Islamic Solidarity Fund for Development (ISFD)

Annual Report
1429H - 2008

(Special Fund within the Islamic Development Bank Group)
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Letter of Transmittal

In the name of Allah, the Beneficent, the Merciful

The Chairman,
ISFD Board of Governors

Dear Mr. Chairman,

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 1429H (2008G).

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. Ahmad Mohamed Ali
President, IDB Group
Chairman of ISFD Board of Directors
The Third Extraordinary Islamic Summit, Makka Al Mukarrama, 5-6 Dhul Qadah 1426H (7-8 December 2005), where the decision to establish a Special Fund within the IDB Group – the Islamic Solidarity Fund for Development (ISFD) – was made.
BOARD OF DIRECTORS OF THE ISFD

Dr. Ahmad Mohamed Ali
Chairman

Hon. Ibrahim Mohamed Al-Mofleh

Hon. Bader Abdullah S. Abuaziza

Hon. Ismail Omar Al Dafa

Hon. Dato Junaidi bin Pehin Dato Haji Hashim

Hon. Jamal Nasser Rashid Lootah

Hon. Khamdan H. Tagaimurodov

Hon. Hassan Hashem Abdul Hussain Al Haidary
The Islamic Solidarity Fund for Development (ISFD) Facts and Figures as at End-1429H (28 December 2008)

- Resolution by the OIC 3rd Extraordinary Summit commissioning the IDB to establish the Fund: 6 Dhul Qadah 1426H (8 December 2005)

- Decision by the 31st IDB BOG Annual Meeting (Kuwait) to establish the Fund: 4 Jumada Awwal 1427H (31 May 2006)

- Legal Status: Special Waqf\(^{(1)}\) (Trust) Fund within the IDB and has separate accounts and records.

- Launching of the Fund: By the 32nd Annual Meeting of the BOG in Dakar, Senegal, on 12 Jumada Awwal 1428H (29 May, 2007)

- Objective: 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 Organization of Islamic Conference.

- Headquarters: Jeddah, Saudi Arabia

- Financial Year: The lunar Hijra Year (H).

- ISFD Board of Directors: The Board of Executive Directors of the IDB is the Board of Directors of the Fund, with the IDB President as the ex-officio chair.

- Target Sectors: Social and human development, basic infrastructure, capacity building, agricultural and rural development, and other activities deemed pro-poor.

- Resources of the Fund:
  - Targeted Initial Capital: USD10.0 billion.
  - Pledges: USD2.61 billion contributed by 36 member countries (US$1.61 billion) and IDB (US$1.0 billion)
  - Paid-up Contributions: US$538.2 million

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\(^{(1)}\) 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.
First ISFD Five-Year Strategy (2008-2012): Approved by the BOD in February 2008
- Estimated total cost of programs/projects under the Strategy: US$13.5 billion
- Envisaged ISFD Financing of the Strategy: USD2.0 billion
- Targeted leverage: 1:6

Approved Operations in 1429H: 26 operations, valued at USD320.26 million in 18 member countries.

Disbursements: Expected to commence in 1430H (2009)

Current Focus: The current focus of the Fund is to implement its first Five-Year Strategy (2008-2012) and mobilize the targeted capital of USD10.0 billion which is necessary to implement its programs.

Water: A huge resource for fighting poverty in many IDB member countries
It gives me great pleasure to present the first Annual Report of the Islamic Solidarity Fund for Development (ISFD). The context within which the ISFD is conceived and operates is a one in which a number of the IDB member countries are disproportionately affected by poverty and its negative consequences - poor health quality, limited access to education, and lack of basic services by a large segment of the population. The population of the IDB member countries constitutes 22 percent of the world population but accounts for about 43 percent of the world’s absolute poor. Hunger and malnutrition - the immediate manifestations of absolute poverty - are widespread in many member countries. The unfolding global economic downturn and the financial crisis that precipitated it, on top of last year’s food crisis, has adversely affected this segment of the society.

The year 1429H was the first year of operations of the ISFD. It was a year of laying down the basic foundation for the Fund – drawing up new policies for poverty reduction, deciding the strategic thrust and priority sectors for maximizing impact on poverty reduction, developing guidelines under which the Fund would operate, and setting procedures for effectively carrying out its mandate. A dedicated Unit for Poverty Reduction has been set up to coordinate and oversee the administrative and operational activities of the Fund and will be transformed into a full-fledged department within the new IDB Group Organizational Structure. However, with respect to program/project evaluation and implementation, the whole operation complex of the IDB is dedicated to these tasks.

To strengthen its impact, a new IDB policy for poverty reduction has been developed to guide the operations of the Fund. The thrust of this policy is impact maximization and partnering. It therefore takes into account not only the immediate needs of the marginalised and vulnerable groups in the society, but also the need to set up programs and projects that will boost economic growth and provide jobs and sustainable income for the poor. This approach has constituted the basis for the 26 projects and programs valued at US$320.26 million approved by the Fund in 18 member countries during 1429H.

