The Third Extraordinary Session of the OIC Summit, Makkah Al Mukarramah, 5-6 Dhul Qadah 1426H (7-8 December 2005) where the decision to establish a Special Fund within the IDB Group was made – the Islamic Solidarity Fund for Development (ISFD).
Islamic Solidarity Fund for Development (ISFD)

Fifth Annual Report 1433H-2012G
## Table of Contents

- Letter of Transmittal 3
- ISFD Board of Directors 4-5
- ISFD: Basic Facts 6
- Chairman’s Message 8
- The Burden of Poverty in IDB Member Countries 10-18
- Operations in 1433H (2012G) 20-34
- Corporate Aspects 36-39
- Financial Review 42-43
- Annexes 46-47
- Audited Financial Statements 50-66
Letter of Transmittal

In The Name of Allah, The Beneficent, The Merciful

The Chairman,
ISFD Board of Governors

Dear Mr. Chairman,

Assalam-u-Alaikum Warahmatullahi Wabarakatuh

In accordance with the Regulations of the Islamic Solidarity Fund for Development I, on behalf of the Board of Directors, have the honour to submit for the kind attention of the esteemed Board of Governors, the Annual Report on the operations and activities of the Islamic Solidarity Fund for Development in 1433H (2012G).

The Annual Report also includes the audited financial statements of the ISFD as prescribed in Article 18 of the Fund’s Regulations.

Please accept, Mr. Chairman, the assurances of my highest consideration.

Dr. Ahmed Mohamad Ali
President, IDB Group
Chairman of ISFD Board of Directors
ISFD Board of Directors

Dr. Ahmad Mohamed Ali
Chairman

Hon. Bader Abdullah Abuaziza

Hon. Ibrahim Halil Canakci

Hon. Dr. Asghar Abolhasani Hastiani

Hon. Abdulwahab Saleh Al Muzaini

Hon. Dr. Hamad Bin Suleiman Al Bazai

Hon. Zeinhom Zahran
The Islamic Solidarity Fund for Development (ISFD): Basic Facts

The Islamic Solidarity Fund for Development (ISFD) is a special Fund within the IDB dedicated to reducing poverty in its member countries through:

- Promoting pro-poor growth.
- Emphasizing human development, especially improvements in health care and education.
- Providing financial support to enhance the productive capacity and sustainable means of income generation for the poor.

The decision to establish the ISFD was taken by the Third Extraordinary Session of the OIC Summit, held in Makkah Al Mukarramah, 5-6 D. Qadah 1426H (7-8 December 2005) as Special Fund within the IDB Group. The Fund was officially launched during the 32nd Annual Meeting of the IDB Board of Governors (BOG), held on 12-13 Jumad-I, 1428H (29-30 May, 2007G) in Dakar, Senegal. The Fund is headquartered in Jeddah, Saudi Arabia.

The Fund has been established in the form of a Waqf (i.e. Trust), with a principal target capital of US$10.00 billion. All IDB member countries are expected to announce their financial contributions to the Fund and extend technical and moral support to its operations.

Two overarching themes, in line with the IDB Vision 1440H, define the focus of the ISFD: Improving and enhancing the income of the poor, and promoting the development of human capital.

**ISFD Definition of Poverty**

The ISFD views poverty as a multi-dimensional phenomenon, encompassing not only low income and consumption, but also low achievement in fundamental human rights including education, nutrition, primary health, water and sanitation, housing, crisis coping capacity, insecurity, and all other forms of human development.

**MAIN HIGHLIGHTS**

**OPERATIONS**

**Approvals in 1433H (2012G)**

- 17 operations, valued at US$77.19 million in 19 member countries

**Cumulative Approvals from 1429-33H (2008-12G)**

- 42 operations, valued at US$222.0 million in member countries

---

1 The concept of Waqf (Trust) implies that only the income which will be made from the investments of the Fund’s resources will be available to finance its operations.

2 Figures as at the end of 1433H (2012G)
RESOURCES OF THE FUND:

- Targeted Initial Capital: US$10.0 billion

Pledges
- US$2.68 billion committed by 44 member countries (US$1.68 billion) and IDB (US$1.0 billion)

Paid-in Contributions
- 24 countries have paid their contributions in full, and 13 countries are yet to announce their commitments to the Fund
- Paid-in Contributions: US$1.74 billion by member countries (US$1.24 billion) and the IDB (US$0.5 billion).
- Contributions received (paid-in) in 1433H: US$109.45 million, composed of US$100.0 million paid by the IDB and US$9.45 million paid by member countries.

INCOME

Operating income in 1433H (2012G)
- US$62.36 million

Net income in 1433H (2012G)
- US$59.86 million

Despite prevalence of poverty, Bangladesh has shown a unique progress in addressing this problem over the past decade. Still, there are many challenges that remain ahead, but Bangladesh can be regarded as a role model for countries which are complementing economic growth with focused social protection programs (such as health, education, and employment), which have the potential of lifting millions of people out of poverty.
The year 1433H (2012G) was unique in many respects. A number of IDB member countries witnessed profound changes that are presenting a decisive turning point in the history of the Ummah. Although the manifestation of these events is political, politics cannot be seen in isolation from wider trends. At least, in part, these changes have been triggered by economic realities: poverty, malnutrition, illiteracy, disease, unemployment, inequality and poor public services. In this respect, it can be said that people’s awakened expectations embrace the desire for improvements in their economic prospects and prove beyond doubt the relevance of the ISFD as dedicated arm of the IDB for responding to these expectations with new perspectives and innovative solutions.

The ISFD carried out its operations in 1433H (2012G) in the midst of this complex situation, and I am pleased to report that it had made significant headway in implementing its plans and fulfilling all the commitments in its work program for the year. Eighteen projects and programs valued at US$89.19 million were approved for 19 member countries during the year, bringing the cumulative ISFD approvals since operationalization of the Fund in 1429H (2008G) to US$234.0 million. These results represent a tremendous achievement if viewed against the low level of the paid-up capital resources of the Fund.

A number of initiatives were introduced by the Fund which aspire to provide quick wins and offer innovative solutions for empowering rural communities to lift themselves out of abject poverty. To this extent, the ISFD has embraced programs which have direct impact on creating new job opportunities for the youth, such as the Microfinance, Vocational Literacy, and Sustainable Villages programs. With youth unemployment more than double the world average in the IDB member countries, social unrest is likely to continue and youth can become more vulnerable to succumb to extreme ideas. The Fund has also strengthened its staff and internal capacity so that it can better implement these initiatives and respond to the increasing demand for its services.

The ISFD continued its effort for mobilizing its target capital of US$10.0 billion, which is very critical for the implementation of its programs. As at the end of 1433H (2012G), US$2.68 billion had been pledged to the Fund, consisting of US$1.68 billion pledged by 44 of the 56 IDB member countries and US$1.0 billion committed by the IDB. Payments of contributions increased by 6.64%, from US$1,633.7 million in 1432H to US$1,743.2 million in 1433H. This was composed of US$1,243.2 million paid by member countries and US$500.0 million paid by the IDB.

In this regard, the ISFD looks forward for the implementation of the ISFD BOG Resolution calling on member countries to make contributions to the Fund on the basis of a weighted criterion combining a country’s GDP, total exports and foreign currency reserves and to allocate suitable Waqfs (Trusts) in favour of the ISFD which the ISFD can develop to generate revenues that can enhance its resources.

No doubt, the fulfillment of the Fund’s capital resources will go a long way in enabling the Fund to be responsive, technically and financially, to the poverty challenges facing the Ummah. It is disheartening to learn that, on average, 1 out of every 4 of our fellow brothers and sisters in member countries cannot guarantee his or her own daily food security. Indeed, in several countries annual per capita income is less than US$500. Correcting this situation is a vast challenge and a collective obligation that will require tremendous efforts for a long time. We are optimistic, but also realistic, and know that the road ahead will not be easy without the required resources to fulfill the Fund’s mandate.

**Dr. Ahmad Mohamed Ali**
President, IDB Group
Chairman of the ISFD Board of Directors
The Burden of Poverty In IDB Member Countries
The Burden of Poverty in IDB Member Countries: Three years to the deadline to MDGs

Although 2012 had seen some improvement in the world economy after a major setback during 2011, the global economic outlook remains challenging. Many countries in the EU are still in a period of adjustment and high uncertainty. OECD projections are for gradual recovery during 2013 after a weak growth in 2012. If the Euro crisis continues the world will risk returning to global recession which could have a major impact on international financial markets and, once again, a devastating impact on poor countries.

At a global level, estimates of income poverty indicate that the global poverty rate at $1.25 a day fell in 2010 to less than half the 1990 rate. Accordingly, the first target of the MDGs - cutting the extreme income poverty rate to half its 1990 level, which was characterized as the most unrealistic goal - has been achieved at the global level ahead of 2015.

Yet, the world is still challenged by the fragility that poverty represents. Thus:

- It is estimated that 1.1 billion people world-wide still live in a condition of extreme poverty, defined by a livelihood of less than US$1.25 a day. It is a condition which means that households cannot meet basic needs for survival: food security, access to health care, safe drinking water and sanitation, basic education and shelter.
- Those who crossed the poverty line of US $ 1.25 a day are still poor and vulnerable.
- There is less progress regarding the $2-a-day poverty line (the number of people living below this line only fell from 2.50 to 2.47 billion people).

---

1 OECD Economic Outlook, Volume 2012, Issue 2
3 IDB internal reports.
4 Poverty: Recent Estimates and Outlook, op cit.
Increasing food and fuel prices are disrupting the gains made in fighting poverty.
- The modest increases in ODA – due to fiscal pressures - and frozen credit lines, are limiting the
development prospects of developing countries, particularly low income countries.

At the IDB member countries’ level, despite well-intentioned government policies and significant amounts
of foreign aid and philanthropy, more then 400 million of these multi-dimensional poor live in IDB member
countries – 60% of them are estimated to be living in sub-Saharan Africa and some in middle income countries
such as Indonesia. Although significant gains in poverty reduction have been made to lift them from poverty,
reaching all the Millennium Development Goals (MDGs) have proven too overwhelming to be achieved by 2015.

The largest success in the fight against poverty in the IDB member countries was achieved in the Asian region,
where extreme poverty was reduced from 56% to 30% by 2010. In the Commonwealth of Independent States
(CIS) region, progress has been slow and, according to the latest available estimates, 19 percent of the population
still live in extreme poverty. Although in sub-Saharan Africa, poverty rate had also fallen over this period, in
the IDB African Region it had actually gone up by one percentage point, from 55% to 56%. Armed conflicts and
violence lead to displacement of people in 2011, either inside or outside the borders of their countries and post-
election violence in Côte d’Ivoire and the deteriorating situation in Somalia were all contributing factors, during
2011 and 2012. In the Middle East and North Africa (MENA) region, poverty rate went down by 0.8% during the
same period, from 4.4% to 3.6%, but the instability and displacements caused during the “Arab Spring” uprisings
have led to a fall in incomes and deterioration in some countries.

We must, however, recognize the unevenness of progress within countries and regions, and the severe
inequalities that exist among populations, especially between rural and urban areas. Moreover, while success has
been achieved in income poverty, non-income poverty remains prevalent in many countries. For example, the
incidence of hunger still remains alarmingly high in sub-Saharan Africa and Southern Asia. There are also no
signs of improvement in undernourishment rates in Eastern Asia over the past decade, perhaps mainly because
of vulnerability and successive natural disasters.

Apart from income poverty, achievements have been made in many other MDGs, as witnessed by reduced
maternal deaths, expanded health opportunities, and increased access to education and clean water in many
IDB member countries. This notwithstanding, there is still a long way to go in empowering women, promoting
sustainable development, and protecting the most vulnerable from the impacts of multiple crises of conflicts,
natural disasters and increases in prices for food and energy.

---

7 Various internal IDB reports.
8 IDB- Data Resources and Statistics Department (DRSD), staff computation.
9 Abdullah Bello and Areef Suleman,”The Challenge of Achieving the Millennium Development Goals in IDB Member Countries in the Post-Crisis
11 After the Spring: New Approaches to Youth Employment in the Arab World, by Tarik M. Yousef, CEO, Silatech, WEF, 2012
14 Abdullah Bello and Areef Suleman, op cit.
Impact of Increases in Food Prices

Despite the global income poverty reduction, high food and fuel prices over the course of the past five years have hurt vulnerable populations and slowed the rate of poverty reduction in developing countries. As would be expected, widely-traded commodities, like wheat and rice, were the quickest to respond to world price changes, leading to rapid and dramatic price rises in all countries.

Prices for cereals and other major food commodities have experienced two global spikes recently – one in 2007 to 2008, the other in 2010 to 2011, and they have generally remained higher than the increases experienced in the 1990s. According to the World Bank, the 2010 to 2011 food price spike has pushed an estimated 44 million people into poverty. For some 24 million food producers, it has been an opportunity to come out of poverty – albeit possibly a short-term one. But their numbers were swamped by the 68 million that have fallen below the extreme poverty line. One model estimated an increase in a country’s Gini (inequality) index of 1% for a 20% nominal food price rise, while actual price rises were often four times this level.

Prices have also experienced hikes or remained at higher levels in many developing countries. The reasons for these different, though inter-related, phenomena are not identical. However, a growing imbalance between demand for and supply of food – notably cereals and livestock products – underlies higher prices in both domestic and global markets. While demand for cereals (whether for human consumption, livestock production or feedstock) has been rising steadily – both globally and in most developing countries – in recent years, supply has not kept up.

The implication of the rises in consumer commodities prices on poverty is very important since food price trends have a major impact on food security, at both household and country levels. Poor people spend most of their income on food and price increases for cereals and other staples force the poor to cut back on the quantity and/or quality of their food. This results in food insecurity and malnutrition, with tragic implications in both the short and long term. Reports confirm that high food prices increase malnutrition (especially in young children) and poverty. They also increase the depth of the impact in the already poor (the poverty gap), especially in the rural areas, and thus inequality, as well as those newly pushed over the poverty line (the poverty headcount).

For IDB member countries, net food importing LDMCs, such as island nations - Comoros - and land-locked countries - Mali, Chad and Burkina Faso - and countries in conflict, - Somalia, Cote D’Ivoire, have been among the first to feel the effects of rising world food prices. However, high food prices were also recorded as having serious impact on poor consumers even in net food exporting countries, such as Uganda and Mozambique. The highest price rises were recorded in countries where there were worsening local or regional supply and demand pressures. These included conflict and drought-affected countries, such as Djibouti, or, in some cases, price rises were due to rapid regional economic growth resulting in high consumer demand, such as in Benin.

Casual wage workers (both rural and urban) also suffer; landless farmers, small traders, and producers of commodities whose terms of trade declined against food grains, such as pastoralists in east Africa, cotton farmers in Benin and tea

---

13 Higher and volatile food prices, and poor rural people; IFAD, June 2011, (http://www.ifad.org/pub/factsheet/food/pricevolatility_e.pdf)
14 Food price rises pushing millions into extreme poverty; World Bank warns, Phillip Inman, The Guardian, Thursday 14 April 2011.
17 Impact of the global food crisis on the poor: what is the evidence?, op.cit.
18 Op cit.
19 Op cit.
workers in Bangladesh, are potentially vulnerable to these crisis. In many countries food prices almost doubled with no adjustment in earnings. In some cases, such as in Mozambique, it was reported that incomes were almost halved and food consumption fell, which seriously compromised nutrition\textsuperscript{21}.

