

ISLAMIC DEVELOPMENT BANK

ANNUAL REPORT 1429H - 2008 HIGHLIGHTS

CHALLENGING YEAR

1429H (2008) was a challenging year for the IDB Group and its member countries because of unprecedented crises that changed the development landscape across the globe. Global financial and economic crisis, the most serious during the past fifty years, has undermined the developmental gains achieved by member countries. Due to global recession, economic growth of member countries dropped from 6.1 percent in 2007 to 4.9 percent in 2008. However, their current account surplus improved significantly from 7.9 percent of GDP in 2007 to 12.7 percent in 2008 mainly due to higher food and fuel prices during the first half of 2008.

The year 1430H (2009) is also expected to be a challenging one as the global financial meltdown is causing rising unemployment and pushing more people into the poverty trap. Member countries may face a sizable decline in export demand as well as in foreign capital inflows both from public and private sources. Economic prospects of member countries look uncertain as their growth is projected to drop further to 2.3 percent and current account surplus to 8.8 percent of GDP in 2009. These trends indicate a serious setback for these countries in achieving the MDGs and IDB 1440H Vision targets. In order to mitigate the impact of global financial and economic crisis, member countries need to adopt prudent monetary, fiscal and financial policies in the coming years. For this purpose, new policy initiatives have to be taken aimed at stimulating aggregate demand and reducing poverty.

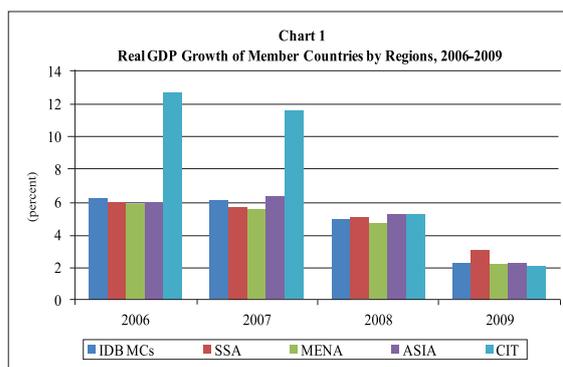
ENHANCING DEVELOPMENT ASSISTANCE

The IDB Group financing totalled ID3,628 million (\$5,748 million) in 1429H, registering an increase of 5 percent (in terms of US dollar) compared with the previous year. Total IDB Group project financing registered a 17 percent growth compared to 1428H, reaching ID1,960 million (\$3,097 million), while trade financing operations amounted to ID1,654 million (\$2,632 million) in 1429H.

At end-1429H, cumulative net approvals of the IDB Group reached ID40,985 million (\$56,868 million). The share of project financing (including technical assistance) and trade financing operations

MAJOR ACHIEVEMENTS DURING 1429H

1. In the wake of triple crises, the IDB Group scaled up its overall financing to member countries by 5 percent and project financing by 17 percent.
2. Net resource transfer to member countries by the IDB Group increased by 50.4 percent to \$998 million.
3. IDB financing for the agriculture sector increased by six-fold.
4. IDB started implementation of the Special Program for the Development of Africa amounting to \$4 billion.
5. To help member countries affected by the global food crisis, the Bank started implementation of Jeddah Declaration Initiative with an allocation of \$1.5 billion.
6. The ITFC started its operations with approvals of ID1,654 million (\$2,632 million).
7. IDB approved Infrastructure Fund-II.
8. IDB maintained its highest ratings of “AAA” for the seventh consecutive year.
9. The Subscribed Capital of the Bank increased from ID15 billion to ID16 billion.
10. The first phase of the IDB Group reform was completed.



in cumulative approvals stood at 41.8 percent and 57 percent, respectively, while the share of Special Assistance operations was 1.2 percent.

Sectoral Distribution of Financing

In 1429H, the breakdown of OCR approvals shows that public utilities received the largest amount of ID563 million (\$905 million), which represented 36.2 percent of total OCR financing, followed by transport and communications, 31.1 percent or ID485 million (\$776 million); industry and mining, ID196 million (\$309 million) or 12.4 percent; agriculture, ID178 million (\$274 million), or 11 percent; and social services, 5.6 percent or ID91 million (\$140 million). The remaining amount of ID59 million (\$95 million) or 3.8 percent, was approved for financial services.