In no way do the approved amounts meet member countries’ needs. They can only act as seed money for other partners to come in and scale up the projects so that they can have discernible impact on poverty. Indeed, the Fund has started to forge focused and selected partnerships in domains such as vocational literacy, malaria...
and microfinance programs and we would like to extend them to other sectors. However, as the need for more leveraging of the ISFD resources becomes more critical, so must the IDB stay responsive and continually reach out to new initiatives and partnerships that will make it more effective in its support of poverty reduction. We face this challenge with hope and confidence and believe that the ISFD will contribute effectively towards the member countries efforts to free themselves from absolute poverty and make strides towards the MDGs.

Central to the achievement of this goal is the extra effort needed to raise the US$10.0 billion initially targeted capital of the Fund. Thus far, 36 of the 56 member countries have pledged US$1.61 billion, in addition to US$1.0 billion committed by the IDB. It is therefore clear that there is a great need to enhance the efforts for resource mobilization so as to achieve the desired level of capital contributions and be able to generate enough income from the investment of these resources to finance the Fund’s operations.

In this regard, the Fund is thankful for the continuous support of the OIC Summit and the IDB Board of Governors for issuing resolutions calling on member countries to enhance the level of their contributions to the Fund so that it can achieve its noble objectives. The Bank will also strive to develop new and innovative instruments which can assist in mobilizing more resources for the Fund.

During the year, the Fund continued its consultations with the ISFD Governors and Board of Directors on the technical, financial and operational aspects relating to the Fund and I would like to thank them for their ardent support and guidance. I would also like to thank the esteemed members of the ISFD High-Level Advisory Committee for Resource Mobilization and IDB staff for their services to the Fund.

Fighting poverty is a long journey, and we are all together on this journey to build a better future.

**Dr. Ahmad Mohamed Ali**  
President, IDB Group  
Chairman of the ISFD Board of Directors
Establishment of ISFD:
Rationale, History and Main Features

1.1 Scale of Poverty in IDB member Countries

Despite the vast collective wealth of the IDB member countries, they are home to more than 40% of the world’s poor. Hunger and malnutrition, the immediate manifestations of absolute poverty, are pervasive across many member countries, and the large inequalities in income and wealth exacerbate this situation.

Presently, it is estimated that more than one billion people in the world live on less than one dollar a day, of which about 43 percent live in IDB member countries. This is a worrisome figure, considering that the population of the IDB member countries constitutes only 22% of the world’s total population. Moreover, twenty-eight of the 56 IDB member countries have more than 30% of their population living under the poverty line. In Sub-Saharan Africa, it is estimated that close to a half of the population live in absolute poverty.

Overall, most of IDB member countries lag behind in social progress, both in terms of achieving the Millennium Development Goals (MDGs) and in comparison to other countries with equal or lower per capita income. For example, despite wide regional variation, on average, one out of three people in the IDB member countries is illiterate. Considerable regional variations notwithstanding, the picture in health is equally alarming.

Africa, which represents half of the IDB membership, lags behind other regions of the world in demographic and health progress. Available data suggest that in 2006 infant mortality rate in Africa was 140 deaths per 1000 live births, compared to less than 5 in Europe. Similarly, maternal mortality ratio was 900 per 100,000 live births, compared to 20 in the developed countries, and life expectancy at birth was only 45-58 years against 70 years in developed countries. In addition, more than two-thirds of African countries lack qualified staff to perform vital services and interventions such as routine immunization, antenatal care, deliveries, obstetrical care, family planning services, etc.

In East Asia, despite the significant improvements made in income indicators over the last decade, reports confirm that large segments of the population continue to be without access to basic services, such as health care, education, clean water and sanitation. Moreover, progress in many health indicators, such as reducing infant mortality rates and infectious diseases, is still disconcerting. Many children in Asia are still suffering from polio, measles and pertussis, despite the fact that effective vaccines against these diseases have existed for decades. In fact, most IDB member countries are not on track to achieve any of the MDGs as targeted.

Thus, poverty is the greatest challenge facing the IDB member countries today, in spite of unprecedented high per capita growth rates in the last five years or so. Both absolute poverty and income distribution have worsened in many IDB member countries during this period. Among a multitude of factors, increased inequality, deteriorating terms of trade, low agricultural productivity, civil strife, the burden of diseases and low investment flows have contributed to these conditions. The situation is even worsening as a result of the recent food and financial crisis.
1.2 Resource Requirements for Poverty Reduction
Perhaps, the biggest challenge which faces the IDB member countries in the quest for poverty reduction is the huge amount of resource which are needed to address this problem. For example, the estimated financial resources required to implement the MDGs’ framework range from US$130 billion per year, at least by the year 2010, to US$180 billion a year. On the basis of previous trends of aid flows to developing countries, the IDB member countries account for roughly 35-40 percent of the total aid flows. This works out to US$45-72 billion of aid a year, if the above estimates are taken as benchmarks.

