

ISLAMIC DEVELOPMENT BANK

Annual Report 1428H / 2007-2008

HIGHLIGHTS

Robust Economic Performance of Member Countries

Over the past six years, economic growth in member countries (as a group) has been sustained above 6 percent. This has been possible largely because of improved terms of trade, strong domestic demand, favourable business environment and financial conditions, and growth in world trade. More impressively, the 28 Least Developed Member Countries (LDMCs) even posted a higher growth of 8 percent in 2007. Region-wise, the Commonwealth of Independent States (CIS) member countries led in growth performance at about 13 percent growth both in 2006 and 2007. Accelerating investment rates to a higher level than the average for developing countries is a critical benchmark for Islamic Development Bank (IDB) member countries to achieve economic prosperity under IDB 1440H Vision.

Expansion in IDB Group Financing

IDB Group financing totalled ID3,573.1 million (\$5,482 million) in 1428H for 327 operations in both member and non-member countries. In cumulative terms, it reached ID37,290 million (\$51,072.3 million) by the end of 1428H. The share of project financing and technical assistance operations, and trade financing stood at 40 percent and 58.8 percent, respectively, while special assistance operations received 1.2 percent.

Rising Net Resource Flows

Between 1396H and 1428H, cumulative disbursements of IDB Group reached \$35,412.7 million while cumulative repayments stood at \$28,256.6 million. Disbursements by the Group increased from \$2,407.7 million in 1427H to \$3,570 million in 1428H, which denotes a 48 percent increase. In particular, disbursements from the Ordinary Capital Resources (OCR) increased by over \$1.2 billion from \$2,072.7 million in 1427H to \$3,231.4 million in 1428H. This is due mainly to sharp increase in disbursements on account of trade financing operations. Net resource transfer (i.e., disbursements minus repayments) by the Group to member countries rose by nearly three-folds from \$240.3 million in 1427H to \$663.4 million in 1428H.

Sectoral Distribution of Financing

In 1428H, the breakdown of OCR net approvals shows that public utilities accounted for 34 percent of IDB

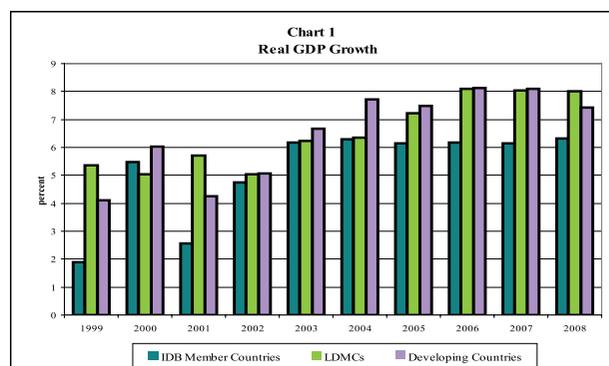


Table 1
Net Financing of IDB Group by Major Categories
(values in million)

	1428H			1396H - 1428H		
	No.	ID	\$	No.	ID	\$
I. Project Financing from OCR of which:	147	1,372.3	2,086.6	2,014	11,470.4	15,792.3
Technical Assistance	73	10.9	16.6	663	174.0	232.2
II. Project Financing by Funds/Entities (UIF, IBP, APIF, ICD, & Treasury)	36	365.5	577.0	381	3,374.4	4,840.1
III. Total IDB Group Project Financing (I+II)	183	1,737.8	2,663.6	2,395	14,844.8	20,632.4
IV. Trade Financing Operations	82	1,818.3	2,792.6	2,011	21,944.1	29,799.1
V. Special Assistance	62	17.0	25.7	1,185	501.1	640.8
Total IDB Group Financing	327	3,573.1	5,482.0	5,591	37,290.0	51,072.3

Table 2
IDB Group Disbursements and Repayments
(\$ million)

