Financial Infrastructure in Member Countries</div>
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Source: Processed by the Author

These strategies are based on IsDB’s internal and external conditions to achieve socio-economic development in OIC countries. The following discussion provides a further analysis of these strategies.

1. Strengths – Opportunities: Expanding Islamic Financing to Renewable Energy and Agriculture Sectors

Islamic Development Bank (IsDB) plays a vital role in supporting socio-economic development in OIC member countries. By leveraging Islamic finance, IsDB can significantly impact renewable energy and agriculture—two critical sectors for sustainable development. Studies indicate that Islamic banking and Sukuk development have contributed to increased renewable energy production in Islamic countries, driven by economic growth and environmental considerations (Siswantoro & Mahmud, 2023). Green Sukuk, when efficiently managed, offers a competitive mechanism for renewable energy financing, addressing challenges like risk management and high investment costs (Alam et al., 2023). For example, Islamic blended finance in Indonesia has successfully accelerated renewable energy projects by mitigating long payback periods and reducing perceived risks (Mukhtasor et al., 2023).

In agriculture, stabilizing economic factors like inflation and interest rates is crucial for expanding Islamic bank financing. Islamic social finance instruments, such as Zakat, Waqf, and Sukuk, align with SDGs and can address funding gaps while enhancing welfare conditions (Dirie et al., 2023). Evidence from Indonesia underscores the positive impact of Islamic banking on agricultural growth and its role in improving food security and rural livelihoods (Pertiwi et al., 2021). The integration of renewable energy in agriculture, such as solar-powered irrigation and biomass energy for processing, creates synergies that amplify development impacts. By supporting these dual-sector initiatives, IsDB can advance sustainable development goals, reduce poverty, and foster resilience in member countries (Pericoli, 2020). Strengthening public-private partnerships and promoting green financing tools like Sukuk can further scale these efforts while ensuring economic and environmental sustainability.

2. Strengths – Opportunities: Digitizing Islamic Financial Services to Enhance Inclusion

Digital transformation in Islamic financial services is a crucial step toward enhancing financial inclusion, particularly in Organization of Islamic Cooperation (OIC) member countries. By leveraging innovative technologies, Islamic financial institutions, including the Islamic Development Bank (IsDB), can address gaps in financial access and contribute to sustainable development goals (SDGs). For instance, Islamic digital banking, guided by Maqasid al-Shariah, creates an inclusive framework that aligns with Shariah principles while reaching marginalized communities.

Digital financial inclusion expands access to services such as zakat payments, microfinancing, and halal investments, enabling unbanked

populations to participate in the formal financial system. During the Covid-19 pandemic, it significantly improved the resilience of Islamic banks, reducing default risks and fostering inclusive economic growth (Sajid et al., 2024). Moreover, it supports SDGs by promoting sustainable economic growth and enhancing financial accessibility (M. Hassan et al., 2020).

Despite its potential, challenges such as regulatory constraints and a lack of standardized Islamic finance practices persist. Harmonizing Shariah-compliant frameworks, expanding digital infrastructure, and fostering public-private partnerships are essential to overcoming these barriers (Hannase et al., 2020). By addressing these issues, IsDB and other institutions can lead the way in creating resilient and equitable financial ecosystems that align with the principles of Islamic finance. In conclusion, digitizing Islamic financial services offers transformative opportunities for OIC countries to achieve financial inclusion and equitable economic growth. By integrating digital tools into their operations, Islamic financial institutions can amplify their impact, reinforcing their commitment to poverty alleviation and sustainable development.

3. Strenghts – Threats: Diversifying Funding Sources to Mitigate Global Economic Risks

The Islamic Development Bank (IsDB) plays a vital role in the economic development of OIC countries, but global challenges such as fluctuating commodity prices and economic crises emphasize the need for funding diversification. Research suggests that non-interest income diversification, particularly in Islamic banks, can effectively reduce financial risks and improve stability. This approach can be applied by IsDB through innovative financial instruments like green

sukuk, which support sustainable projects in key sectors such as energy and infrastructure.

Islamic finance also offers strong risk management advantages. Studies indicate that Islamic banks tend to have lower financing risks compared to conventional banks, which enhances their efficiency in managing global economic challenges (Kisman, 2020). Furthermore, Islamic social finance instruments, including zakat and waqf, are recognized as having significant potential to bridge funding gaps in sustainable development (Dirie et al., 2023). By diversifying funding sources and expanding into new sectors like agribusiness and financial technology, IsDB can enhance its role in promoting ethical and sustainable financial practices. This strategy not only strengthens economic resilience in OIC member countries but also aligns with global sustainable development goals.