The effects also spilled over into the efficacy of the health sector because cuts in food consumption lead to substantial increases in the number of undernourished people. A poverty monitoring study suggests that parents were forced in some countries to take their children out of school and that in other countries they were in difficulty to finance their children’s continuing attendance\textsuperscript{22}. The global economic crisis also reduced the GDP in many donor countries - making it difficult to meet the donor commitments to developing countries in general.

While most of the complaints about food prices come from urban areas, many of the poorest and worst-affected people live in rural areas. Existing social protection and financial systems do not often reach this group. The structure of land ownership and production patterns in most affected countries means that only a minority of farmers and agribusinesses will be able to benefit from rapidly-rising prices.

**Continued impact of the Euro Zone financial crisis**

Despite the series of bailouts by the EU and the European Central Bank (ECB), as well as the creation of the European Financial Stability Facility (EFSF)\textsuperscript{23}, the climate of financial crisis had continued in the donor countries in the Euro zone with debts of many EU countries (such as Greece, Portugal, Ireland, Italy, and Spain) growing so large that they actually approximate or exceed the size of the nation’s entire economy\textsuperscript{24}.

\textsuperscript{21}Financial Crises and Social Spending, Maureen Lewis and Marijn Verhoeven, WORLD ECONOMICS, Vol. 11, No. 4 October–December 2010.

\textsuperscript{22}Global Monitoring Report, The MDGs After the Crisis, World Bank, 2010

\textsuperscript{23}This facility has been created to provide emergency lending to the EU countries in financial difficulty.

The continuation of this crisis could have great impact on the IDB member countries and may affect the prospects of the LDMCs in achieving the MDGs. Because of the global economy interconnectedness, a slowdown in the EU growth will invariably affect the world economy – including the IDB member countries. The freezing of credit lines has already negatively impacted on vulnerable populations through its effect on trade and the imports of necessary goods and slowed the rate of poverty reduction. Financial crisis could also be passed to the LDMCs through a reduction in development finance, as for example, in 2011 there was a decrease in net ODA of 2.7 percent in real terms, compared to 2010, although the nominal figure had shown a small increase. Likewise, any banks’ failures in the EU due to this crisis could spiral into a more destructive “contagion” or “domino effect” world-wide.

Failure to address this crisis could be very costly to the less developed member countries. We have seen how the financial crisis had translated into human and development setbacks in 2008-09. Indeed, even before the crisis, only a few countries had lived up to the developed countries’ pledge that ODA should constitute at least 0.7 per cent of their gross national income. IDB member countries should have enough political will to revisit their development agenda and build resilience against the cyclicality of international capital flows to avoid falling into chaos which will have costly human and political implications in the presence of a slow international response to this crises.

**Challenges Facing the IDB Member Countries**

**Need to strengthen equitable sharing of growth benefits:** Despite efforts by governments, civil communities, donor community and other development partners, there is still widespread and deep poverty in many IDB member countries. The poverty ratio among the population is twice the world average and more than half the population in no less than a quarter of the OIC member countries subsist below the poverty line. Some IDB member countries in Africa have more than 70% of their population living in absolute poverty.

---

Global CPA in 2011 is estimated at USD 93.1 billion, The Euro Zone Crisis and its Impact on ODA, J. Brian Atwood, DAC Chair; International Federation of Red Cross and Red Crescent Societies (June 2012).

IDB data.
No doubt, attention to poverty issues has increased over the past decade, and much has been invested in them, but even greater effort is required to make real headways in attaining the MDGs. Among the essential lessons learned from the development efforts is that a large proportion of incremental growth must reach the poor in order to make significant inroads in fighting poverty.

The IDB member countries must be able to strengthen their pro-poor growth rates and reinforce their resilience to internal and external shocks. Uneven economic development and access to basic services of rural and urban areas are still pronounced and daunting. It is true that these disparities are caused partially by geographic location and endowments of natural resources. However, they are also a result of social factors and policy decisions which can and should be addressed.

**Enhancing food security:** Sub-Saharan Africa (SSA) is the only region in the world where the overall food security situation is currently deteriorating. Yet, despite the notable applications of science and technology advances and their proven successes in agriculture, stable crop yields have remained low compared to world averages in many countries. Further, more than 90% of arable land in SSA is still rain-fed and climate change is starting to impact on this production system with shifts and erratic changes in rainfall patterns.

The threat for many IDB member countries, particularly in Africa, is real where millions of people are chronically undernourished and children severely underweight. The UNDP and WHO reports confirm that millions of poor people in Africa die from hunger and related causes, mostly children under 5 every year, while several other millions are always in need for emergency assistance. There is therefore a need for national governments to concentrate on development programs with direct linkages to increased agricultural production and consumption and improved household nutrition. Similarly, there is a compelling urgency for development partners to intensify their efforts in those countries that need food most and where food insecurity is greatest.

**Providing incentives for employment creation:** Poverty and the other human development issues associated with it are a direct consequence of the high unemployment rate in many IDB member countries. The average unemployment rate for the member countries, at 18.0 per cent, is twice the global average. In some countries it is even far more than that and can reach up to 50%. Only 11 of the OIC member countries have single digit unemployment rates.

---

28 Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRTCIC), various reports, and World Facts Book, CIA, 2012.
It is therefore an imperative for member countries to implement broad-based growth strategies which provide stability and incentives for employment creation and income generation activities. This encourages employment of the poor and improves social services, rural development and investment policies, thus making essential services accessible to the poor - education, health and other amenities.

Unemployment is not prevalent only among the LDMCs, but also among the middle classes. For example, in the Middle East and North Africa, poverty is estimated at only 2.7% of the population. Yet, 100 million youth between 15 and 29 years old, representing 30% of the region’s total population, are in dire need of an economic future which will support the conditions for human development, as well as vibrant and inclusive political life and social cohesion. The region is witnessing growing, well-educated, young populations with high aspirations but poor job prospects and living conditions. With youth unemployment more than double the world average in the Middle East and North Africa, youth uprisings and social strife are most likely to continue unless this problem is addressed.

Whereas unemployment is an awful experience, at whatever age, the long-term damaging effect makes it especially hurtful for the youth. Women in particular face more difficulties in accessing the job market, which is a loss of a valuable human resource potential. The ILO has warned of a “scarred” generation of young workers facing a dangerous mix of high unemployment, increased inactivity and precarious work as well as persistently high poverty in the developing countries, but specifically in the Middle East and North Africa.

Clear roadmaps of counterattacking unemployment can be drawn by investing in infrastructure, supporting the development of SMEs, and reforming the education system to provide youth with the skills needed to help them function in the job market. The recent institutional and policy reforms in the IDB reflect the sense of urgency and recognition of the gravity of the youth unemployment situation in the member countries, particularly the huge uncertainty regarding the financing needs of these countries to implement these programs.

**Building Resilience to Climatic Changes:** Since most rural households are engaged in agriculture, their incomes are highly influenced by climatic conditions. With increasing population growth in member countries, particularly LDMCs, it is unlikely that the majority of the rural population will be able to find adequate income and employment in agriculture. This situation is exacerbated by the changes in the natural environment are setting limits on further agricultural expansion in many regions. For example, drought is expanding and productivity is declining in areas of high poverty rates across the Sahara belt in Africa and some parts of Asia. Yet, in others, climatic conditions are affected by monsoons which are also leading to land degradation and low productivity.

In this regard, countries must build their capacities to respond to these climatic changes. At the same time, they should also participate in the international efforts to keep the momentum of protecting the ecosystems that support economic growth and sustain growth for the benefit of the poor as emphasized in United Nations Conference on Sustainable Development - Rio+20. This is indeed vital for protecting the poor from climatic changes and achieving the MDGs.

---

29 After the Spring: New Approaches to Youth Employment in the Arab World, by Tarik M. Yousef, CEO, Silatech, WEF, 2012
30 ILO Youth Employment Programme - What we do, Geneva, 2012
**External aid constraint:** With the current fiscal restraint, LDMCs revenues have to increase to support MDGs. Indeed, the eighth MDG is about developing a global partnership for development, which is basically meant for the developed countries to meet their obligations to the less developed countries to achieve the MDGs. The LDMCs remain dependent on external aid to compensate for shortfalls in government resources which are needed for maintaining and expanding priority social services, and overcome the policy and institutional constraints of addressing poverty. Evidence shows that financing of the MDGs is not merely insufficient, but that the ad-hoc and temporary nature of the available financing, as well as challenges to coordinating its delivery and directing it to the most needy recipients, hinder achievement of the MDGs in the LDMCs.

An IDB study estimates that in order for member countries to reduce poverty by half within the MDGs framework, as a group they will need to grow at 4.8 per cent per annum and sustain an average per capita growth rate of 3 per cent. To achieve this, it also estimates that they would require an average investment of 23.6 per cent of GDP per year. Obviously, achieving other MDGs targets will require even more resources.

So far, only a few countries had lived up to the developed countries’ pledge that ODA should constitute at least 0.7 per cent of their gross national income. Net official development assistance (ODA) from the OECD’s Development Assistance Committee (DAC) countries rose slightly in nominal terms, but actually decreased in net ODA of 2.7 per cent in real terms. The need for more targeted aid therefore, remains essential for the LDMCs to continue their fight against poverty. World leaders have made strong promises in several occasions in this regard, but they must have the conviction to act and deliver on these promises to make a difference.

**ROLE OF THE ISFD**

Despite the successes, the ISFD is aware that poverty continues to grow and urgent challenges remain ahead. Today, climate change, volatile food and energy crisis, and the global economic downturn, are compounding the challenges that LDMCs are facing. The ISFD will devise and promote innovative policies and programs that will reaffirm and build on its core areas of intervention as set out in its Regulations and the IDB Group Policy for Poverty Reduction. Thus, the ISFD will:

- Contribute more to food security through implementing appropriate programs to support smallholder farmers to produce more, with improved technologies and better access to markets.

- Provide financial support and training through its Microfinance and Vocational Literacy programs to raise and stabilize the incomes of the rural poor, enhance their food security, improve access to safe water, and support women’s empowerment and well-being.

- Support, through its Sustainable Villages Program, improved post-production handling, processing and storage facilities and better interaction among farmers, service providers, traders and agribusiness firms – i.e. strengthen the linkages among the value chain actors.

---

31 The Euro Zone Crisis and its Impact on ODA, op cit.
- Establish specialized Trust Funds to address specific poverty issues in the member countries.

- Streamline gender, governance and environmental issues in all its operations to increase benefits to the poor and maximize their impact.

The ISFD will continue to play its due role in mobilizing the necessary resources to support these programs. It will also leverage its comparative advantage and strategic fit to attract partners to enhance these resources. The Fund’s operational program for 1434H (2013) is built on the notion that member countries’ governments, local communities, as well as other development partners, must work together and sow the seeds to create opportunities for lasting improvements in the lives of the poor. Helping them to do so is an ISFD/IDB challenge.

**Rio+20: Feed the world, protect the planet**

The main theme of the UN Rio+20 Conference was sustainable development and integrating this theme with the MDGs and the fight against poverty. It was basically an attempt to strongly push the notion of a green economy.

The conference emphasized that meeting global demand for energy and natural resources is destabilizing our climate, and threatening the development and security around the world. The IDB/ISFD acknowledges this too, as the poor in member countries are particularly vulnerable to these changes. Indeed, in some countries, such as in Asia and sub-Saharan Africa, the poor are already suffering from rising sea levels and increasingly devastating storms, droughts, and floods. Combined with other strains on the environment, these forces could reverse hard-won development gains in these countries.
Operations in 1433H (2012G)
2 Operations in 1433H (2012G)

ISFD Projects/Programs

The ISFD financing operations are guided by the IDB Group Policy on Poverty Reduction, the ISFD multi-year strategy, best practices incorporating “lessons learned” from a variety of sources, including projects financed by the IDB, Member Country Partnership Strategies (MCPSs) and the OIC Ten-Year Plan of Action. The Fund gives priority to projects that possess high poverty content. It also emphasizes the importance of partnerships and co-financing to supplement its limited resources and scale up its projects. It also incorporates components in its programs to address cross cutting issues, such as environment preservation, gender, governance and youth employment.

The main objective of the ISFD is to reduce poverty in the IDB member countries using a South- South cooperation approach with specific Islamic characteristics. This is in line with the IDB 1440H (2020G) Vision which includes “empowerment” as a core value; makes ‘alleviating poverty’ it’s strategic objective; and identifies “human development” among its priority areas. Consistent with this mandate, the ISFD projects/ programs are designed to have clear and direct positive impact on the poor. This requires targeting specific interventions which give priority to meet the ‘basic needs’, especially for the rural and urban poor.

One of the important lessons of the former ISFD Five-Year Strategy (2008-2012) is that the ISFD should be more “selective” and “focused” in its operations. These operations are targeted to create employment opportunities, enhance capabilities, particularly for women and youth, provide the poor with means of sustainable income to break away from poverty, improve basic rural and pre-urban infrastructure such as sanitation and supply of potable water, and expand education and health facilities, while building capacities and livelihoods of the poor. These underlying objectives constituted the basis for the ISFD projects and programs since its operationalization in 1433H (2012G).

Projects/Programs Approvals

Two overarching themes defined the focus of the ISFD’s poverty reduction activities in 1433H: (a) ensuring that these activities create additional jobs and employment that reach the target groups of poor and disadvantaged people through multi-sector interventions; and (b) promoting the development of human capital by boosting education and health support.

During the year, 17 operations – three of them regional - amounting to US$77.19 million were approved for 19 member countries, compared to 7 projects amounting to US$45.95 million in 7 countries approved in 1432H (2011G).

These approvals covered the key sectors that form the core of poverty reduction programs of the ISFD, namely education, health, rural and agricultural development, water supply and sanitation, and transport and power. The thrust of the ISFD approach in targeting these operations was to combat poverty, particularly for women and
children, and provide the poor and vulnerable with opportunities for income generation on a sustainable basis. Gender aspects and capacity building were treated as cross cutting themes to help addressing the barriers faced by women in economic development, particularly in the rural areas. Out-of-school youth were targeted through vocational literacy programs because they tend to have limited opportunities to develop or maintain functional literacy skills, which restrict their options in life and compound the disadvantages they face presently and later on.

**Sectoral distribution of approved projects (cumulative: 1429H−1433H in US$m)**

<table>
<thead>
<tr>
<th>Sector</th>
<th>No. of Projects</th>
<th>ISFD Financing</th>
<th>Total cost</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1433H</td>
<td>1428H-1433H</td>
<td>1433H</td>
</tr>
<tr>
<td>Agriculture and Rural development</td>
<td>7</td>
<td>19</td>
<td>37.26</td>
</tr>
<tr>
<td>Health</td>
<td>5</td>
<td>7</td>
<td>14.7</td>
</tr>
<tr>
<td>Education</td>
<td>5</td>
<td>11</td>
<td>23.5</td>
</tr>
<tr>
<td>Microfinance</td>
<td>0</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>17</td>
<td>42</td>
<td>77.19</td>
</tr>
</tbody>
</table>

**LDMCs are major beneficiaries of the ISFD**

In accordance with the IDB Policy on Poverty Reduction, the IDB Least Developed Member Countries (LDMCs) were the main beneficiaries of the ISFD programs during 1433H (2012G). The ISFD aims to maximize its support for these countries by combining accepted successful lessons of experience with innovative projects and programs that respond to their needs for combating poverty. The approved policy for ISFD financing stipulates that 80 percent of the ISFD annual financing is directed towards the LDMCs and 20 percent to poverty pockets in non-LDMCs.