	Disbursements		Repayments	
	1428H	1396H-1428H	1428H	1396H-1428H
OCR	3,231.4	30,608.2	2,377.8	23,667.2
Of which:				
ITFO	1,986.9	8,297.4	1,869.8	6,216.3
Export Finance Scheme	..	1,221.7	..	1,193.6
Islamic Banks' Portfolio	..	941.7	..	832.9
Unit Investment Fund	238.0	1,680.6	461.9	2,348.2
Islamic Corporation for the Development of the Private Sector	51.3	313.7	47.1	165.5
Awqaf Properties Investment Fund	40.1	118.8	19.8	49.3
Special Assistance Grants	9.1	528.1		
Total	3,569.9	35,412.8	2,906.6	28,256.7

financing with ID463.2 million (\$705 million), while the transport and communications sector received 30 percent with ID407.1 million (\$624 million). About 16 percent of the financing targeted the social sector, which received a total allocation of ID226.9 million (\$340 million). Industry attracted ID89.6 million (\$135 million), or 6 percent, and agriculture received ID30.2 million (\$46 million), or 2 percent. The remaining amount was allocated to the financial services sector and other operations.

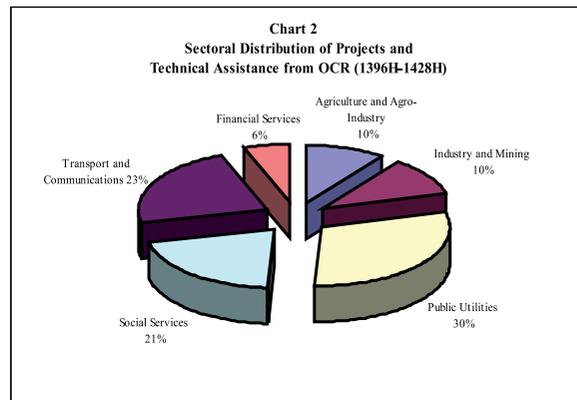
Promoting Socio-Economic Development in Least Developed Member Countries (LDMCs)

The main focus of IDB's concessional financing to LDMCs is to alleviate poverty and address its root causes. In addition to providing financing, the Bank extends Technical Assistance for capacity building in project formulation and supervision, as well as policy formulation and implementation. In 1428H, LDMCs received \$303.6 million or about 88 percent of IDB's total concessional financing from the OCR. In cumulative terms, they received about 71 percent of IDB's concessional financing between 1396H and 1428H. In addition, during 1428H, they received \$10 million from the LDMCs Loan Account as well as \$5 million, or 30 percent, of the overall amount allocated for technical assistance (\$17 million). Despite the demand-driven decline in the allocation of technical assistance resources to LDMCs in 1428H, IDB remains committed to their capacity and institutional building.

Operationalizing the Islamic Solidarity Fund for Development

The Islamic Solidarity Fund for Development (ISFD) with a target of \$10 billion, formally started operation on 1st Muharram 1429H (10 January, 2008). The resources of the ISFD will be supplemented by additional resources from other sources, including co-financing. So far, 30 member countries have announced contributions amounting to about \$1.6 billion. IDB itself will contribute to the ISFD, an amount of \$1 billion over 10 years. Specifically, the main priority areas of the Fund include the following:

- education, with special emphasis on primary and girls' education.
- health sector projects, in particular combating diseases such as malaria, tuberculosis and AIDS; increasing accessibility to health services, and the development and production of vaccines and medicines.
- rural infrastructure projects such as roads, bridges, rural marketing centres, storage facilities for agricultural products, electricity, potable water, irrigation schemes, etc.



Mode of Financing	1396H-1428H			
	No.	ID million	\$ million	LDMCs Share (percent)
Loan	430	2,198.7	2,980.1	70.9
LDMC's Loan	142	227.8	315.1	100.0
Equity	32	68.3	89.1	17.6
Instalment Sale	24	177.9	256.3	10.0
Istisna'a	15	140.3	199.2	6.2
Leasing	34	460.9	662.3	15.7
Line of Financing	6	31.9	45.1	9.3
Profit Sharing	1	3.5	4.4	5.3
Technical Assistance	333	102.6	133.3	57.4
Sub-total	1,017	3,412.0	4,684.8	29.7
Import Trade Financing Operations (ITFO)	274	4,278.0	5,845.1	24.9
Special Assistance Operations	271	209.9	256.8	61.5
Grand Total	1,562	7,899.9	10,786.7	27.2



IDB approved \$106.3 million for the construction of Marrakach-Agadir Highway, Morocco.