Development Assistance to LDMCs

In 1429H, net approvals for least developed member countries (LDMCs) amounted to ID1,059 million (\$1,674 million) for 113 operations. Up to end-1429H, the cumulative development assistance extended to the LDMCs reached ID8,999 million (\$12,479 million), of which, net approvals from OCR amounted to ID3,851 million (\$5,328 million).

SCALING UP RESOURCE TRANSFER

The IDB Group increased its disbursements to member countries by 6 percent to ID2,450 million (\$3,783 million) in 1429H, while cumulative disbursements, during 1396H-1429H, amounted to ID28,539 million (\$39,196 million). Total repayments by the member countries amounted to ID1,804 million (\$2,786 million), while cumulative repayments amounted to ID22,565 million (\$31,042 million). Net resource transfer by IDB Group increased by 50.4 percent from \$663 million in 1428H to \$998 million in 1429H.

MAJOR INITIATIVES

Operationalising the Islamic Solidarity Fund for Development

Islamic Solidarity Fund for Development (ISFD) formally began its operations on 1st Muharram 1429H (10 January 2008). During the first year of its operations, the ISFD approved 26 projects for \$320 million in different sectors in 20 member countries. The Fund also launched two thematic programmes under Vocational Literacy Programme for Poverty Reduction and Microfinance Programme for African Member.

Operationalising the International Islamic Trade Financing Corporation

From the beginning of 1429H, all trade financing operations of the IDB Group have been taken over by

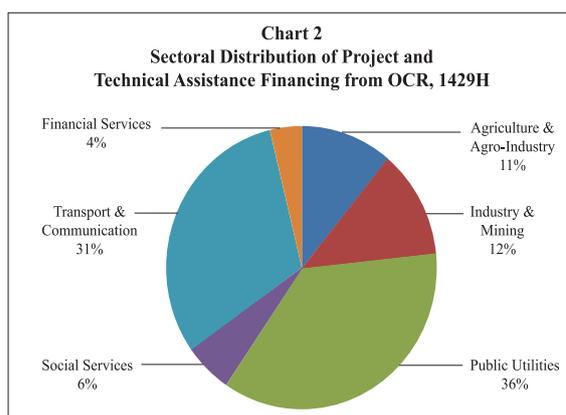


Table 1
Net Approvals of IDB Group by Major Categories
(amount in million)

	1429H			1396H-1429H		
	No.	ID	\$	No.	ID	\$
I. Project/Operation Financing from OCR	173	1,572.2	2,498.0	2,281	13,129.4	18,370.7
of which						
Technical Assistance	107	22.7	36.2	857	228.0	268.8
II. Project/Operation Financing by Funds/Entities (UIF, IBP, APIF, ICD & Treasury)	87	387.9	598.8	463	3,736.7	5,399.2
III. Total IDB Group Project/Operation Financing (I+II)	260	1,960.2	3,096.8	2,744	16,866.2	23,770.0
IV. Trade Financing Operations	85	1,654.3	2,631.5	2,095	23,597.4	32,429.1
V. Special Assistance	54	13.0	20.1	1,264	520.8	669.4
Total IDB Group Financing	399	3,627.5	5,748.4	6,103	40,984.5	56,868.4

Note that slight increases in previous years' number of operations are due to reclassification by the data generating departments/entities.

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

	Disbursements		Repayments	
	1429H	1396H-1429H	1429H	1396H-1429H
OCR	1,165.1	22,770.5	500.7	17,758.1
ITFO	936.4	9,233.8	1,784.3	8,000.6
Sukuk	146.5	851.9	78.6	272.0
Export Finance Scheme	-	1,221.7	-	1,193.6
Islamic Banks' Portfolio	-	941.7	-	832.9
Unit Investment Fund	114.1	1,794.7	88.3	2,436.5
Islamic Corporation for the Development of the Private Sector	133.0	446.8	50.7	216.2
Awqaf Properties investment Fund	11.6	130.4	11.9	61.1
Special Assistance Grants	14.3	542.4	-	-
ITFC	1,262.0	1,262.0	271.1	271.1
Total	3,783.1	39,195.9	2,785.5	31,042.1