During the year, the Fund continued to explore the opportunities for widening the coverage of its Sustainable villages Program as a tool for addressing rural poverty through multi-sector interventions and fast track the achievement of the MDGs at the village level. One program—Drylands Project—was approved for East African countries, namely Djibouti, Somalia and Uganda. Thousands of pastoralists will benefit from animal production, infrastructure, health, education, and business opportunities through this program, which will enable them to achieve significant gains in productivity and standard of living.

Similarly, a Millennium Village Project (Phase-2) was approved for Mali. The project, with an estimated total cost of US$48.84 million, is expected to significantly reduce the number of people living below the poverty line, improve the level of education, and decrease the number of vulnerable poor in the coverage area. The ISFD will contribute US$6.0 million to this project. Two SVPs have also been approved for the Kyrgyz Republic and Mozambique. These projects will enhance services provision in health and education, boost agricultural productivity, and provide sustainable means for income generation to the people in the target areas. The ISFD will contribute US$3.0 million out of an estimated total cost of US$17.0 million to the project in Kyrgyz Republic and

---

32 It would be noted that although there were no approvals of stand-alone microfinance operations in 1433H (2012G), microfinance components were included in the three VOUP programs approved for Tunisia, Mozambique, and Tajikistan during the year.
US$4.0 million out of an estimated total cost of US$20.5 million to the project in Mozambique.

The Fund’s programs also targeted health and education sectors in 1433H as inviolable tools of the fight against poverty. Five projects in the education sector in 5 member countries were approved during 1433H (2012G) with a total cost amounting to US$284.6 million. These include a bi-lingual educational program in Nigeria, which targets students in religious schools (Madarassas).

The education projects also include an innovative project which has been developed as a result of ISFDs exploration of a successful model on the ground in Pakistan – The Citizen’s Foundation (TCF) which primarily targets the poor. In this project, the ISFD, with the support of Pakistan Government, will engage with experienced NGOs for effective delivery of education in these schools. The ISFD intends to be replicated in other countries in partnership with Government and relevant NGOs. The ISFD provided US$14.7 million from its own resources towards the cost of the approved education projects in 1433H (2012G) and leveraged the remaining amount (US$269.9 million) from other sources.

**Promoting Co-Financing with Development Partners**

The ISFD partners with other co-financiers either for technical assistance activities or financing of separate components of its projects/programs. Co-financing may be in the form of a grant or a loan (concessional or non-concessional). It can also be provided on a parallel or joint basis, although the majority is provided on a parallel basis.

In 1433H (2012G), the total cost of the approved projects was US$814.9 million, whereas the ISFD contribution was US$89.2 million – representing 10.9% of the total financing, compared to 28% percent in the previous year. The remaining cost was covered by IDB and other co-financiers including national governments, multilateral institutions, bilateral donors, and NGOs.

**Strengthening partnerships:** The ISFD continues to explore opportunities to form partnerships with other financiers and stakeholders as one of the key objectives of its Five-Year Strategy (2008 – 2012) and IDB Group Policy on Poverty Reduction. What is great about the partnerships is the valuable synergies that can be realized right at the start. They also create an incentive for the beneficiary countries to use ISFD financing
responsibly to fulfill the project/program targets if they participate in the costs and provide the ISFD with higher leverage for its limited funds, so that it can more comprehensively attain its objectives.

This enables the ISFD to play a catalytic role in mobilizing additional resources for financing its programs from all potential partners, including national, regional and international funding institutions and banks, as well as from the private sector and philanthropists. It is also one of the best ways of strengthening working relationships, enhancing governance, and thus amplifying interests and successes. Potentially, these partnerships can be further harnessed to assist the Fund in the areas of project appraisal, supervision of project implementation and loan administration services, analyzing impacts on the ground, and sustaining the development efforts after completion of the projects/programs.

The primary partners of the ISFD in development interventions are the governments of the beneficiary countries. However, the Fund has strengthened its policy dialogue by involving a broader range of stakeholders in its work, particularly in the implementation of its Vocational Literacy Program (VOLIP), Microfinance Support Program (MFSP), and Sustainable Villages Program (SVP). In doing so, the ISFD aims to learn lessons by strategically partnering with institutions and organizations that have rich experience or better placed to secure participation and effective implementation of these programs.

The Fund has continued to strengthen its collaborative relationship with the Earth Institute of the University of Columbia in New York and the MDG Centre in Nairobi particularly in the areas of the Sustainable Villages Program and the Drylands Initiative. Strong working relationships are also being developed with the World Bank, Asian Development Bank, Japan International Cooperation Agency (JICA), World Assembly of Muslim Youth (WAMY), World Congress of Muslim Philanthropists (WCMP), Qatar Red Crescent, The Arab Bank for Development in Africa (BADEA), and others. It is also in the process of entering into collaborative partnerships with many selected UN and other international and regional agencies which are engaged in the area of fighting poverty in the IDB member countries.

**Brief Description of the Approved ISFD Projects in 1433H (2012G)**

I. **The Millennium Village Project (MVP) Phase-2 – Mali**

Some communities in Mali are faced with insufficient food production, low household income, and inadequate access to basic services: primary health care, education, water and sanitation. The likelihood that the country will not achieve the MDGs by 2015 is high. Thus, the MVP model has been designed and adopted to target improvement of the achievement of the MDGs and to fast track their achievement through the first phase of the MVP, where some notable achievements have been made, especially in the areas of improving food security. These gains need to be consolidated and sustained through capacity building and business development.

**Project’s Objectives:** The objectives of the project are to: (i) accelerate the achievement of the MDGs at the project’s area; and (ii) develop local and national capacity to sustain and scale up these critical efforts. The program overall aim of achieving the MDGs in the cluster villages is reflected in key target areas: (i) significantly reducing the number of people living below the poverty line; (ii) improve the level of education across genders; (iii) decrease the number of vulnerable poor; and (iv) replicating successful interventions in communities outside the project’s area.
The estimated total cost of the project is US$48.84 million. The total IDB Group contribution is US$8.0 million, US$6.0 million from the ISFD and US$2.0 million from the IDB. The remaining balance (US$48.84 million) will be provided by the Malian Government, local communities and other partners in a form of cash and in-kind contribution.

2. East Africa Regional Drylands Program, Djibouti

Poverty levels are very high in the dry lands regions in East Africa, namely Djibouti, Somalia and Uganda. These communities lack access to basic services as education, primary health care, safe drinking water and sanitation, veterinary care for their livestock, and risk management from the ravages of drought and other environmental hazards. Under the Regional Drylands Program, thousands of pastoralists will benefit from animal production, infrastructure, health, education, and business program interventions. Bringing economic improvement and building resilience to climate changes is expected to not only raise living standards but will also promote peace and cohabitation among the pastoral communities. With targeted interventions, as included in the program, pastoralist communities are expected to achieve major gains in productivity and standard of living.

Program’s Objectives: The overall program objectives are to: (i) reduce the vulnerability and build the resilience of population living in the pastoral regions in the program areas; and (ii) accelerate the achievement of the MDGs. To achieve these objectives, the program will implement interventions to strengthen livelihood assets and improve access to basic services.

The program is aimed to produce key results vis-à-vis: (i) increase the level, diversity and stability of household incomes and assets of pastoralists; (ii) increase the primary education enrollment rate; (iii) improve community access to health services; (iv) improve community understanding and practice of sustainable use of natural resources; and (v) improve community business capacity and market participation.

The estimated total cost of the program for the three countries is US$71.0 million, of which US$18.0 million for Djibouti, US$33.0 million for Uganda, and US$20.0 million for Somalia. The IDB and ISFD contribute US$5.0 million each in the loan financing of US$10.0 million for Djibouti; US$20.0 million for Uganda (ISFD US$5.0 million and IDB US$15.0 million); and a grant of US$5.0 million for Somalia from the ISFD over five years (US$1.0 million annually). The balance (US$36.0 million) is to be contributed by the beneficiary governments and other partners.

3. Solar Rural Electrification Project in Aftout El Chargui Zone, Mauritania

Poverty rate is high in Mauritania, particularly in the rural areas. The project is located in the “poverty triangle” of Mauritania where the average rate in this area is estimated at 65%. It can go up to 80% in some villages. The authorities aim to bring drastic changes to the people in this area, with the goal of changing the Triangle of Poverty into the “Triangle of Hope.”

The project is aligned with the first goal of the MDGs that calls for cutting the extreme income poverty rate to half its 1990 level. It is also expected to help in improving achievements of other MDGs as maternal health, universal education, and environmental sustainability.
**Project’s Objectives:** The general objective of the project is improving the standard of living of the population in the project’s area by supplying clean renewable energy to rural communities of 30 localities in the regions of Assaba, Gorgol, and Tagant. The project will support the progressive transformation and improvement of living conditions of the population through the provision of reliable electricity connection to rural households, water systems, health clinics and schools. It will also foster the development of small businesses in the project’s area.

The estimated total cost of the project is US$30.4 million. Of this amount, the IDB Group will provide US$14.9 million (49%), where the ISFD will provide US$4.9 million by way of a loan financing and the IDB will provide US$10.0 million. The rest (US$15.5 million) will be provided by the Government of Mauritania and other partners.

### 4. Promotion of Bilingual Education, Nigeria

This program is in line with the Nigerian Government’s Vision 2020, which aims to stimulate the country’s economic growth and positions it to assume a high-ranking economic status by 2020. It is also in line with the National Economic Empowerment Development Strategy (NEEDS) to attain the MDGs and Education for All Goals. The program is also aligned with the IDB’s 1440H (2020G) Vision which identifies “alleviating poverty” and “universalizing education” among its key strategic thrusts. It is also anchored to the Bank’s Special Program for the Development of Africa (SPDA).

**Project’s Objectives:** The project’s objective is to improve the socio-economic conditions of the people through an enhanced provision of quality basic education to increase employment opportunities for its graduates and contribute to meeting the attainment of quality universal basic education. It is also expected to contribute to the (i) development of and harmonization of the curriculum; (ii) development and printing of textbooks and other learning materials; (iii) construction and rehabilitation of classrooms to increase students’ intake; and (iv) forging partnership with other development institutions.

The estimated total project’s cost is US$112.67 million. Out of this amount, the IDB Group will contribute US$98.0 million (87.0%) - US$86.0 million by the IDB and US$12.0 million from the ISFD. The rest will be provided by other partners.

### 5. Smallholder Agricultural Productivity Enhancement Program for sub-Saharan Africa – Benin, Burkina Faso, Cameroon, Mali and Niger

The majority of the people that are inhabiting SSA live in rural areas and depend on agriculture as the main source of livelihood. Smallholders cultivate 90% of the food produced on the African Continent, yet throughout the years and in many cases, smallholders’ farming has remained traditional with very low level of utilization of modern agricultural productivity enhancement technologies. Public investments in agriculture productivity enhancement technologies that respond to smallholder farmers’ needs have been negligible, hence, resulting in low crop yields and technical inefficiency. This is, for example, discernible in the low usage of yield enhancing technologies - such as suitable fertilizer, quality seeds, crop protection measures, tissue culturing, micro-propagation and micro-dosing by farmers in the region.
**Program Objectives:** The objective of the proposed program is to increase the productivity of rain-fed and irrigated agricultural production systems, targeting smallholders in Benin, Burkina Faso, Cameroon, Mali and Niger. This objective will be achieved, using a value chain method and a menu approach that will be specific to each beneficiary country. The Program will finance the following activities: (i) seed and fertilizer field trials and demonstrations with the participation of farmers to scale up appropriate and proven crop production technologies and practices; (ii) construction and upgrading of research laboratories, (iii) release of new seed varieties by the research systems, and on-farm seed production and multiplication by smallholder farmers, (iv) construction of community and regional storage facilities and development of market infrastructure; (v) development of fertilizer marketing chains; (vi) development of irrigated land for rice and high value horticulture production; and (vii) capacity building and training for farmers, extension agents, agro-dealers and breeders.

When implemented, the Program is expected to increase the average yields of staple crops, including cereals by at least 70% and income of participating smallholders by at least 20%.

The estimated cost of the program for the first five participating countries is US$157.75 million to which, the ISFD will contribute US$10.0 million and the IDB will contribute US$ 68.54 million. In addition to beneficiary countries contributions, the Program will leverage two consortia of philanthropic and development organizations that include, the Bill and Melinda Gates Foundation, the USAID, Government of Sweden and DGIS - who, through the Alliance for Green Revolution in Africa (AGRA) and the International Fertilizer Development Centre (IFDC), will contribute to the Program financing.

6. **National Referral Hospital (Mulago-111) Project, Uganda**

This project is in line with the IDBVision 1440H as well as its Comprehensive Human Development Strategy. The Project addresses pillar no. IV of the Member County Partnership Strategy (MCPS) for Uganda, i.e., ‘enhancing the human resource development and institutional capacity building’. Moreover, the project will support the national efforts to improve maternal and neonatal health, and will contribute to effective management of obstetric fistula.

Maternal health is not only a critical health issue for Uganda but also a development challenge. Every day, an estimated 16 women die from giving birth in Uganda. Moreover, Neonatal, infant and under-five mortality rates in Uganda are still at unacceptably high level when compared to international norms. The Ministry of Health reports that in 2010, the neonatal, infant and under-five mortality rates stood at 29 deaths per 1000 live births, 75 deaths per 1,000 live births and 137 deaths per 1,000 live births, respectively.

**Project’s Objectives:** The objective of the project is to support the Government’s strategy for the development of the health sector and to contribute to the reduction of maternal and neonatal mortalities through improvement of healthcare services delivery. Specifically, it aims at establishing a specialized 320-bed Maternal and Neonatal Unit in the Mulago National Referral Hospital (MNRH). As the only specialized Maternal and Neonatal Healthcare (M&N) Unit in the country, the project will serve the entire population of Uganda. However, the M&N Unit will directly benefit women who constitute 52% of the population of the Kampala Metropolitan area and its surroundings (2 million).
The total cost of the project is estimated at US$34.14 million, to which the ISFD will contribute US$2.20 million and the IDB US$28.52 million while the rest, US$3.42 million, will be contributed by the Ugandan Government and other partners.

7. Support to the Primary Education Sector Program, Republic of Guinea

This project is in line with the Poverty Reduction Strategy and the Education Sector Program of the Government of Guinea which are supported by other partners. It is also in line with the country’s Education For All (EFA) program which aims at reaching universal primary education through increasing access to primary education; improving infrastructure, equipment and teachers’ training; promoting good governance in public expenditure on education; minimize disparities and avoid exclusion from educational opportunities.