- agriculture and rural development, especially provision of agricultural inputs and farming equipment, and integrated rural development projects.
- emergency relief, post-conflict reconstruction, and capacity-building.

Exceeding Target Under the Ouagadougou Declaration

As the implementation of the Ouagadougou Declaration has come to an end this year, IDB commitment exceeded the target of \$2 billion over the period from 1424H to 1428H. The cumulative total approvals by the Group during the five-year period reached \$2.4 billion, which exceeded the target by 19 percent. Of the cumulative approvals, concessional financing reached \$890 million (37.3 percent), ordinary financing totalled \$605.3 million (25.4 percent), while trade financing amounted to \$580.2 million (24.3 percent).

Launching Special Programme for the Development of Africa

In recognition of the socio-economic challenges facing the Sub-Saharan African member countries, the Bank, as called upon by the Third Extraordinary Session of the OIC Summit, has initiated a Special Programme for the Development of Africa (SPDA). The framework for the SPDA was discussed at the Inter-Ministerial Meeting of African member countries, held in Dakar, Senegal, 22-23 January, 2008. The framework was subsequently endorsed at the 11th session of the Islamic Summit Conference, held in Dakar, Senegal, Rabi Awwal 5-6, 1429H (March 13-14, 2008).

The SPDA has identified the following five critical sectors for its operational activities:

- productivity growth in agriculture to achieve food security,
- education projects to generate skilled workforce,
- health projects focusing on the fight against major communicable diseases,
- water and sanitation projects to improve quality of life, and
- supporting power generation and distribution projects.

Commencement of Activities by International Islamic Trade Finance Corporation (ITFC)

With the commencement of activities by early 1429H, the ITFC will contribute greatly to IDB objective of promoting greater economic cooperation among member countries by fostering wider intra-trade. In addition, IDB continues to take new initiatives in order to promote trade in member countries. IDB has decided to make available \$1 billion to be managed by the ITFC

	1428H	1424-1428H
Ordinary Operations	443.8	1,524.0
Concessional Loans	183.7	890.0
Technical Assistance	3.9	28.7
Ordinary Financing	256.2	605.3
Other Project Financing (Entities and Funds)	180.8	278.9
Trade Operations	92.2	580.2
Grand Total	716.8	2,383.1

Box 1 IDB Statistical Capacity Building (IDB-STATCAP) Initiative

Following the Expert Group Meeting (EGM) recommendations, IDB launched a Statistical Capacity Building (IDB-STATCAP) Initiative in Ramadan 1428H (September 2007) with the following elements:

- A technical assistance facility to support the following four components of statistical capacity building: (i) physical infrastructure and equipment, (ii) statistical infrastructure, (iii) statistical operations, and (iv) institutional framework for national statistics.
- Financial support for statisticians from least developed member countries to leverage on the experiences and best practices of other member countries with advance statistical systems through training, workshops, conferences, and staff exchange programmes.
- Scholarships for statisticians working in national statistical offices to obtain Masters degree in the field of statistics.
- A Forum called Statistical Working Group, established in collaboration with relevant Organization of the Islamic Conference (OIC) institutions, to coordinate and develop a common framework for collecting data from member countries and streamlining techniques for calculating aggregate statistics.

The IDB-STATCAP Initiative offers support for strengthening statistical capacity of member countries and helping them to break the vicious cycle of under-performance and under-funding of national statistical agencies. The guidelines and procedures for applying for grants under IDB-STATCAP are available on IDB website at <http://www.isdb.org>



IDB approved financing of \$125 million to upgrade the existing Rabigh Refinery in Saudi Arabia.

as Mudarib. This amount will be utilized by the ITFC to finance trade operations in OIC member countries. It will also be taking over as Mudarib for the BADEA fund for financing trade operations in Africa, which was previously managed by IDB. The ITFC is targeting to finance trade operations to the tune of \$2.7 billion in 1429H, using its capital resources and the amount made available to it by IDB. It will also try to meet the shortfall in funds by mobilizing additional resources from the financial institutions by way of syndication.

