1. Leasing (ijara), is a medium/long-term mode of financing which per se is consistent with Shariah. Legally, it is conceived as a sale of usufruct (manfa). Conceptually, it refers to medium/long-term rental arrangement for the financing of capital equipment and other fixed assets in which IDB, the Lessor may provide the required assets to be leased for a certain period of time against payment of fixed periodical rentals, i.e. semi-annual.

2. As introduced and practiced by IDB, Leasing is a source of medium/long term financing to meet the financing requirements of income generating projects in industry and other important sectors for which the rental payment and lease period are determined in the light of the projected profitability and cash flow of the project.

Objectives and Beneficiaries

3. Under Leasing, IDB finances various items such as plant, machinery and equipment for industrial, agro- industrial, infra-structural, transport and other projects, normally of an income generating nature in both public and private sectors. Lease financing is also provided for ships, oil tankers, fishing trawlers and other specialized cargo vessels either new or second hand up to 5 years old.

4. In leasing, IDB normally finances the total cost of machinery and equipment which comprises the C.I.F. price, inland transportation,
erection and installation as required.

How to Apply for Financing

5. Any request for financing of eligible assets should be channeled through the Governor of the concerned member country to IDB along with a feasibility study of the project. The items to be leased should be technically sound and have a life span that extends beyond the proposed lease period.

IDB has other financing windows such as Unit Investment Fund (UIF) and Islamic Banks’ Portfolio (IBP) which offer lease financing for both public and private sectors, and for which the Bank may be approached directly.

Terms and Conditions

6. The Bank retains the ownership of the leased assets throughout the entire lease period which may extend up to 15 years including a period of gestation that ranges between 6 ? 48 months depending on the lifespan of the leased assets, their cash flows projection and envisaged implementation period of the project. The prevailing return to IDB is 5.5% per annum calculated on IRR basis. Rentals are denominated in Islamic Dinar(ID)\(^1\). This rate of return will be valid for a period of 6 months from the date of approval of a project by the Board of Executive Directors. IDB reserves the right to apply a different rate if the Lease Agreement has not been signed within these 6 months.

7. After the end of the lease period and full payment of the rentals by the Lessee, the IDB transfers the ownership of the equipment to the Lessee as a gift.

8. The Lessee should provide the Bank (the Lessor) with an irrevocable and unconditional guarantee from the government or a first class commercial bank or any other type of guarantee acceptable to IDB to cover all obligations of the Lessee under the Lease Agreement to be signed between IDB and the Lessee. The Lessee should comprehensively insure the leased assets on behalf of IDB with an insurance company acceptable to IDB.

IDB may also accept other forms of guarantees such as stand-by letter of credits, corporate guarantees, payment orders or promissory notes
accepted by a commercial bank and assignment of receivables.

## Procurement and Execution

9. The leased assets are procured by the Lessee acting as an agent of the Bank, with assistance of the know-how of the licensor and Lessee's consultants, as the case may be, but in close coordination with the Bank and after its approval. The items to be leased are generally procured through international competitive bidding conforming to the Bank's policies and procedures of procurement. However, there are instances when equipment may also be procured, with prior approval of the Bank through qualified shopping, a restricted tender or on the basis of direct negotiations.

## Disbursement

10. Disbursements are made according to the disbursement procedures of the IDB. The Bank does not disburse funds until costs are incurred. A down payment up to 20% against acceptable irrevocable and unconditional Bank Guarantee is also permissible. After the finalization of contract and award of the bids, the Bank asks the Lessee to open a Letter of Credit in favor of the supplier or reimburses the expenditures already incurred upon verifying the supporting evidence.

## Ship Leasing

11. In the case of ships, after the Memorandum of Agreement (MOA) Construction Contract is signed between the Bank and the Seller, the disbursement of advance payment as per MOA or Construction Contract normally 10% is made. The balance of the price (90%) is paid at the time of physical takeover. For this purpose the Bank makes available the necessary funds at the disposal of its authorized representative on delivery in the city where the title of the ship is to be taken over.

12. As regards the construction of a new vessel, the Bank asks the Lessee to open an irrevocable confirmed Letter of Credit in favor of the Seller.
1One Islamic Dinar (ID) is equivalent to one Special Drawing Right (SDR) of the IMF.