4. Strengths – Threats: Strengthening the Role of IsDB in Economic Stability and Financial Diplomacy

The Islamic Development Bank (IsDB) plays a vital role in promoting socio-economic stability and financial diplomacy among its member countries, particularly within the Organization of Islamic Cooperation (OIC). By financing critical sectors such as infrastructure, education, and agriculture, the IsDB addresses socio-economic challenges and supports the Sustainable Development Goals (SDGs). Through its Fragility and Resilience Policy, the IsDB invests in conflict prevention, recovery, and resilience building, aligned with SDG 16 on peace, justice, and strong institutions (Pericoli, 2020). Innovative financing mechanisms like the Lives and Livelihoods Fund (LLF) further enable IsDB to foster sustainable growth by combining grants

and concessional loans to address poverty and inequality in vulnerable Muslim countries (Pericoli, 2020).

A cornerstone of IsDB's approach is promoting Islamic finance as an alternative to conventional financial systems. Between 2020 and 2025, initiatives such as the Islamic Finance Country Assessment Framework (IF-CAF) have helped identify gaps in the Islamic finance ecosystem and provided tailored recommendations for infrastructure development (Islamic Development Bank Institute (IsDBI), 2022). Moreover, research highlights the positive impact of Islamic corporate governance on financial stability and sustainability, underscoring IsDB's commitment to fostering ethical financial practices and inclusive economic growth (Jan et al., 2021).

Despite its successes, the IsDB faces challenges like bureaucratic inefficiencies and uneven financial infrastructure across its member states. To address these, the Bank has emphasized capacity building and innovative methodologies, such as improving the microfinance's impact through economic empowerment strategies (Ahmed & Alsagoff, 2022). By prioritizing countries lagging in SDG progress and enhancing resource mobilization, the IsDB continues to solidify its role in fostering socio-economic resilience and stability in the Muslim world.

5. Weaknesses – Opportunities: Regulatory Reform and Standardization of Islamic Law in OIC Countries

Regulatory reform and the harmonization of Islamic law in OIC countries are crucial steps to strengthen IsDB's role in socio-economic development. Studies show that regulatory frameworks encompassing operational oversight, bank control laws, and profit-sharing

mechanisms can help establish a more standardized Islamic banking system (S. Hassan, 2020). However, variations in Shariah interpretations among OIC countries often pose significant challenges, requiring a more integrated approach.

Furthermore, harmonized regulations can enhance financial inclusion in OIC countries. The development of Islamic banking has been proven to expand access to formal financing for communities, although the lack of uniform standards often serves as a barrier (Kabiru & Ibrahim, 2020). With more integrated regulations, the Islamic financial sector has greater potential to reach underserved communities effectively. This regulatory harmonization is also relevant to supporting the achievement of the Sustainable Development Goals (SDGs). Islamic finance significantly contributes to inclusive and sustainable development, although its implementation requires stronger support from governments and regulators (Harahap et al., 2023). Inclusive regulatory reforms can accelerate SDG achievement while strengthening IsDB's role as a key driver of development in OIC countries.

6. Weaknesses – Opportunities: Strengthening Financing for the Private Sector and Islamic MSMEs

The Islamic Development Bank (IsDB) plays a vital role in addressing the challenges faced by Micro, Small, and Medium Enterprises (MSMEs) in member countries. However, limited access to affordable Islamic financing and inadequate institutional support constrain MSME growth. By leveraging Islamic financial instruments such as murabahah and mudharabah, IsDB can support MSMEs in achieving sustainable development goals, as demonstrated in West

Sumatra, where such financing has contributed to inclusive growth (Dewi & Febriamansyah, 2024).

Addressing regulatory and literacy barriers is critical for enhancing MSME access to Islamic financing. Studies highlight that flaws in MSME registration and taxation systems in Indonesia hinder financial inclusion, while increased financial literacy among MSME actors significantly boosts their interest in utilizing Islamic financial products (Saifurrahman & Kassim, 2023) (Istiqomah et al., 2023). Additionally, socialization efforts by Islamic banks can improve MSME understanding of ethical financing and enhance their ability to access such resources (Jalil et al., 2024).

Islamic MSME financing also has a significant macroeconomic impact by reducing unemployment and fostering balanced economic growth. For instance, Islamic banks' MSME financing has been shown to reduce urban unemployment in Indonesia, emphasizing the sector's role in promoting resilience and stability (Aini, 2024; Zen et al., 2023). To strengthen this impact, IsDB should focus on digitalizing financial services, fostering public-private partnerships, and providing capacity-building programs for MSMEs. By addressing these strategic areas, IsDB can effectively empower MSMEs, enabling them to drive socio-economic development and contribute to achieving broader sustainable development goals in member countries.

7. Weaknesses – Threats: Modernizing Bureaucratic Processes and Increasing Operational Efficiency

Modernizing bureaucratic processes is critical for the Islamic Development Bank (IsDB) to enhance operational efficiency and remain relevant in addressing global challenges. Strengthening

monitoring systems and implementing standardized governance measures, as seen in Islamic banking industries in Pakistan and Malaysia, could improve project accountability and long-term performance. IsDB could adopt similar approaches to ensure effective project delivery in fragile and conflict-affected contexts (Awais et al., 2022).