Promoting Islamic Finance For Economic Development

Under the 1440H Vision, IDB is committed to promoting a holistic model of Shariah-compliant financing packages for the socio-economic development of member countries. In particular, the Bank seeks to leverage partnership with the International Financial Institutions (IFIs) for outreach to the poor through their improved access to Shariah-compliant financing packages. Implementation of pro-poor initiatives requires supportive public policies at the national and the international levels so as to encourage the IFIs to get involved in their socio-economic development.

During 1428H, the Bank launched several initiatives aimed at supporting the member countries' efforts to enhance accessibility of the poor to Shariah-compliant financing services. These initiatives relate to the development of microfinance, micro-takaful or insurance facilities, in addition to energizing and modernising the institutions of zakah, sadaqa, and aqwafs, and through leveraging philanthropic assistance to uplift the ultra poor.

Enhancing Institutional Effectiveness

The main objective of IDB Reform Programme is to help the Bank to streamline its business processes through realignment of its organizational structures, corporate governance, mission and functions of different entities. This is aimed at eliminating redundancies in functions, empowerment and responsibilities, transparency and disclosure, and accountability. At the same time, the roles of the Board of Executive Directors (BED), management, and stakeholders will be enhanced to increase efficiency. Through this exercise, IDB will redesign its business processes in order to be closer to its customers, improve project cycle time, and increase overall impact. Success of such major initiative depends largely on the way the change is managed. Hence, change management, both internally and externally, constitutes a major cornerstone of the Reform Programme.

Sustained Growth in Income

As a reflection of the sustained growth achieved in the previous year, net income from OCR increased from ID123.5 million in 1427H to ID163.5 million (\$258.33 million) in 1428H. This shows an increase of ID40.0 million, or 32.4 percent and 14.4 percent growth recorded in 1428H and 1427H, respectively.

Well Contained Growth in Expenses

During 1428H, the total administrative cost of IDB increased by ID6.4 million (\$15.2 million) or 11.4 percent over the previous year. The increase is consistent with the planned rise in the annual administrative budget of OCR and includes certain IT development expenditures during the year.

	1427H	1428H
Gross Income	317.2	369.2
Commodity Placements with Banks	53.8	56.5
ITFO	24.5	30.4
Leasing	133.9	143.2
Instalment Sale & Istisna'a	58.9	55.3
Loan Service Fees	18.6	24.6
Investments in Equity Capital	19.6	35.4
Others (incl. Mudarib Fees)	7.9	23.8
Expenses and Provisions	193.4	212.1
Total Administrative Cost	55.8	62.2
Staff Cost	41.9	46.7
Administrative Expenses	13.8	15.5
Depreciation – Leasing	84.7	91.9
Depreciation - Property & Equipment	2.8	2.8
Financing Cost	49.4	55.4
Operations Risk Provision/(recovery of impaired assets) ¹	0.8	(0.2)
Exchange (Loss) / Gain	(0.4)	6.4
Net Income	123.5	163.5

Upgrading of IDB Ratings

A noticeable achievement during 1428H was the upgrading of IDB ratings assigned by FitchRatings from "AA+" to the highest ratings "AAA" for the long-term, "F1" for the short-term and a "stable" outlook. Furthermore, Standard & Poor's confirmed for the sixth consecutive year its highest ratings for IDB; "AAA" for long-term and "A-1+" for short-term with "stable" outlook. IDB has also maintained for the second year the highest ratings of "Aaa" for long-term and "P-1" for short-term assigned by Moody's. With the ratings upgrade assigned by FitchRatings, IDB has become an "AAA" rated institution by the three leading international rating agencies. These ratings reflect, inter alia, the financial soundness of IDB and its very low risk profile.