Guinea’s basic education sector is characterized by inadequate school infrastructure resulting in students walking long distances to school, particularly in rural areas. Classrooms have inadequate lighting, overcrowded space, insufficient furniture, books and learning materials, source of water, with a shortage of separate latrines for girls and boys. In addition, there is insufficient number of qualified teachers.

**Project’s Objectives:** The objective of the project is to contribute to the achievement of the Guinea’s Education Sector Program, which aims at universal primary education through enhanced access and quality in the education sector. Specifically, it aims at: increasing access to primary education; improving infrastructure, equipment and teachers’ training; promoting good governance in public expenditure on education; minimize disparities and avoid exclusion from educational opportunities. The project targets ten Districts, reaching 14,160 pupils (50% being girls), 568 teachers and School heads.

The total project cost is estimated at US$13.69 million. The ISFD finances the project through a loan amount of US$ 4.0 million plus an IDB Loan of US$8.0 million, representing 87.6% of the total cost. The Government of Guinea contribution to the project cost is US$ 1.69 million (12.37%).

8. Sustainable Villages Project in Kyrgyz Republic

The Government of Kyrgyz Republic (GOK) through its Medium-Term Development Program and Poverty Reduction Strategy (2012-2014) is currently giving high priority to improving the living standard of the population and poverty alleviation based on economic growth, improvement of business environment and development of an efficient governance system. The SVP intervention is aimed at directly contributing to this priority, as well as providing an opportunity for scaling-up and replication in other parts of the country. The successful implementation of the project will have a positive impact on the lives of the inhabitants of the project area and an indirect effect on the population of the surrounding districts.

**Project’s Objectives:** The primary objective of the Project is to reduce poverty in the project area, namely Jaiyl, Kemin and Panfilov Raion (District) in Chui Oblast (Province), with the help of low-cost, sustainable and community-led interventions that are tailored to the communities’ specific needs. The project will benefit approximately 118,000 inhabitants in the areas of health, education, agriculture, income and livelihood. Special focus will be given to economic improvement of women and the poorer segments of the community.

The project will adopt the approach of the Integrated Community Driven Development (ICDD) program, whereby an amount of funding is allocated for an area comprising all sector interventions. The communities in
collaboration with the Local Government Authorities will identify, through a participatory development planning process, the development gaps and priority needs for intervention. The scope of the project consists of (i) block finance for community projects; (ii) capacity development; (iii) monitoring and evaluation; and (iv) project management support.

The estimated total cost of the project is US$17.0 million, to which the ISFD will contribute US$3.0 million (18%) and the IDB US$6.0 million (35%). The rest will be contributed by OFID (US$6.0 million) and the Government of Kyrgyz Republic (US$2.0 million).

9. Basic Education for the Poor Project, Pakistan

Southern Asia and Sub Saharan Africa are home to the vast majority of out of school children. Of the estimated 25 million children out of school in the IDB Member Countries, Pakistan is home to 5.12 million (about 20%). Most of these children come from the poorest households in the rural areas, compared with just 5% from the rich households. With around 80% of the population living in rural areas and the difficulty of reaching out to small communities in mountainous areas, such a project targeting under-served communities is a timely intervention.

This initiative has been developed as a result of ISFDs exploration of a successful similar on the ground model in Pakistan – The Citizen’s Foundation (TCF) which have primarily targets the poor. The ISFD, with the support of Pakistan Government, will engage with experienced NGOs for effective delivery of education in these schools.

**Project’s Objectives:**
The objective of the project is to provide access to free quality basic education services for children in un-served, under-served poor and disadvantaged communities by increasing retention, improving learning achievement, increasing completion rates at primary level, and strengthening school management structures. The key results include 275 new classrooms in 55 schools with appropriate furniture and space for 11,000 children; pipe borne water; and training for 275 teachers and school heads on pedagogic methodologies and school management. As a result, 11,000 children from under-served areas will have access to quality education.

The implementation mechanism will be through a public private (Not-for-profit Non Governmental Organizations) partnership in which the public provides the resources (capital and recurrent investments) and the selected private partner operates and manages the schools and delivers the requisite educational services. The project compliments Government of Pakistan National Education Policy which aims to meet Pakistan’s commitment to MDGs and Dakar Framework of Action for Education For All (EFA).

The total cost of the project is estimated at US$12.41 million. Of this amount, the ISFD will provide a loan of US$8.07 million. The IDB will also provide US$2.1 million towards the total cost of the project while the remaining amount (US$1.88 million) will be provided by the Government of Pakistan.

10. Support to the Polio Eradication Program (PEP), Pakistan

This project is part of the “National Polio Eradication Program” under the “Global Polio Eradication Initiative (GPEI)”, which was launched in 1988. Thanks to the global efforts, polio cases have been reduced by 99%, making its eradication more tangible as there are fewer cases in fewer districts of fewer countries than at any previous
time. In fact, at present polio remains endemic in only three countries world-wide, namely Pakistan, Afghanistan and Nigeria. These are all IDB member countries.

The project is in line with the Pakistan’s National Emergency Action Plan (NEAP) for Polio eradication as well as the Government of Pakistan’s Poverty Reduction Strategy-II (2008-2013) which identifies health as one of its nine major priorities. It is also in line with the recommendations of the Third Extraordinary Session of the OIC Summit held in Makkah in 2005 that gave way to the establishment of the ISFD, and the Key Strategic Thrust-III of the IDB Vision 1440H, i.e. “Promotion of health of the population of Member Countries,” as well as the IDB Group Policy on Poverty Reduction and the IDB’s Member Country Partnership Strategy for Pakistan (2012-2015).

Project’s Objectives: The project aims at stopping wild polio virus transmission in Pakistan through countrywide mass polio vaccination campaign targeting all children below five years age, along with extensive community sensitization and mobilization, as well as high standard surveillance activities. At completion, more than 34 million children will be fully immunized against polio for life. Moreover, the project will enhance the country’s capacity to undertake effective massive public health interventions and strengthen its routine immunization delivery system.

The project consists of four main components: (i) Improving access to polio vaccination through provision of Oral Polio Vaccine (OPV) and conducting nation-wide mass vaccination campaign; (ii) Undertaking extensive community sensitization and mobilization; (iii) Strengthening surveillance for Acute Flaccid Paralysis (AFP); and (iv) Monitoring and Evaluation for the Polio Eradication Program.

The total cost of the project is estimated at US$248.85 million. The ISFD will provide US$12.0 million by way of loan financing to the project, while the IDB will provide US$215.0 million by way of Murabaha (profit-sharing) financing.

II. Prevention and Treatment of Obstetric Fistula Project, Nigeria

Obstetric Fistula (OF) is a debilitating childbirth injury affecting more than 2 million women worldwide. The overwhelming majority of these women (99%) are from developing countries, with more than half in sub-Saharan Africa and 75% located in IDB member countries.

It is estimated that between up to 1,000,000 Nigerian women are suffering from OF. If a woman develops OF, she will not only face physical complications but psychological, social and economic obstacles. Without support, these women are abandoned, disliked and live in abject poverty. This condition, which affects mainly poor women can be prevented and treated. Although Nigeria has the highest number of women living with OF in the world, the current capacity for repair services is less than 5% of the likely annual incidence.

Project’s Objectives: The project will provide comprehensive care to women suffering from the maternal health disability, obstetric fistula, through the provision of surgical treatment, as well as social and economic support services. Its overall objectives are to reduce women’s vulnerability of developing OF and improve the physical, social and economic status of women suffering from the condition in the northern district of Kano.
Maternal mortality ratio (MMR) stands at 1,100 per 100,000 live births in Nigeria, significantly higher than the MDGs target rate of 320 per 100,000 live births. Although Nigeria has 2% of the world’s population, the country accounts for 10% of maternal deaths around the world. The high MMR of the country indicates that access to, and quality of, emergency obstetric and neonatal care remain a challenge. The country’s availability of emergency obstetric care services is 24% of the recommended minimum. The project therefore, is expected to contribute to improvement of mother health care in Nigeria.

The total cost of the project is estimated at US$195,000. The ISFD will contribute by a non-refundable grant financing of US$135,000 towards this cost.

12. Prevention and Treatment of Obstetric Fistula Project, Sierra Leone

While there are no statistics about the total number of women living with obstetric fistula (OF) in Sierra Leone, data collected from the health facilities in the country show that approximately 4,500 new cases develop each year.

Total fertility rate in Sierra Leone is 5 births per woman. Adolescent fertility rate is high (146 reported births per 1,000 women aged 15-19 years) and more frequent among the poor. With prevalent poverty, this affects not only young women and their children’s health but also their long-term education and employment prospects. Births to women aged 15-19 years old have the highest risk of infant and child mortality as well as a higher risk of morbidity and mortality for the young mother. Early childbearing is overall high but more frequent among the poor.

**Project’s Objectives:** The project aims to provide comprehensive care to women suffering from the maternal health disability, obstetric fistula (OF), through the provision of social and economic support services. Its overall objectives are to reduce women’s vulnerability of developing OF and improve the socioeconomic status of women suffering from the condition in Bo, Sierra Leone.

In Sierra Leone, there are currently seven public health facilities that have the means to repair fistulas. The ability of these facilities to conduct surgical repairs, and provide the required post recovery care for patients varies and is dependent on supplementary support from non-governmental and other charitable organizations.

Although these institutions are providing surgical treatment, supplemental efforts are needed to prevent new cases of from developing and to identify those with the condition to refer them to repair facilities. Care and treatment for women with OF go far beyond medical interventions and must include psychosocial, economic and social support not only for patients but for their families and communities.

The ISFD will participate by way of a grant financing of US$ 105,000 out of the total cost of US$160,000 of this project.

13. Equipping and Capacity Building of the Kalamendo Rural Hospital, North Darfur, Sudan

This project is given high priority by the Government of Sudan, facing a lack of adequate health services and high maternal mortality in North Darfur. The project will have a great social impact since Kalamendo Hospital is the only health facility which can provide health services in the Kalamendo locality. The proposed project is in line with IDB Vision 1440H, which emphasizes the role of the Bank in fostering the health and alleviating poverty, particularly in the rural areas in the member countries.
**Project’s Objectives:** The main objective of the project is to contribute to the national efforts for achieving the health-related MDGs, particularly the reduction of maternal and child morbidity/mortality in North Darfur. It specifically aims to improve accessibility to quality secondary care delivery for the conflict-affected population of Kalamendo locality and surrounding areas through the capacity building and equipping of the Kalamendo Rural Hospital in North Darfur State, Sudan. The scope of the Project includes: (i) capacity building, (ii) support to the Hospital to manage quality secondary healthcare, and (iii) project monitoring, supervision and coordination.

The executing agency, WHO-Country Office, is expected to provide assistance for: (i) Human resources development and capacity building; (ii) environmental health measures (water treatment unit, incinerator); and (iii) one year supply of essential medical gases such as nitrous oxide and oxygen.

The full coverage of the entire hospital civil works has been provided by a local philanthropist and the physical construction of the hospital has been completed. The Hospital includes: Operation Room, Recovery Room, Sterilization Room, Nursery & delivery Room, Dental Clinic, Ophthalmic Clinic, Outpatient and Inpatient Clinic (General), Laboratory, and Radiology.

The total project cost is estimated at US$ 1.5 million, of which ISFD will contribute with an US$0.26 million by way of non-refundable grant assistance while the World Assembly for Muslim Youth (WAMY) and the WHO will also co-finance the project.

**14. Vocational Literacy Program for Poverty Reduction (VOLIP) - Chad**

This project is aligned with the priorities of the Government of Chad and the country’s Poverty Reduction Strategy (2003-2015). It is a pro-poor initiative aimed at simultaneously addressing two key gaps facing the rural poor and illiterate namely, access to education and access to financial services.

The Technical and Vocational Education and Training area (TVET) is the second priority of the Government of Chad after basic education. In 2011, there were at least about 89,000 illiterate youth seeking opportunities. The inadequate supply of TVET as well as the limited micro credit support for rural women and youth in general leave many without practical employment options.

**Project’s Objectives:** The project’s main objective is to help reduce poverty, particularly among rural youth and women by: (i) equipping them with relevant functional literacy competencies and basic livelihood skills and (ii) giving them access to microfinance schemes to enable them to improve their own development.

The project will benefit about 11,000 illiterate and poor people (children, youths and women) in rural areas.

The project scope includes: (i) a baseline study in the project area; (ii) non-formal basic education for children aged 9-15 through construction and equipping of 24 schools and 30 workshops; (iii) acquisition of school and office furniture, teaching guides and students manuals, teaching and learning materials for youth and women workers; (iv) recruitment and training of teachers; (v) literacy and vocational training; (vi) and start-up workshop and mid-term review.

The total project cost is estimated at US$12.62 million. The ISFD will provide a loan financing of US$6.0 million towards this cost, while the IDB will provide US$5.0 million. The rest (US$1.62 million) will be covered by the Government of Chad.
15. Vocational Education and Training for Employment Project, Tunisia

This project is in line with Tunisia’s 12th Development Plan (2010-2014) and the strategies defined in the Action Plan for Tunisia under the joint IDB and IFC Education for Employment (e4e) initiative.” This plan emphasizes the need to develop work-readiness and reskilling programs in close collaboration with private sector employers. The project will complement the Youth Employment Program (YES) for Tunisia.

Project’s Objectives: The project objective is to develop the Vocational Education and Training (VET) system to equip its graduates with the relevant skills to improve their employability. It will benefit students, trainers and supervisors in three disadvantaged regions.

The project scope includes: (i) upgrading of the vocational training infrastructure by establishment of two new vocational training centers and renovation and expansion of seven centers (including two Girl VTCs in rural areas); (ii) Acquisition of furniture and equipment tools and accessories, laboratories and workshops; (iii) External, local and pedagogical training; (iv) Revision of existing curricula and development of new curricula programs; (v) Support to project management.

The total project cost is estimated at US$47.0 million. The ISFD will provide US$2.0 loan financing towards this cost, while the IDB will provide US$25.0 million. The rest of the cost (US$20.0 million) will be covered by the Government of Tunisia.

16. Sustainable Village Project, Mozambique

The Sustainable Village Program (SVP) is in line with Mozambique’s Agenda 2025 for Poverty Reduction Action Plan (2011-2014). It is also in line with the three main pillars of the Agenda and Action Plan, which are to boost farm and fisheries output and productivity, promote employment, and develop human and social capital.

Project’s Objectives: The program scope has multi-sector interventions that directly feed towards the achievement of the MDGs, including agriculture, education, health, rural infrastructure, water and sanitation, and business development. The project components include block financing, capacity development and project management support.

The primary objective of the SVP is to reduce poverty in the project locality, namely, the Molumo Sede village cluster in the Milange District of Zambezia Province, with the help of low-cost, sustainable and community-led interventions that are tailored to the communities’ specific needs. The project will benefit approximately 65,000 inhabitants in the selected communities of Milange District in Zambezia Province. Special focus will be put on the poorer segments of selected villages cluster in the district and paying a particular attention to the socio-economic improvement of the females segment of the community.