Digital transformation also plays a vital role in improving operational efficiency and competitiveness. Studies on Islamic banks in Jordan highlight how digitalization enhances efficiency and customer satisfaction, although it introduces risks such as cyberattacks. IsDB can leverage digital tools strategically while ensuring robust risk management to support its operations more effectively.

In addition, adopting best practices in business process reengineering, such as streamlining bureaucratic structures and optimizing IT infrastructure, could reduce operational costs and improve service delivery. These measures align with IsDB's goal of simplifying internal processes and accelerating project execution (Cherni & Amar, 2024). By modernizing its systems and leveraging digital innovations, IsDB could strengthen its role in addressing socio-economic challenges across its member states.

8. Weaknesses-Threats: Strengthening Financial Infrastructure in Member Countries

The Islamic Development Bank (IsDB) has a critical role in promoting socio-economic development across its member countries, yet weaknesses in financial infrastructure often hinder its impact. Many member countries face challenges like outdated systems, limited integration of digital financial tools, and insufficient regulatory

frameworks. These issues, combined with global economic pressures and complex international regulations, exacerbate vulnerabilities. For example, in Indonesia, administrative bottlenecks have slowed the implementation of IsDB-supported educational projects, highlighting the need for streamlined systems and processes (Islamic Development Bank Institute (IsDBI), 2022; Pericoli, 2020).

Digitalization and innovation are key strategies to enhance operational efficiency and financial inclusion. Research indicates that Islamic banking development significantly improves access to formal financial systems, benefiting underserved populations (Kabiru & Ibrahim, 2020). Additionally, fostering entrepreneurial ecosystems can amplify the impact of Islamic trade financing on poverty reduction, as shown in studies on IsDB's member countries (Musa et al., 2023). Strengthening these systems can mitigate global economic risks and improve resilience.

Collaborative financing models, such as those employed in the Lives and Livelihoods Fund, provide a sustainable solution by blending grants with concessional loans. This approach not only reduces financial burdens but also aligns with IsDB's goal of fostering inclusive and sustainable development (Pericoli, 2020). Regulatory reforms, as recommended by the Islamic Finance Country Assessment Framework (Islamic Development Bank Institute (IsDBI), 2022), are essential for standardizing Islamic finance practices and addressing inefficiencies. In summary, modernizing financial infrastructure through digitalization, regulatory reforms, and innovative financing is crucial for optimizing IsDB's support. By addressing these structural weaknesses, member countries can enhance project efficiency, foster economic stability, and promote sustainable growth.

Conclusion

The Islamic Development Bank (IsDB) has played a crucial role in supporting socio-economic development in Organization of Islamic Cooperation (OIC) countries through various Sharia-compliant financing initiatives. As a multilateral Islamic financial institution, IsDB has contributed to infrastructure financing, human capital development, financial inclusion, and investments in the renewable energy sector. The projects funded by IsDB have stimulated economic growth, improved access to essential services such as education and healthcare, and helped member countries reduce their reliance on conventional resources. Additionally, IsDB's implementation of Islamic finance principles, which emphasize justice, risk-sharing, and the prohibition of *riba* (interest), has fostered a more stable and inclusive financial system for its member states.

Despite its many contributions, IsDB still faces significant challenges that affect its effectiveness. Bureaucratic inefficiencies in fund disbursement, a high dependence on member-state contributions, and regulatory fragmentation in Islamic finance across OIC countries are major obstacles to IsDB's optimization. Furthermore, political and economic instability in some member states, fluctuations in global commodity prices, and competition from conventional financial institutions are external factors that hinder IsDB's operational efficiency.

To address these challenges, strategic recommendations based on SWOT analysis are essential to enhance IsDB's effectiveness in supporting development in OIC nations. Efforts to improve operational efficiency through financial digitalization, simplify regulations to accelerate fund distribution, and expand collaborations with the private sector and international financial institutions are key steps that must be taken. Additionally, strengthening Sukuk and other Islamic financial instruments can serve as a solution for IsDB to broaden its funding base and reduce its dependence on member-state contributions.

Moving forward, IsDB must continue to adapt to global economic dynamics and seize emerging opportunities, such as the growing demand for Islamic finance and investments in sustainability sectors. By strengthening institutional infrastructure, enhancing transparency and accountability, and optimizing Sharia-compliant financing strategies, IsDB can continue to serve as a key pillar of socio-economic development in OIC countries. To ensure the sustainability of this role, IsDB must develop an approach that is innovative, adaptive, and responsive to the needs of its member states, allowing it to make a greater impact in building a sustainable economy in the Islamic world.

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