Table 3
Net Approvals for LDMCs

(Amount in million)

	1429H				1396H-1429H			
	No.	ID	\$	LDMCs ¹ Share	No.	ID	\$	LDMCs Share
Loan	19	141.1	220.7	76.9	450	2,342.7	3,205.2	71.1
Loan (LDMC)	12	52.6	83.9	100.0	155	284.3	404.0	100.0
Equity	..	..	..	..	34	74.1	98.5	17.4
Install Sale	2	38.4	62.0	18.4	26	216.2	318.3	11.0
Istisnaa	7	142.5	218.6	19.0	22	282.9	417.8	9.6
Leasing	..	..	..	..	34	460.9	662.3	13.8
Line of Financing	1	9.2	15.0	83.3	7	41.0	60.1	12.0
Profit Sharing	..	..	..	..	1	3.5	4.4	5.3
Technical Assistance	44	14.7	23.8	65.7	457	145.4	157.3	58.5
Sub-Total	85	398.5	624.0	25.0	1,186	3,851.0	5,327.9	29.0
ITFC (for 1429H) + ITFO (1396H-1428H)	23	660.2	1,049.2	42.3	297	4,938.2	6,894.3	26.5
Special Assistance Operations	5	0.7	1.1	14.8	278	210.0	256.9	59.8
Grand Total	113	1,059.4	1,674.3	33.6	1,761	8,999.2	12,479.1	27.9

Note: Special Assistance share corresponds to the share in the total that went to MCs as a group and not the combined MCs+Non-MCs.

¹LDMCs share in respective modes of financing.

the new entity: International Islamic Trade Finance Corporation (ITFC). During 1429H, ITFC approved ID1,654 million (\$2,632 million).

Implementing Special Programme for the Development of Africa

IDB launched a new initiative called the Special Programme for the Development of Africa (SPDA) in Rabi Awwal 1429H (March 2008). The SPDA, which builds on the Ouagadougou Declaration, is a five-year programme spanning 2008–2012 with an allocation of \$4 billion. In 1429H, 94 operations with a total amount of ID630 million (\$994 million) were approved for Sub-Saharan African member countries. This compares favourably with the amount of ID584 million (\$898 million) approved for 67 operations in the previous year (under Ouagadougou Declaration), registering an annual increase of 10.7 percent.

Implementing Jeddah Declaration

As a response to the global food crisis, which negatively affected most member countries, the IDB Board of Governors, at their 33rd Annual Meeting held on 29-30 Jumad Awwal 1429H (3-4 June 2008) in Jeddah, adopted the Jeddah Declaration committing \$1.5 billion over five years. This Initiative supports hard hit member countries to strengthen their food security and revitalize their agriculture sector. Under the Jeddah Declaration, the IDB Group financed projects and trade operations totalling \$210 million in 1429H. Of this amount, \$158 million were for project financing (comprising loans of \$138 million for 4 countries -- Mauritania, Mali, Burkina Faso and Niger -- and grants of \$20 million for 25 LDMCs) while \$53 million were approved for trade operations for 3 member countries -- Burkina Faso, Mauritania, and Sudan. In the medium- and long-term, the IDB Group will support improvements in agriculture

productivity and rural incomes through enhancing access to inputs and services, improving infrastructure and strengthening institutions in the sector.

STRENGTHENING FINANCIAL POSITION

Receiving Strong Support from Member Countries

IDB Subscribed Capital was increased from ID15 billion to ID16 billion by the Board of Governors during its 33rd Annual Meeting held in Jeddah on 30 Jumad Awwal 1429H (4 June 2008).

Member countries funds reached ID5,456 million in 1429H, registering an increase of 2.7 percent over 1428H. At end-1429H, Paid-up Capital amounted to ID3,299 million, a 7.6 percent increase over the last year due to payments made by member countries towards Bank's equity.