The total project cost is estimated at US$20.5 million. The ISFD will provide US$4.0 million loan financing towards this cost, while the IDB will provide US$5.0 million. The rest (US$11.5 million) will be covered by the Government of Mozambique and the local community.

17. Vocational Literacy Program for Poverty Reduction (VOILP), Tajikistan

The project targets regions that have been affected by youth unemployment and extreme poverty. The project will enhance skills of unemployed youth and women groups and will also enable them access to financial services
to improve their living standards and wellbeing. It is also in line with the national development plan of the Government of Tajikistan.

**Project’s Objectives:** The main objective of the project is to reduce poverty, particularly among the rural youth/young people and women by enhancing relevant functional literacy competencies, practical skills and productivity. It will specifically improve the literacy and vocational skills of youth (15-24 years) and help unskilled women workers (24-49 years) access to job functional literacy, skills training and microfinance.

The project scope/components include: (i) Youth Vocational Training; (ii) Women Vocational Literacy and Training; (iii) Microfinance Support (Revolving Fund) for 50% of the youth and 60% of women workers, capacity buildings for microfinance institutions, training of beneficiaries and Islamic microfinance expert; and (iv) Support to project management including baseline studies; PMU staff, monitoring and evaluation system, studies and supervision consultants, start-up, monitoring, mid-term/closing workshops and financial audit.

The total project cost is estimated at US$10.96 million. The ISFD will provide US$5.52 million loan financing towards this cost, while the IDB will provide US$4.39 million. The rest of the cost (US$1.05 million) will be covered by the Government of Tajikistan and the local community.

---

**18. Post-Conflict Reconstruction & Community Development Project, Cote d’Ivoire**

The project is a part of the National Community Program (NCDP) that aims to support poverty reduction and post-conflict recovery efforts in war-affected and underdeveloped region of West Cote d’Ivoire - Mountain District, through targeted assistance for productive infrastructure and livelihood activities, in a more enabling environment. The project is directly supportive of the Government strategy on decentralization. It is aligned with the IDB 1440H Vision and the objectives of the Special Program for Development of Africa (SPDA) and Jeddah Declaration. Experience gained from the ICDD (Indonesia) has been utilized for developing this project, with elements of community empowerment incorporated into it.

**Project’s Objectives:** The project’s development objective is to meet urgent community-driven recovery and development needs, empower the beneficiary - communities and improve their livelihood and welfare through: (a) financing rural infrastructure; (b) developing, strengthening and synergizing pro-poor local institutions/groups; (c) enhancing skills and capacities of the rural poor, especially the youth and women. Some of the expected key results from the project include: (i) increase in volume of agricultural production reaching markets by 25%, and (ii) expansion of access to economic and social infrastructure of the rural poor, which, in tum, will enhance their livelihood strategies and increase their incomes.

The project scope comprises: (a) Rural infrastructure; (b) Access to micro finance; (C) Block finance; (D) Capacity building; (E) Support to Project Coordination and Management; (F) Start-up workshop, Familiarization visits, mid-term & final reviews; and (G) Consultancy services.

The total project cost is estimated at US$33.6 million. The ISFD will provide US$4.0 million loan financing towards this cost, while the IDB will provide US$24.0 million. The rest of the cost (US$5.6 million) will be covered by the Government of Cote d’Ivoire and the local community.
LOOKING AHEAD

Acknowledging the importance of enhancing its operations, and in view of the limited mobilized capital resources, the ISFD has already launched an initiative for establishing specific poverty related Trust Funds, which include public-private and individual partnerships across countries, regionally and internationally. Also, it has already started implementation of the Community Driven Development (CDD) and Sustainable Villages projects/programs with a special focus on women/gender issues, social development and food security.

The ISFD has also started the process of reviewing its Five-Year Strategy (2008-2012) to evaluate implementation against expectations, lessons learnt and began preparation of a second strategy with a shorter time horizon (Three-Year) covering the period 2013-2015. Several other policies and frameworks are being developed to strengthen the Fund’s operations, namely the, Resource Mobilization Framework; ISFD Investment Policy, and ISFD Grant Policy and Guidelines. Through these initiatives, the ISFD is expecting to further consolidate its operations and respond more effectively to the poverty alleviation challenges of the member countries.

Achieving Success in Poverty Reduction

Cross-country experience of developing countries over the last three decades reveals that there are some broad lessons that can be learnt about the process of poverty reduction.

• First, rapid rates of economic growth over a sustained period of time are necessary, though not sufficient, for poverty reduction. However, successful growth strategies are country-specific and there is no single or unique model that can be generalized or applied in all cases.

• Second, there are some fundamental economic principles and practices that do have a positive correlation with economic growth. These include macro-economic stability, trade openness, market competition, investment in human development and infrastructure, quality of institutions and governance.

• Third, combating poverty also requires targeted interventions in the areas of social and human development such as basic education, health services and enhancing capabilities, particularly for women and children, empowering citizens, men and women equally, and providing the poor and vulnerable with social safety nets. Given the relatively disadvantaged situation of women in LDMCs, special attention needs to be given to the role of women in socio-economic development as one of the basic enablers of poverty reduction.

• Fourth, foreign aid can be a critical support but the country must be in the driver’s seat if reform programs are to succeed.

The ISFD draws upon these valuable lessons in enhancing its efforts to combat poverty in member countries.
3

Corporate Aspects
Activities of the ISFD Board of Governors

The 5th Annual Meeting of the ISFD BOG was held in Khartoum in Sudan on 12 Jumad-I 1433H (4 April 2012G), in conjunction with the 37th IDB Group Annual Meeting of the BOG. The BOG approved all the recommendations presented to it by the Procedures Committee of the BOG in connection with the ISFD, and adopted a total of six resolutions relating to those recommendations.

The BOG adopted the ISFD Annual Report and Audited Financial Statements for the financial year ending on 29 D. Hijjah 1433H (14 November 2012). It also deliberated on the progress of the Fund during 1432H and commended the ISFD management for the results achieved during the year. While acknowledging the efforts made in respect of resource mobilization, the BOG expressed concerns about the low levels of contributions to the capital of the ISFD by member countries which constrain its operations.

Although the BOG had already adopted a resolution in its previous (4th BOG Annual Meeting) calling on member countries to base their voluntary capital contributions to the ISFD on an average weighted criterion of three indicators: a country’s real GDP, value of exports of goods and services, and the value of foreign exchange reserves – the BOG was informed that no member country had yet decided to implement this landmark resolution. Consequently the BOG adopted a resolution urging member countries to address this situation.

In addition, the BOG adopted a resolution calling on the member countries to take all measures to support the efforts of the ISFD in resource mobilization, such as allocating a suitable Waqf (Trust) in favour of the ISFD which the ISFD can develop to generate revenues that can enhance its resources. The resolution also stipulates that the allocated Waqf shall be considered an addition to the financial contribution of the concerned member country to the capital of the ISFD. At least 50% of the income generated from the investments of the Waqf will be used by the ISFD to finance its projects in the concerned member country, and the remaining amount will be used to finance other activities of the Fund.
It also asked the management to continue its consultations with the member countries with a view to generate enough commitment from member countries to make appropriate contributions which are commensurate with their economic and financial abilities.

The BOG decided that the 6th Annual Meeting of the ISFD BOG would be held in Dushanbe, Tajikistan (12 Rajab 1434H; corresponding to 22 May 2013). It also approved Messrs. Deloitte & Touche and Bakr Abulkhair & Co. as auditors of the ISFD Financial Accounts in 1433H (2012G).

**Activities of the ISFD Board of Directors**

As per the regulations of the ISFD, the Board of Executive Directors of the IDB is the Board of Directors of the ISFD (BOD) and chaired by the President of the IDB Group.

The Board of Directors is responsible for overseeing the activities of the Fund and for this purpose may exercise all the powers delegated to it by the Board of Governors. The Board meets at least once every two months and, among its main duties, is responsible for approving loan proposals, policies, the administrative budget, setting the terms and conditions of financing and operational procedures, providing guidance on specific fields of activity, and making decisions on strategic matters in accordance with the powers conferred on it by the ISFD regulations. The Board has a Standing Committee (the Audit Committee) that reviews and discusses documents that are subsequently submitted to the Board for consideration and approval.

In 1433H (2012G), the BOD held seven meetings during which it considered a number of items related to projects financing and policy issues. The BOD considered seven ISFD Progress Reports during these meetings highlighting the various activities carried out by the Fund during the year as well as areas for further actions and improvement.

The Board approved 18 operations amounting to US$89.2 million for poverty reduction projects/programs in 19 IDB member countries. The Board also commended the new initiative on the Sustainable Villages Program (SVP) and approved an envelope of loan financing of US$18.0 million for this program with additional grant components and delegated the authority of the approval of the specific projects to the President of the IDB, in line with the other ISFD Flagship Programs (Vocational Training and Microfinance).

The Board emphasized that combating poverty requires targeted interventions in the areas of social and human development such as basic education, health services and enhancing capabilities, particularly for women and children, empowering citizens, men and women equally, and providing the poor and vulnerable with social safety nets.

The Board noted the significant improvement in the returns on the ISFD investments of its capital resources in 1433H (2012G). To improve the performance of the Fund's investments, however, the it urged the ISFD management to speed up the finalization of the ISFD Investment Policy of its resources. The Board also commended the partnerships and networking relationships which the ISFD has so far achieved.

The BOD approved the ISFD Administrative budget for 1433H (2012G) amounting to ID2.20 million (approximately US$3.39 million), of which ID1.59 million (approx. US$2.45 million) for program implementation and ID0.61 million (approx. US$0.94 million) for administrative expenses. It also approved the creation of three additional staff positions in the Fund. The BOD emphasized that the creation of additional staff positions would enable the Fund to lend more focus on promotion of its activities, effective resource mobilization and consultation with member countries.
The Board emphasized the need for an extensive resource mobilization campaign at the member countries’ level to enhance the current level of contributions. In doing so, the Board adopted resolutions to enhance the process of resource mobilization as follows:

i. Calling upon the founding IDB members of the Fund who have not paid, or paid partially their announced contributions, to fully pay their contributions without further delay.

ii. Calling upon the member countries that are capable and desirous of paying the full amount of their contributions in one installment, or more than 50 per cent of their contributions as a first installment, to do so in order to enhance the resource base of the Fund;

iii. Calling upon member countries that have not yet announced their contributions to do so as early as possible and pay their contributions in a maximum of three equal installments starting within one year from the date of announcing their contributions.

Welcoming the Resolutions of the 4th OIC Summit on ISFD

The BOD welcomed the resolutions of the 4th OIC Extraordinary Summit held in Makkah on 27 Ramadan 1433H (15 August 2012G) which emphasized the importance of enhancing the resource mobilization of the Fund to enable it to achieve its mandate of addressing poverty in member countries.

The ISFD Website

The ISFD was commended by the BOD for the effort to develop an interactive website for the Fund as an excellent channel for providing up to date information on the Fund’s activities, reinforcing its corporate and brand image, and enhancing its capacity to promote its programs. The website will also offer a cost effective and convenient media tool for advocacy, reaching the target audience, showcasing and raising awareness on the potential of the ISFD in addressing poverty in the IDB member countries. It will also post ISFD films, and keep partners informed of the new developments and programs of the Fund.

Contributions to the ISFD Capital

As of end-1433H (2012G), 44 IDB member countries and the IDB have announced their contributions to the Fund (see Annex I). Of the participant countries, 24 fully paid their contributions. Thirteen IDB member countries are yet to announce their contributions to the capital of the Fund. The Board considered the low level of contributions to the ISFD capital with no substantive additions in 1433H (2012G) and welcomed the announced contributions by Egypt (US$10.0 million), Tunisia (US$5.0 million) as well as the increase in the contribution of Bangladesh from US$1.0 million to US$12.0 million. It also approved the participation of the 16 member countries which announced their contributions after the approval of the ISFD Regulations on 30 May 2007.

ISFD Management

The current ISFD organization structure is composed of a Director’s front office and two Divisions: the Strategy & Program Management Division and the Advocacy & Special Programs Division. The current Director of the ISFD is Dr. Bashir Omar Mohammed Fadlalla. Dr. Mohamed Safiullah Munsoor is heading the Program Management Division and Br. Rabih Mattar is heading the Advocacy & Resource Mobilization Division. Currently, the Fund’s staffing is composed of 13 professionals and support staff.
The 4th OIC Extraordinary Summit held in Makkah on 27 Ramadan 1433H (15 August 2012G), which emphasized the importance of enhancing the resource mobilization of the ISFD to enable it to achieve its mandate of addressing poverty in member countries.
In preparation for the development of the Second ISFD Strategy, the ISFD held a three-day staff Retreat at the Inter-Continental Hotel in Jeddah in Muharram 1433H (December 2011) to discuss the results of the first Five-Year Strategy (2008-2012), in particular programs’ implementation, results’ impact, strategic partnerships and the very important issue of resource mobilization. The Retreat made pertinent recommendations to improve the current and future ISFD programs and enhance the ISFD efforts for resource mobilization. The above photo is for the ISFD and other IDB Staff who participated in that Retreat.

The aim of the ISFD Sustainable Villages Program (SVP) is to offer a multi-sector, integrated and innovative model of development for empowering rural communities to lift themselves out of extreme poverty. It facilitates the poor to become active economic agents of society, who can not only support themselves but contribute to the socio-economic development of others as well. These two pictures are for the IDB/ISFD Mission consulting with stakeholders Kulbus - West Darfur, Sudan, where an approved ISFD Sustainable Villages Program (SVP) is going to be implemented.
Financial Review
### Financial Review

#### Resources of the ISFD

The ISFD has an approved target capital of US$10.0 billion. The position of capital subscriptions as at the end of 1433H (2012G) is shown in Annex I. These are composed of voluntary contributions by member countries of the IDB, and the IDB. The Fund has no callable capital.

Total pledges as at the end of 1433H (2012G) stood at US$2.68 billion, composed of US$1.68 billion committed by 44 IDB member countries, and US$1.0 billion committed by the IDB. The biggest pledges were made by Saudi Arabia (US$1.0 billion), Kuwait (US$300.0 million), and Iran (US$100.0 million).

Paid-in capital was US$1.74 billion as at the end of 1433H (2012G) compared to US$1.63 billion in 1432H (2011G). Out of the cumulative payments, as of end-1433H (2012G), an amount of US$1.242 billion was paid by member countries and US$500.0 million by the IDB.

The Fund has separate accounts and records of its capital resources and operations. All operations and investments activities of the Fund are conducted in conformity with Shariah (Islamic law) governing Islamic Awqaf (Trusts). Although the accounts of the Fund are kept in US dollars, the ISFD Regulations stipulate that they can be kept in any currency, currencies, or unit of account that the Board of Directors of the Fund may deem appropriate. As an interim measure, the BOD decided to use the US dollar as a unit of account of the Fund since its capital is denominated in US dollars. The Fund’s accounts are kept by the IDB Finance Control Department and its capital resources are so far invested by the IDB Treasury Department.

#### Operations Financing

The ISFD approvals in 1433H (2012G) amounted to US$89.19 million, for 18 operations in 19 IDB member countries. These operations were financed from the ISFD income and allocation of income from the IDB Waqf Fund for ISFD Grant Assistance operations, which amounted to US$0.5 million. The terms and conditions applied to the Fund’s operations were set in a manner to ensure that financing is provided on concessional terms to the member countries while preserving the long-term sustainability of the Fund.

The resources of the Fund and those of the Bank, according to the Regulations, shall at all times and in all respects be held, used, committed, invested or otherwise disposed of entirely separately from each other. The ordinary capital resources of the Bank could not be charged with, or used to discharge, losses or liabilities arising out of special operations for which the resources of the ISFD were originally used or committed.

#### Income

The ISFD liquid funds are composed of paid-in contributions from member countries and the IDB in addition to the unutilized earnings of the Fund. These funds were invested in commodity Murabaha and short-term Shariah compatible placements in 1433H (2012G). All investments were made in US dollar and Euro.
ISFD gross income in 1433H (2012G) was US$62.36 million, compared to US$31.884 million in 1432H (2011G). It is composed mainly of income from Sukuk—Islamic bonds—(US$40.0 million), commodity placements (US$12.0 million), and Murabaha (US$1.4 million). The income achieved in 1433H was a big improvement on the levels of income achieved in the previous years since the establishment of the ISFD, mainly because of relatively bigger size of investments, higher returns on investments, and absence of loss provisions.

Net income for 1433H (2012G) was US$59.86 million, an increase by 99.1% over the US$30.07 million profit achieved in 1432H (2011G). These constitute a return of 3.18% and 1.76% on the net assets of the Fund in these two years respectively. Given the fact that the Fund’s net assets had increased only by 6.7% during this period, this shows a significant improvement of the returns on the Fund’s investments of its capital resources and unutilized retained earnings during the year.

The increase in the income from Sukuk in 1433H compared to the year before is particularly notable (233.3%), which is mainly due to the high yields achieved on sukuk compared to 1432H. As disbursements have started recently, no accrued income from the Fund’s operations was registered for 1433H. Regarding rates movements, the net impact on the Fund’s resources was positive, as it registered a net currency gain of US$0.25 million.

**Management of Liquid Funds**

The ISFD is required to invest its resources which will not be immediately required for financing its operations. As a Waqf (i.e. Trust), paid-in capital would not be available for utilization in the Fund’s operational activities. Therefore, to maximize the income of the Fund, liquidity would be maintained only to the extent that it can meet the Fund’s current cash requirements and undisbursed commitments. The ISFD liquid assets are invested based on guidelines which are issued by the IDB Risk Management Department. In the meantime, the ISFD is in the process of finalizing an Investment Policy to guide the short- and long-term investment of its capital resources.

**ISFD Key Financial Indicators (in US$m)**

<table>
<thead>
<tr>
<th></th>
<th>1429H</th>
<th>1430H</th>
<th>1431H</th>
<th>1432H</th>
<th>1433H</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Contributions: Commitments</td>
<td>2,610.0</td>
<td>2,629.0</td>
<td>2,629.0</td>
<td>2,639.36</td>
<td>2,679.36</td>
</tr>
<tr>
<td>Capital Contributions: Payments</td>
<td>538.2</td>
<td>1,060.7</td>
<td>1,531.8</td>
<td>1,633.8</td>
<td>1,743.22</td>
</tr>
<tr>
<td>Contributions received during the year From member countries</td>
<td>438.2</td>
<td>422.5</td>
<td>371.1</td>
<td>1.02</td>
<td>9.45</td>
</tr>
<tr>
<td>Contributions received during the year From the IDB</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Gross Income</td>
<td>23.54</td>
<td>11.23</td>
<td>20.02</td>
<td>31.88</td>
<td>62.36</td>
</tr>
<tr>
<td>Net Income</td>
<td>21.88</td>
<td>2.568</td>
<td>18.62</td>
<td>30.07</td>
<td>59.86</td>
</tr>
</tbody>
</table>
ISFD Management - 1433H (2012G)

Dr. Ahmed Mohamad Ali
President, IDB Group
Chairman of ISFD Board of Directors

Dr. Ahmed Tik Tik
Vice-President (CDD)

Dr. Bashir Omar Fadialla
Director

Dr. Safiullah Munsoor
Division Manager, Strategy & Programs Management

Br. Rabih Mattar
Division Manager, Advocacy & Resource Mobilization
5

Annexes
## ANNEX-1 - ISFD Capital Contributions
### As at 29 D. Hijjah 1433H (14 November 2012)

**Amounts in USD**

<table>
<thead>
<tr>
<th>S.No</th>
<th>Countries</th>
<th>Commitments</th>
<th>Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Afghanistan</td>
<td>No commitment</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Albania</td>
<td>10,000</td>
<td>0</td>
</tr>
<tr>
<td>3</td>
<td>Algeria</td>
<td>50,000,000</td>
<td>50,000,000</td>
</tr>
<tr>
<td>4</td>
<td>Azerbaijan</td>
<td>300,000</td>
<td>424,000</td>
</tr>
<tr>
<td>5</td>
<td>Bahrain</td>
<td>2,000,000</td>
<td>2,000,000</td>
</tr>
<tr>
<td>6</td>
<td>Bangladesh</td>
<td>13,000,000</td>
<td>2,000,000</td>
</tr>
<tr>
<td>7</td>
<td>Benin</td>
<td>12,250,000</td>
<td>0</td>
</tr>
<tr>
<td>8</td>
<td>Brunei</td>
<td>2,000,000</td>
<td>2,000,000</td>
</tr>
<tr>
<td>9</td>
<td>Burkina Faso</td>
<td>2,200,000</td>
<td>2,238,000</td>
</tr>
<tr>
<td>10</td>
<td>Cameroun</td>
<td>2,000,000</td>
<td>2,000,000</td>
</tr>
<tr>
<td>11</td>
<td>Chad</td>
<td>2,000,000</td>
<td>0</td>
</tr>
<tr>
<td>12</td>
<td>Comoros</td>
<td>No commitment</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Cote d'Ivoire</td>
<td>5,000,000</td>
<td>0</td>
</tr>
<tr>
<td>14</td>
<td>Djibouti</td>
<td>No commitment</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Egypt</td>
<td>10,000,000</td>
<td>5,000,000</td>
</tr>
<tr>
<td>16</td>
<td>Gabon</td>
<td>4,000,000</td>
<td>4,000,000</td>
</tr>
<tr>
<td>17</td>
<td>Gambia</td>
<td>No commitment</td>
<td>12,000</td>
</tr>
<tr>
<td>18</td>
<td>Guinea</td>
<td>2,000,000</td>
<td>2,000,000</td>
</tr>
<tr>
<td>19</td>
<td>Guinea-Bissau</td>
<td>No commitment</td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>Indonesia</td>
<td>10,000,000</td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>Iran</td>
<td>100,000,000</td>
<td>65,000,000</td>
</tr>
<tr>
<td>22</td>
<td>Iraq</td>
<td>1,000,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>23</td>
<td>Jordan</td>
<td>3,000,000</td>
<td>3,000,000</td>
</tr>
<tr>
<td>24</td>
<td>Kazakhstan</td>
<td>11,000,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>25</td>
<td>Kuwait</td>
<td>300,000,000</td>
<td>0</td>
</tr>
<tr>
<td>26</td>
<td>Kyrgyz Republic</td>
<td>No commitment</td>
<td></td>
</tr>
<tr>
<td>27</td>
<td>Lebanon</td>
<td>1,000,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>28</td>
<td>Libya</td>
<td>No commitment</td>
<td></td>
</tr>
<tr>
<td>29</td>
<td>Malaysia</td>
<td>20,000,000</td>
<td>20,000,000</td>
</tr>
<tr>
<td>30</td>
<td>Maldives</td>
<td>No commitment</td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>Mali</td>
<td>4,000,000</td>
<td>0</td>
</tr>
<tr>
<td>32</td>
<td>Mauritania</td>
<td>5,000,000</td>
<td>0</td>
</tr>
<tr>
<td>33</td>
<td>Morocco</td>
<td>5,000,000</td>
<td>5,000,000</td>
</tr>
<tr>
<td>34</td>
<td>Mozambique</td>
<td>200,000</td>
<td>200,000</td>
</tr>
<tr>
<td>35</td>
<td>Niger</td>
<td>2,000,000</td>
<td>0</td>
</tr>
<tr>
<td>36</td>
<td>Nigeria</td>
<td>2,000,000</td>
<td>2,000,000</td>
</tr>
<tr>
<td>37</td>
<td>Oman</td>
<td>5,000,000</td>
<td>5,000,000</td>
</tr>
<tr>
<td>38</td>
<td>Pakistan</td>
<td>10,000,000</td>
<td>5,116,000</td>
</tr>
<tr>
<td>39</td>
<td>Palestine</td>
<td>500,000</td>
<td>186,000</td>
</tr>
<tr>
<td>40</td>
<td>Qatar</td>
<td>50,000,000</td>
<td>50,000,000</td>
</tr>
<tr>
<td>41</td>
<td>Saudi Arabia</td>
<td>1,000,000,000</td>
<td>1,000,000,000</td>
</tr>
<tr>
<td>42</td>
<td>Senegal</td>
<td>10,000,000</td>
<td>0</td>
</tr>
<tr>
<td>43</td>
<td>Sierra Leone</td>
<td>1,000,000</td>
<td>300,000</td>
</tr>
<tr>
<td>44</td>
<td>Somalia</td>
<td>No commitment</td>
<td></td>
</tr>
<tr>
<td>45</td>
<td>Sudan</td>
<td>15,000,000</td>
<td>944,000</td>
</tr>
<tr>
<td>46</td>
<td>Suriname</td>
<td>500,000</td>
<td>500,000</td>
</tr>
<tr>
<td>47</td>
<td>Syria</td>
<td>2,000,000</td>
<td>2,000,000</td>
</tr>
<tr>
<td>48</td>
<td>Tajikistan</td>
<td>No commitment</td>
<td></td>
</tr>
<tr>
<td>49</td>
<td>Togo</td>
<td>1,000,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>50</td>
<td>Tunisia</td>
<td>5,000,000</td>
<td></td>
</tr>
<tr>
<td>51</td>
<td>Turkey</td>
<td>5,000,000</td>
<td>5,000,000</td>
</tr>
<tr>
<td>52</td>
<td>Turkmenistan</td>
<td>No commitment</td>
<td></td>
</tr>
<tr>
<td>53</td>
<td>Uganda</td>
<td>100,000</td>
<td>0</td>
</tr>
<tr>
<td>54</td>
<td>UAE</td>
<td>No commitment</td>
<td></td>
</tr>
<tr>
<td>55</td>
<td>Uzbekistan</td>
<td>300,000</td>
<td>300,000</td>
</tr>
<tr>
<td>56</td>
<td>Yemen Republic</td>
<td>3,000,000</td>
<td>3,000,000</td>
</tr>
<tr>
<td>57</td>
<td>Islamic Development Bank</td>
<td>1,000,000,000</td>
<td>500,000,000</td>
</tr>
</tbody>
</table>

**Grand Total**

<table>
<thead>
<tr>
<th>Country</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Islamic Development Bank</td>
<td>1,000,000,000</td>
</tr>
<tr>
<td>Total</td>
<td>2,679,360,000</td>
</tr>
<tr>
<td>Payment</td>
<td>1,743,220,000</td>
</tr>
</tbody>
</table>

**Note:** It would be noted that the ISFD had received payments in early 1434H (2013G) from Kazakhstan (US$5.0 million), Indonesia (US$2.44 million), and Tunisia (US$4.99 million).
## Annex II: ISFD Projects Portfolio  
(1433H – 2012G)

<table>
<thead>
<tr>
<th>S.No</th>
<th>Country</th>
<th>Project Description</th>
<th>ISDF Financing US$m</th>
<th>Total Cost US$m</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Mali</td>
<td>The Millennium Village Project (MVP) Phase-2</td>
<td>6.0</td>
<td>48.84</td>
</tr>
<tr>
<td>2.</td>
<td>Djibouti</td>
<td>East Africa Regional Drylands Program</td>
<td>5.0</td>
<td>13.97</td>
</tr>
<tr>
<td>3.</td>
<td>Mauritania</td>
<td>Solar Rural Electrification Project in Aftout El Chargui Zone</td>
<td>4.9</td>
<td>30.43</td>
</tr>
<tr>
<td>4.</td>
<td>Benin, Burkina Faso, Mali, Niger</td>
<td>Smallholder Agricultural Productivity Enhancement Program for sub-Saharan Africa</td>
<td>10.0</td>
<td>157.75</td>
</tr>
<tr>
<td>5.</td>
<td>Uganda</td>
<td>National Referral Hospital (Mulago-111) Project</td>
<td>2.2</td>
<td>33.91</td>
</tr>
<tr>
<td>6.</td>
<td>Guinea</td>
<td>Support to the Primary Education Sector Program</td>
<td>4.0</td>
<td>13.69</td>
</tr>
<tr>
<td>7.</td>
<td>Kyrgyz Republic</td>
<td>Sustainable Villages Project</td>
<td>3.0</td>
<td>16.3</td>
</tr>
<tr>
<td>8.</td>
<td>Pakistan</td>
<td>Basic Education for the Poor Project</td>
<td>8.07</td>
<td>12.3</td>
</tr>
<tr>
<td>9.</td>
<td>Pakistan</td>
<td>Support to the Polio Eradication Program</td>
<td>12.00</td>
<td>248.85</td>
</tr>
<tr>
<td>10.</td>
<td>Nigeria</td>
<td>Prevention and Treatment of Obstetric Fistula</td>
<td>0.135</td>
<td>0.195</td>
</tr>
<tr>
<td>11.</td>
<td>Sierra Leone</td>
<td>Prevention and Treatment of Obstetric Fistula</td>
<td>0.105</td>
<td>0.16</td>
</tr>
<tr>
<td>12.</td>
<td>Sudan</td>
<td>Equipping and Capacity Building of the Kalamendo Rural Hospital</td>
<td>0.260</td>
<td>1.5</td>
</tr>
<tr>
<td>13.</td>
<td>Chad</td>
<td>Vocational Literacy Program for Poverty Reduction</td>
<td>6.0</td>
<td>12.62</td>
</tr>
<tr>
<td>14.</td>
<td>Tunisia</td>
<td>Vocational Education and Training for Employment Project</td>
<td>2.0</td>
<td>47.0</td>
</tr>
<tr>
<td>15.</td>
<td>Mozambique</td>
<td>Sustainable Village Project</td>
<td>4.0</td>
<td>20.5</td>
</tr>
<tr>
<td>16.</td>
<td>Tajikistan</td>
<td>Vocational Literacy Program for Poverty Reduction</td>
<td>5.52</td>
<td>10.96</td>
</tr>
<tr>
<td>17.</td>
<td>Cote d’Ivoire</td>
<td>Post-Conflict Reconstruction &amp; Community Development</td>
<td>4.0</td>
<td>33.6</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
<td><strong>77.19</strong></td>
<td><strong>702.575</strong></td>
</tr>
</tbody>
</table>
DRAFT

ISFD Audited
Financial Statements
For the year 1433H
INDEPENDENT JOINT AUDITORS’ REPORT

Your Excellencies the Chairman and Members of the Board of Governors
Islamic Development Bank

We have audited the accompanying statement of financial position of the Islamic Development Bank - Islamic Solidarity Fund for Development (the Fund) as of 29 Dhul Hijjah 1433H (14 November 2012) and the related statements of activities, cash flows and changes in net assets for the year then ended and the attached notes from 1 to 16 which form an integral part of the financial statements.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions and to operate in accordance with Islamic Shari’ah rules and principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 29 Dhul Hijjah 1433H (14 November 2012), and the results of its activities, its cash flows and changes in net assets for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions and the Shari’ah rules and principles as determined by the Shari’ah Committee of the Fund.