Table 4
Income Statement of IDB

(ID million)

	1428H	1429H
Gross Income	369.2	347.9
Commodity Placements with Banks	56.5	28.7
ITFO	30.4	28.4
Leasing	143.2	143.7
Instalment Sale & Istisnaa	55.3	70.5
Loan Service Fees	24.6	23.3
Investments in Equity Capital	35.4	36.5
Others (including Mudarib Fees)	23.8	16.8
Expenses and Provisions	212.1	213.9
Total Administrative Cost	62.2	62.9
Staff Cost	46.7	47.9
Administrative Expenses	15.5	15.0
Depreciation – Leasing	91.9	93.0
Depreciation – Property & Equipment	2.8	1.6
Financing Cost	55.4	43.0
Operations Risk Provision/(recovery of impaired assets)	(0.2)	13.4
Exchange (Loss) / Gain	6.4	6.2
Exceptional Gain on Liquidation of Export Finance Scheme		54.0
Net Income	163.5	194.2

Launching of the Alliance to Fight Avoidable Blindness in Sub-Saharan Africa

As a pilot operation, in 2003, IDB sent a team of volunteer eye-specialist doctors from the NGO Nadi Al Bassar to Niger so as to perform cataract surgeries free of charge over a period of one week. As a result, 350 cataract (which is the major cause of blindness) operations were undertaken. Accordingly, the Bank decided



to regularize such interventions in a project approach. Therefore, from 2003 to 2007, several teams of eye specialists (with the technical support of NGO partner and local authorities) were sent periodically to perform cataract surgeries and provide training in seven SSA member countries (Benin, Burkina Faso, Cameroon, Chad, Djibouti, Mali and Niger)

where the problem of cataract is significant and the number of trained ophthalmologists is inadequate.

This blindness control campaigns enabled 14,304 patients to benefit from eye treatments; 3,394 persons recovered sight. Training was provided to 48 ophthalmologists and technicians. The total cost incurred by IDB amounted to \$0.42 million. Based on the success of this project, the Bank launched the “Alliance to Fight Avoidable Blindness” in February 2008 for SSA member countries. Under this programme, over the 5 years, 50,000 persons are expected to recover sight; 250,000 persons will benefit from eye consultation; 16 new ophthalmologists will be available, and training will be provided to 50 ophthalmologists and technicians. The Alliance also includes the purchase of equipments and grant for scholarships.

IDB is planning to attract several other donors in order to collect \$9.5 million grant for the Alliance programme. So far, \$4 million has been pledged: \$2 million from IDB, \$1 million from Arab Bank for Economic Development in Africa, and \$1 million from Egyptian Fund for Technical Cooperation with Africa.

Sustaining Good Financial Results

In 1429H, IDB continued to maintain strong financial results. Its net income from OCR was ID194 million in 1429H, posting a growth of 18.8 percent over 1428H.

Retaining Highest Ratings

In 1429H, IDB was rated “AAA” institution by the three leading international rating agencies. Standard & Poor’s confirmed for the seventh consecutive year its highest ratings for IDB -- “AAA” for long-term and “A-1+” for short-term with “stable” outlook. IDB also maintained for the third year the highest ratings of “Aaa” for long-term and “P-1” for short-term assigned by Moody’s.



Fitch Ratings also maintained for the second year its “AAA” rating for the long-term, “F1” for the short-term and a “stable” outlook. These ratings reflect, *inter alia*, the financial soundness of IDB and its very low-risk profile.

REFORMING THE IDB GROUP

One of the key strategic thrusts of the IDB 1440H Vision is reforming the IDB Group in order to be better equipped to meet the challenges facing its member countries. The main objective of the Reform is to ensure that the Bank is aligned to the needs of its member countries, and is well-equipped to facilitate the achievement of 1440H Vision targets. Phase-I of the IDB Group Reform has been concluded. It covers three focal areas; vision strategy (implementation framework), rolling plans and key performance indicators; governance and organizational design; and change management. During 1430H, in areas of the IDB Reform Phase-I Implementation, a managerial assessment exercise is being conducted to identify well-qualified candidates to fill-in all the managerial positions in the new organizational structure. The Bank will also conduct a staff renewal process aimed at ensuring that the best and the brightest occupy the positions in the new structure.

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