We draw your attention to note 2(a) which states that the Fund has followed other accounting standards for matters not addressed by the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions.

PricewaterhouseCoopers

KPMG Al Fozan & Al Sadhan

Ibrahim R. Habib
Licensed Partner
Registration No. 383

Ebrahim Oboud Baeshen
Certified Public Accountant
Registration No. 382

1433H
2012
Jeddah
# ISLAMIC DEVELOPMENT BANK
## THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT

## STATEMENT OF FINANCIAL POSITION
### AS OF 29 DHUL HIJJAH 1432H (25 November 2011)

(All amounts in thousands of United States Dollars unless otherwise stated)

<table>
<thead>
<tr>
<th>Note</th>
<th>1433H</th>
<th>1432H</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,881,478</td>
<td>1,772,576</td>
</tr>
<tr>
<td>ASSETS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>4 136,279</td>
<td>190,385</td>
</tr>
<tr>
<td>Commodity placements through banks</td>
<td>5 994,560</td>
<td>1,103,620</td>
</tr>
<tr>
<td>Murabaha financing, net</td>
<td>6 59,412</td>
<td>-</td>
</tr>
<tr>
<td>Investments in Sukuk, net</td>
<td>7 603,502</td>
<td>369,467</td>
</tr>
<tr>
<td>Investments in Ijarah</td>
<td>20,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Qard</td>
<td>23,930</td>
<td>11,161</td>
</tr>
<tr>
<td>Accrued income and other assets</td>
<td>8 43,795</td>
<td>77,943</td>
</tr>
<tr>
<td>TOTAL ASSETS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued expenses and other liabilities</td>
<td>9 1,349</td>
<td>61,728</td>
</tr>
<tr>
<td>TOTAL LIABILITIES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NET ASSETS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>REPRESENTED BY:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fund resources</td>
<td>1 1,743,220</td>
<td>1,633,775</td>
</tr>
<tr>
<td>Retained earnings</td>
<td></td>
<td>136,909</td>
</tr>
<tr>
<td>1,880,129</td>
<td>1,710,848</td>
<td></td>
</tr>
</tbody>
</table>

The accompanying notes from 1 to 16 form an integral part of these financial statements.
ISLAMIC DEVELOPMENT BANK
THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED __ DHUL HIJJAH 1433H (__ November 2012)

(All amounts in thousands of United States Dollars unless otherwise stated)

<table>
<thead>
<tr>
<th></th>
<th>1433H</th>
<th>1432H</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commodity placements through banks</td>
<td>20,727</td>
<td>18,472</td>
</tr>
<tr>
<td>Murabaha financing</td>
<td>1,620</td>
<td>1,388</td>
</tr>
<tr>
<td>Investments in Sukuk</td>
<td>39,998</td>
<td>12,024</td>
</tr>
<tr>
<td>Others</td>
<td>15</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>62,360</td>
<td>31,884</td>
</tr>
<tr>
<td>Expenditures:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and benefits</td>
<td>(1,755)</td>
<td>(1,159)</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>(995)</td>
<td>(640)</td>
</tr>
<tr>
<td>Foreign exchange loss</td>
<td>250</td>
<td>(12)</td>
</tr>
<tr>
<td>Others</td>
<td>-</td>
<td>(4)</td>
</tr>
<tr>
<td>Surplus of income over expenditure for the year</td>
<td>59,860</td>
<td>30,069</td>
</tr>
</tbody>
</table>

The accompanying notes from 1 to 16 form an integral part of these financial statements.
### OPERATING ACTIVITIES

<table>
<thead>
<tr>
<th>Description</th>
<th>Note</th>
<th>1433H</th>
<th>1432H</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus of income over expenditure for the year</td>
<td></td>
<td>59,836</td>
<td>30,069</td>
</tr>
<tr>
<td>Adjustment to reconcile net income for the year to</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net cash from operating activities:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair value gains on investments in Sukuk</td>
<td></td>
<td>(14,068)</td>
<td>(1,530)</td>
</tr>
<tr>
<td><strong>Changes in assets and liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued income and other assets</td>
<td></td>
<td>(27,143)</td>
<td>(17,045)</td>
</tr>
<tr>
<td>Accrued expenses and other liabilities</td>
<td></td>
<td>912</td>
<td>155</td>
</tr>
<tr>
<td><strong>Net cash generated from operating activities</strong></td>
<td></td>
<td>19,537</td>
<td>11,649</td>
</tr>
</tbody>
</table>

### INVESTING ACTIVITIES

<table>
<thead>
<tr>
<th>Description</th>
<th></th>
<th>1433H</th>
<th>1432H</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commodity placements through banks</td>
<td></td>
<td>109,060</td>
<td>(471,027)</td>
</tr>
<tr>
<td>Murabaha financing, net</td>
<td></td>
<td>(59,412)</td>
<td>34,975</td>
</tr>
<tr>
<td>Additions to investments in Sukuk</td>
<td></td>
<td>(261,267)</td>
<td>(237,887)</td>
</tr>
<tr>
<td>Redemption of investments in Sukuk</td>
<td></td>
<td>41,300</td>
<td>72,488</td>
</tr>
<tr>
<td>Investments in Ijarah</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans</td>
<td></td>
<td>(12,769)</td>
<td>(5,657)</td>
</tr>
<tr>
<td><strong>Net cash utilized in investing activities</strong></td>
<td></td>
<td>(183,088)</td>
<td>(607,108)</td>
</tr>
</tbody>
</table>

### FINANCING ACTIVITIES

<table>
<thead>
<tr>
<th>Description</th>
<th></th>
<th>1433H</th>
<th>1432H</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution received</td>
<td>1</td>
<td>109,445</td>
<td>101,998</td>
</tr>
<tr>
<td><strong>Net (decrease) / increase in cash and cash equivalents</strong></td>
<td></td>
<td>(54,106)</td>
<td>(493,461)</td>
</tr>
<tr>
<td>Cash and cash equivalents at the beginning of the year</td>
<td></td>
<td>190,385</td>
<td>683,846</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at the end of the year</strong></td>
<td>4</td>
<td>136,279</td>
<td>190,385</td>
</tr>
</tbody>
</table>

The accompanying notes from 1 to 16 form an integral part of these financial statements.
# ISLAMIC DEVELOPMENT BANK

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT

## STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED 29 DHUL HIJJAH 1433H (14 November 2012)

(All amounts in United States Dollars thousands unless otherwise stated)

<table>
<thead>
<tr>
<th>Fund resources</th>
<th>Retained earnings</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at 1 Muharram 1432H</td>
<td>1,531,777</td>
<td>47,004</td>
</tr>
<tr>
<td>Contributions received during the year</td>
<td>101,998</td>
<td>-</td>
</tr>
<tr>
<td>Surplus of income over expenditure for the year</td>
<td>-</td>
<td>30,069</td>
</tr>
<tr>
<td><strong>Balance at 30 Dhul Hijjah 1432H</strong></td>
<td>1,633,775</td>
<td>77,073</td>
</tr>
<tr>
<td>Contributions received during the year</td>
<td>109,445</td>
<td>-</td>
</tr>
<tr>
<td>Surplus of income over expenditure for the year</td>
<td>-</td>
<td>59,860</td>
</tr>
<tr>
<td><strong>Balance at 30 Dhul Hijjah 1433H</strong></td>
<td>1,743,220</td>
<td>136,934</td>
</tr>
</tbody>
</table>

The accompanying notes from 1 to 16 form an integral part of these financial statements.
ISLAMIC DEVELOPMENT BANK
THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED __ DHUL HIJJAH 1433H

(All amounts in United States Dollars thousands unless otherwise stated)

I. INCORPORATION, ACTIVITIES AND OTHER

The Islamic Solidarity Fund for Development (“the Fund”) was established pursuant to the decision taken at the Third Extraordinary session of the Organization of Islamic Conference (“OIC”) Islamic Summit Conference in Makkah on 5 and 6 Dhul Qadah 1426H (corresponding to 7 and 8 December 2006).

The purpose of the Fund is to finance different productive and service projects and programs that help in reducing poverty in member countries of the OIC in accordance with its Regulations. The Fund was officially launched during the 32nd meeting of the Islamic Development Bank (“IDB”) Board of Governors (“BoG”), held on 12 and 13 Jumad Awwal 1428H (corresponding to 29 and 30 May 2007) in Dakar, Senegal through adoption of the BoG resolution no. BG/5-428.

The target principal amount of the Fund is United States Dollars (“USD”) 10 billion. The principal amount shall consist of contributions from IDB and institutions of member countries. IDB has committed to contribute USD 1 billion, payable in 10 annual installments of USD 100 million each.

The total contributions received as at 29 Dhul Hijjah 1433H mount to USD 1.74 billion (1432H: USD 1.63 billion).

The Fund is administered by a Board of Directors of the Fund. The President of Islamic Development Bank (the “Bank”) is the ex-officio Chairman of the Board of Directors.

The resources of the Fund available for utilization in its activities consist of:

1. income from the Waqf;
2. fund derived from operations or otherwise accruing to the Fund; and
3. others resources received by the Fund.

All dealings and activities of the Fund shall be in conformity with Islamic Shariah. The Fund’s financial year is the lunar Hijra year.

As a Fund of the Bank, which is an international institution, the Fund is not subject to any external regulatory authority. The Fund’s financial year is the lunar Hijra year.

The financial statements were authorized for issue in accordance with a resolution of the Board of Executive Directors on ******* (*********).
2. **SIGNIFICANT ACCOUNTING POLICIES**

**a) Basis of preparation**

These financial statements are prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (“AAOIFI”) and the Shari’ah rules and principles as determined by the Shari’ah Committee of the Bank. For matters which are not covered by AAOIFI standards, the Fund follows to the relevant International Financial Reporting Standards (“IFRS”).

The financial statements are prepared under the historical cost convention except for the measurement at fair value of investments in Sukuk.

Effective 1 Muharram 1431H the Fund adopted Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). There was no significant change in the measurement and recognition of Fund’s assets and liabilities and income and expenses for the year ended at 30 Dhul Hijjah 1430H and 30 Dhul Hijjah 1431H as a result of this adoption.

**b) Foreign currency translations**

(i) Functional and presentation currency

These financial statements are presented in thousands of United States Dollars (USD) which is the functional and presentation currency of the Fund.

(ii) Transactions and balances

Foreign currency transactions are translated into USD using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the year-end exchange rates are recognized in the statement of activities.

Non-monitory items measured at historical cost denominated in a foreign currency are translated with the exchange rate at the date of initial recognition.

**c) Cash and cash equivalents**

Cash and cash equivalents comprise bank balances, fixed deposits and placements with banks with original maturity of three months or less at the date of placement.

**d) Commodity placements through banks**

Commodity placements are made through banks and are utilized in the purchase and sale of commodities at fixed profit. The buying and selling of commodities is limited by the terms of agreement between the Fund and the banks. Commodity placements are initially recorded at
cost including acquisition charges associated with the placements and subsequently measured at cost less any amounts written off (if any).

e) **Murabaha Financing**

Murabaha financing is an agreement whereby the Fund sells to a customer a commodity or an asset, which the Fund has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.

Amounts receivable from Murabaha financing are stated at the cost of goods sold or disbursements made to the beneficiaries plus income recognized by the Fund to the date of the statement of financial position, less repayments received and provision for impairment.

f) **Investments in Sukuk**

Investments in Sukuk are classified as at fair value through the statement of activities. These investments are initially recognized investments at fair value at the date the contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period with the resulting gain or loss recognized in the statement of activities.

g) **Investments in Ijarah**

Investment in Ijarah consists of assets purchased by the Fund, either individually or through a syndicate agreement and leased to beneficiaries for their use under Ijarah Muntahia Bittamleek agreements.

h) **Qard**

Qard are recognized when cash is disbursed to the borrowers.

Qard represent amounts disbursed in respect of projects plus the Qard service fees due, less repayments received relating to the outstanding capital portion of the Qard as determined according to the Qard agreements.

i) **Revenue recognition**

**Commodity placements through banks**

Income from commodity placements through banks is recognized on a time apportionment basis over the period from the actual disbursement of funds to the date of maturity.

**Murabaha Financing**

Income from Murabaha financing is accrued on a time apportionment basis over the period from the date of the actual disbursement of funds to the scheduled repayment date of installments.
**Investments in Sukuk**

Income from investments in Sukuk is accrued on a time apportionment basis using the rate of return advised by the issuing entities.

**Qard Service fees**

Income from Qard service fees is accrued according to the service fee repayment schedule appended to the Qard agreement.

**Investments in Ijarah**

Income from Ijarah is accrued based on the repayment schedules or the rate stipulated in the Ijara agreement.

**j) Impairment of financial assets**

The Fund determines the provision for impairment losses based on an assessment of incurred losses. An assessment is made at each financial position date to determine whether there is objective evidence that a financial asset or a group of financial assets may be impaired. The impairment loss results from the difference between the carrying amount of the asset and the net present value of the expected future cash flows discounted at the implicit rate of return from the financial asset. The impairment provision is periodically adjusted based on a review of the prevailing circumstances.

Impairment losses are adjusted through the use of an allowance account. When a financial asset is not considered recoverable, it is written off against the allowance account. Subsequent recoveries of amounts previously written-off are credited to the statement of activities.

**k) Provisions**

Provisions are recognized when a reliable estimate can be made by the Fund for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

**i) Zakat**

The Fund is considered a part of Baitul Mal (public money) and it is not subject to zakat or tax.

3. **SHARI’AH COMMITTEE**

The Fund’s business activities are subject to the supervision of a Shari’ah Committee consisting of members appointed by the IDB’s General Assembly. IDB Group’s Shari’ah Committee was established pursuant to Board Resolution No.BED/24/11/421/(198)/138. Members of the Shari’ah Committee of IDB Group are appointed for the period of 3 years renewable.
The Committee has the following functions:

i. to consider all that are referred to it of transactions and products introduced by the Bank for use for the first time and rule on its conformity with the principles of the Shari’ah, and to lay down the basic principles for the drafting of related contracts and other documents;

ii. to give its opinion on the Shari’ah alternatives to conventional products which the Bank intends to use, and to lay down the basic principles for the drafting of related contracts and other documents, and to contribute to its development with a view to enhancing the Bank’s experience in this regard;

iii. to respond to the questions, enquiries and explications referred to it by the Board of Executive Directors or the management of the Bank;

iv. to contribute to the Bank’s programme for enhancing the awareness of its staff members of Islamic banking and to deepen their understanding of the fundamentals, principles, rules and values relative to Islamic financial transactions; and

v. To submit to the Board of Executive Directors a comprehensive report showing the measure of the Bank’s commitment to principles of Shari’ah in the light of the opinions and directions given and the transactions reviewed.

4. **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents at the end of the year comprise the following:

<table>
<thead>
<tr>
<th>Note</th>
<th>1433H</th>
<th>1432H</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash at banks</td>
<td>2,635</td>
<td>539</td>
</tr>
<tr>
<td>Short-term commodity placements through banks</td>
<td>133,644</td>
<td>189,846</td>
</tr>
</tbody>
</table>

| | 136,279 | 190,385 |

Short-term placements with banks comprise those placements having a maturity of three months or less at the date of placement.

5. **COMMODITY PLACEMENTS THROUGH BANKS**

Commodity placements through banks at the end of the year comprise the following:

<table>
<thead>
<tr>
<th>Note</th>
<th>1433H</th>
<th>1432H</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commodity placements through banks</td>
<td>1,128,204</td>
<td>1,293,466</td>
</tr>
<tr>
<td>Less: maturity of three months or less at the date of placement</td>
<td>(133,644)</td>
<td>(189,846)</td>
</tr>
</tbody>
</table>

| | 994,560 | 1,103,620 |
6. **MURABAHA FINANCING, NET**

Murabaha financing at the end of the year comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>1433H</th>
<th>1432H</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross amounts receivables</td>
<td>60,974</td>
<td>35,681</td>
</tr>
<tr>
<td>Less: Unearned income</td>
<td>(1,562)</td>
<td>(706)</td>
</tr>
<tr>
<td></td>
<td>59,412</td>
<td>34,975</td>
</tr>
</tbody>
</table>

All goods purchased for resale under Murabaha financing are made on the basis of specific purchase for resale to the subsequent customer. The promise of the customer is considered to be binding. Consequently, any loss suffered by the Fund as a result of default by the customer prior to the sale of goods would be made good by the customer. The Fund’s foreign trade operations are being managed by The International Islamic Trade Finance Corporation (“ITFC”) for which the ITFC charges a Mudarib fee. The Mudarib fee for the year ended 29 Dhul Hijjah 1433H was USD---- thousand (1432H: USD 5 thousand) which has been netted off from the income from Murabaha financing.

7. **INVESTMENTS IN SUKUK**

Investments in Sukuk certificates represent shares in the Sukuk issued by various governments, financial institutions and certain other entities.

Investments in Sukuk at the end of the year comprise of the following:

<table>
<thead>
<tr>
<th></th>
<th>1433H</th>
<th>1432H</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>320,864</td>
<td>86,150</td>
</tr>
<tr>
<td>Financial Institutions</td>
<td>338,746</td>
<td>176,488</td>
</tr>
<tr>
<td>Other entities</td>
<td>33,891</td>
<td>106,829</td>
</tr>
<tr>
<td>Investments in Sukuk – at fair value</td>
<td>693,501</td>
<td>369,467</td>
</tr>
</tbody>
</table>

The movement in investments in Sukuk is summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>1433H</th>
<th>1432H</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at the beginning of the year</td>
<td>369,467</td>
<td>202,538</td>
</tr>
<tr>
<td>Additions during the year</td>
<td>261,267</td>
<td>237,887</td>
</tr>
<tr>
<td>Sales/redemptions during the year</td>
<td>(41,300)</td>
<td>(72,488)</td>
</tr>
<tr>
<td>Fair value gains</td>
<td>14,068</td>
<td>1,530</td>
</tr>
<tr>
<td>Balance at the end of the year</td>
<td>603,502</td>
<td>369,467</td>
</tr>
</tbody>
</table>
8. **ACCURED INCOME AND OTHER ASSETS**

Accrued income and other assets at the end of the year comprise of the following:

<table>
<thead>
<tr>
<th>Note</th>
<th>1433H</th>
<th>1432H</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued income</td>
<td>11,834</td>
<td>13,597</td>
</tr>
<tr>
<td>Due from related parties</td>
<td>31,930</td>
<td>64,321</td>
</tr>
<tr>
<td>Other</td>
<td>31</td>
<td>25</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>43,795</strong></td>
<td><strong>77,943</strong></td>
</tr>
</tbody>
</table>

9. **ACCURED EXPENSES AND OTHER LIABILITIES**

Accrued expenses and other liabilities at the end of the year comprise of the following:

<table>
<thead>
<tr>
<th></th>
<th>1433H</th>
<th>1432H</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued expenses and other liabilities</td>
<td>686</td>
<td>437</td>
</tr>
<tr>
<td>Due to related parties</td>
<td>663</td>
<td>61,291</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,349</strong></td>
<td><strong>61,728</strong></td>
</tr>
</tbody>
</table>

10. **RELATED PARTY BALANCES**

During the ordinary course of its business, the Fund has certain transactions with entities in the Islamic Development Bank Group (IDBG).

**(i) Due from related parties – entitites related to IDBG**

<table>
<thead>
<tr>
<th></th>
<th>1433H</th>
<th>1432H</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDB - Special Assistant Fund</td>
<td>29,090</td>
<td>58,032</td>
</tr>
<tr>
<td>IDB - Medical Fund</td>
<td>1,920</td>
<td>1,996</td>
</tr>
<tr>
<td>IDB - Pension Fund</td>
<td>2</td>
<td>4,272</td>
</tr>
<tr>
<td>APIF</td>
<td>49</td>
<td>-</td>
</tr>
<tr>
<td>ICIEC</td>
<td>509</td>
<td>-</td>
</tr>
<tr>
<td>Kafala</td>
<td>338</td>
<td>-</td>
</tr>
<tr>
<td>Unit Investment Fund</td>
<td>22</td>
<td>21</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>31,930</strong></td>
<td><strong>64,321</strong></td>
</tr>
</tbody>
</table>

**(ii) Due to related parties**

<table>
<thead>
<tr>
<th></th>
<th>1433H</th>
<th>1432H</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDB - Ordinary Capital Resources</td>
<td>136</td>
<td>5,984</td>
</tr>
<tr>
<td>IDB - Fael Al Khair Fund</td>
<td>67</td>
<td>25,015</td>
</tr>
<tr>
<td>IDB - Special Accounts Resource Waqf Fund</td>
<td>81</td>
<td>30,012</td>
</tr>
<tr>
<td>IDB - World Waqf Fund</td>
<td>379</td>
<td>280</td>
</tr>
<tr>
<td><strong>Balance at the end of the year</strong></td>
<td><strong>663</strong></td>
<td><strong>61,291</strong></td>
</tr>
</tbody>
</table>
11. PRIOR-YEAR ADJUSTMENT

The Fund has adopted FAS 25 issued by AAOIFI which covers the recognition, measurement, presentation and disclosure of investments in Sukuk, shares and similar investments that exhibit characteristics of debt and equity instruments made by the Islamic financial institutions. Following is the impact on the classification of Investments:

<table>
<thead>
<tr>
<th>Type</th>
<th>Note</th>
<th>Before adopting FAS 25</th>
<th>On adopting FAS 25</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sukuk Investments</td>
<td>Note 7</td>
<td>Held to maturity</td>
<td>Fair value through Statement of Income</td>
<td>See below</td>
</tr>
</tbody>
</table>

The financial statements for the year ended 30th Dhul Hijjah 1431H have been restated to account for the impact on the balance of investments in Sukuk as a result of the implementation of the new standard. The Fund has increased the opening retained earnings and investments in Sukuk balance at the beginning of 1431H by the amount of the adjustment relating to years prior to 1431H. The effect of the restatement on the financial statements is summarized below:

**Effect on years prior to 1432H:**
- Increase in investments in Sukuk
- Increase in opening retained earnings

**Effect on 1432H:**
- Increase in the income from investments in Sukuk
- Increase in the investments in Sukuk

12. ASSETS AND LIABILITIES ACCORDING TO THEIR RESPECTIVE MATURITY PERIODS OR EXPECTED PERIODS TO CASH CONVERSION

<table>
<thead>
<tr>
<th></th>
<th>29 Dhul Hijjah 1433H Maturity period determined</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Less than 3 months</td>
</tr>
<tr>
<td>Assets</td>
<td>646,574</td>
</tr>
<tr>
<td>Liabilities</td>
<td>1,349</td>
</tr>
</tbody>
</table>
13. **CONCENTRATION OF ASSETS**

**29 Dhul Hijjah 1433H**

<table>
<thead>
<tr>
<th>Member countries</th>
<th>Non-member</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>Africa</td>
<td>Europe</td>
</tr>
<tr>
<td>Assets</td>
<td>1,629,754</td>
<td>19,389</td>
</tr>
<tr>
<td>Liabilities</td>
<td>1,349</td>
<td>-</td>
</tr>
</tbody>
</table>

**30 Dhul Hijjah 1432H**

<table>
<thead>
<tr>
<th>Member countries</th>
<th>Non-member</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>Africa</td>
<td>Europe</td>
</tr>
<tr>
<td>Assets</td>
<td>1,667,941</td>
<td>9,251</td>
</tr>
<tr>
<td>Liabilities</td>
<td>61,728</td>
<td>-</td>
</tr>
</tbody>
</table>

The geographical locations of assets and liabilities for 1432H and 1431H reflect the countries in which the beneficiaries of the assets are located.

14. **NET ASSETS AND LIABILITIES IN FOREIGN CURRENCIES**

The net assets and liabilities of the Fund in foreign currencies (in thousands of US$ equivalents) at the end of Dhul Hijjah are as follows:

<table>
<thead>
<tr>
<th>Currency</th>
<th>1433H</th>
<th>1432H</th>
</tr>
</thead>
<tbody>
<tr>
<td>Euro</td>
<td>824</td>
<td>(2,830)</td>
</tr>
<tr>
<td>Japanese Yen</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Pound Sterling</td>
<td>(9)</td>
<td>--</td>
</tr>
<tr>
<td>Other currencies</td>
<td>31,089</td>
<td>18,824</td>
</tr>
</tbody>
</table>
14. UNDISBURSED COMMITMENTS

Qard

1433H 1432H

1433H 34,867

16. RISK MANAGEMENT

The Fund is monitored by the Group Risk Management Department (“GRMD”) of the Bank. The GRMD is fully independent from all business departments as well as other entities of the Bank including the Fund. The GRMD is responsible for dealing with all risk policies, guidelines and procedures with a view to achieving sound, safe and sustainable low risk profile for the Bank through the identification, measurement and monitoring of all types of risks inherent in its activities. The Bank has also established a Risk Management Committee which is responsible for reviewing the risk management policies, procedures, guidelines and defining the Bank’s risk management framework and appetite, with a view to ensuring that there are appropriate controls on all major risks resulting from the Bank’s financial transactions.

a) Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Fund’s credit risk arises mainly from its operating assets.

For all classes of financial assets held by the Fund, the maximum credit risk exposure to the Fund is their carrying value as disclosed in the statement of financial position. The assets which subject the Fund to credit risk, principally consist of commodity placements, investments in Sukuk, Murabaha financing and loans which are mainly covered by sovereign guarantees and commercial bank guarantees acceptable to the Bank, in accordance with specific eligibility criteria and credit risk assessments. The Fund’s liquid fund investments portfolio is managed by the Treasury Department and comprise deals with reputable banks. Murabaha financing and Qard are covered, in most cases, by sovereign guarantees from Member Countries, or commercial bank guarantees from banks whose ratings are acceptable to the Bank per its policies, or sovereign guarantees from Member Countries. The Bank benefits from preferred creditor status on sovereign financing, which gives it priority over other creditors in the event of default thus constituting a strong protection against credit losses.

Credit risk includes potential losses arising from a counterparty’s (i.e., countries, banks/financial institutions, corporate, etc.) inability or unwillingness to service its obligation to the Fund. In this respect, the Bank has developed and put in place comprehensive credit policies and guidelines as a part of overall credit risk management framework to provide clear guidance on various types of financing.
These policies are clearly communicated within the Bank with a view to maintain the overall credit risk appetite and profile within the parameters set by the management of the Bank. The credit policy formulation, credit limit setting, monitoring of credit exceptions / exposures and review / monitoring functions are performed independently by the RMD, which endeavors to ensure that business lines comply with risk parameters and prudential limits established by the BED and the management of the Bank.

An important element tool of credit risk management is the established exposure limits for single beneficiary or an obligor and group of connected obligors. In this respect, the Bank has a well developed limit structure, which is based on the credit strength of the beneficiary, the obligor. Moreover, credit commercial limits in member countries regarding financing operations as well as placement of liquid funds are also in place.

The assessment of any exposure is based on the use of comprehensive internal rating systems for various potential counterparties eligible to enter into business relationship with the Bank. While extending financing to its member countries the Bank safeguards its interests by obtaining the relevant guarantees for its financing operations and has to ensure that the concerned beneficiaries as well as the guarantors are able to meet their obligations. In addition to the above risk mitigation tools, the Bank has in place a comprehensive counterparty’s assessment criteria and detailed structured exposure limits in line with the best banking practices.

**b) Market risks**

The Fund is exposed to following market risks:

**i) Currency risk**

Currency risk arises from the possibility that changes in foreign exchange rates will affect the value of the financial assets and liabilities denominated in foreign currencies, in case the Fund does not hedge its currency exposure by means of hedging instruments. Exposure to exchange risk is limited. Most of the Fund’s financing operations are USD-denominated, the same currency in which the Fund’s resources – i.e. equity are denominated. The Fund does not trade in currencies. Therefore, it is not exposed to currency trading risk. The Fund has a conservative policy whereby the currency composition of the portfolio is monitored and adjusted regularly.

**ii) Liquidity risk**

Liquidity risk is the risk that the Fund will be unable to meet its net funding requirements. To guard against this risk, the Fund adopts a conservative approach by maintaining high liquidity levels invested in cash and cash equivalents and Murabaha financing with short-term maturity of three to twelve months.

**iii) Mark-up risk**

Mark-up risk arises from the possibility that changes in Mark-up risk will affect the value of the financial instruments. The Fund is exposed to Mark-up on its investments in cash and cash
equivalents, Murabaha financing and investments in Sukuk. In respect of the financial assets, the Funds returns are based on a benchmark and hence vary according to the market conditions.

c) Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm’s length transaction. The fair values of operational assets are not significantly different from the carrying values included in the financial statements. Fair value of investments in Sukuk are measured based on inputs other than quoted prices that are observable.

d) Segment information

Management has determined the chief operating decision maker to be the Board of Executive Directors as this body is responsible for overall decisions about resource allocation to development initiatives within its member countries. In order to ensure sufficient resources to enable it to meet its developmental objectives, the Fund actively engages in treasury and liquidity management. Development initiatives are undertaken through a number of Islamic finance products as disclosed on the face of the Statement of Financial Position which are financed centrally through the Fund’s capital and Sukuk liabilities. Management has not identified separate operating segments within the definition of FAS 22 “Segment Reporting” since the Board of Executive Directors monitors the performance and financial position of the Fund as a whole, without distinguishing between the developmental activities and the ancillary supporting liquidity management activities or geographical distribution of its development programmes. Further, the internal reports furnished to the Board of Executive Directors do not present discrete financial information with respect to the Fund’s performance to the extent envisaged in FAS 22.