Other estimates can be made on the basis of the total investments needed to bring the population living below the poverty line to the US$1 per day. Barring income redistribution, and assuming an incremental capital-output ratio of 4:1, total additional investment of US$250 billion would be needed to attain this target. Under a more ambitious scenario, where all the population below the poverty line will have an additional income of US$1 per day, the corresponding amount of investment is estimated at US$626 billion. To achieve a US$2 per day target, considerably more resources would be required.

1.3 Challenges Facing IDB Member Countries
In view of the above, it is clear that several challenges face the IDB member countries in addressing poverty, such as:
- First, the enormity of the problem of poverty and the slow progress in achieving the MDGs by most LDMCs.
- Second, limited aid flows which are far less than the actual needs for making significant inroads into poverty reduction.
- Third, volatile global economic conditions which precipitate the poverty situation and increase the number of vulnerable groups.

1.4 Poverty Reduction as an Overarching Mission of the IDB
The Bank’s 1440 Vision, entitled ‘A Vision for Human Dignity,’ presents a unique vision of its role “to be a leader in fostering socio-economic development.” It stresses key aspects of poverty reduction in five of the Bank’s eight main priorities, namely: alleviate poverty, promote health, universalise education, prosper the people and empower women.

(2) The other three priorities are: expand the Islamic financial industry; facilitate integration of IDB member country economies among themselves and with the world; and improve the image of the Muslim world.
Two overarching themes define this focus:
- the need to improve and enhance the income of the poor through creating jobs and employment opportunities and ensuring that they reach the target groups of poor and disadvantaged people; and
- promoting the development of human capital by boosting education, training and health support services.

In light of this Vision, poverty reduction has become a main objective and underlying theme of the IDB’s intervention in member countries.

1.5 Establishment of ISFD
1.5.1 Decision to Establish the Fund
Demonstrating strong commitment and credibility in Joint Islamic Action, the decision to establish a Special Fund within the IDB (eventually called the Islamic Solidarity Fund for Development – ISFD) was reached by the Third Extraordinary Session of the OIC Summit Conference held in Makkah, Saudi Arabia, on 7-8 December 2005 (5-6 Dhul Qa‘dah 1426H) with a view to:
(a) Reduce poverty
(b) Build the productive capacities of member states
(c) Reduce illiteracy, and
(d) Eradicate diseases and epidemics, particularly Malaria, Tuberculosis (TB) and AIDS.

In pursuance of this decision, the IDB Board of Governors (BOG), in its 31st Annual Meeting held in Kuwait on 30-31 May 2006 entrusted the IDB Board of Executive Directors (BED) with the task of formulating all the details and documents relating to the Fund, and all other matters relating to its eventual operationalization. It also called on member countries to announce generous financial contributions to the Fund and to extend technical and moral support to its establishment and operations.

Box 1.1
Establishing the ISFD: Preparatory Activities

Consultations: As part of the preparatory process of establishing the ISFD, the IDB consulted various parties in the member countries and elsewhere with the view to exchange ideas, experiences, practical modalities and operational mechanisms to facilitate the effective operationalization of the Fund. An Expert Group Meeting (EGM) involving renowned professionals and practitioners on poverty, as well as a Ministerial Meeting, were organized in February 2007 in Jeddah to discuss technical and policy issues relating to the operationalization of the Fund.

Documentation: The outcomes of the preparatory activities and the consultations were incorporated into three documents namely: (i) The IDB Policy Paper on Poverty Reduction, (ii) Regulations of the Fund, and (iii) Operational Guidelines. The three documents highlight the policy, technical, legal, administrative, management and operational aspects of the Fund.
1.5.2 Official Launching of the Fund

Following the completion of all the necessary preparatory activities to bring it to an implementation stage, the ISFD was officially launched during the 32nd Annual Meeting of the IDB Board of Governors, held on 12-13 J. Awwal 1428H (29-30 May, 2007) in Dakar, Senegal. The inauguration of the Fund was graced by H.E. Abdoulaye Wade, the President of the Republic of Senegal, and the Heads of States of Burkina Faso, and Guinea Bissau, the Prime Minister of Guinea, the Secretary General of the OIC, the Chairman of the Commission of the African Union, the IDB Governors, and other high officials. The Fund has been established in the form of a Waqf (i.e. Trust), with a principal targeted amount of US$10.0 billion. The concept of the Waqf means that operations under the ISFD will be financed only from the returns on investment of its core resources, thus ensuring its sustainability.

1.5.3 Salient Features of the Fund

The IDB has been engaged in providing concessional finance, particularly for its Less Developed Member Countries (LDMCs), since its inception in 1975, with a cumulative volume exceeding US$5.0 billion, half of which was extended for pro-poor activities. Despite this long experience in the area of poverty reduction, and in order to optimize the impact of the Fund’s operations which have been assigned to the IDB to manage, the IDB policy on poverty reduction has been developed to enhance the capacity of the Fund in designing and implementing its programs for addressing poverty in member countries more effectively. This policy takes into account lessons of experience from member countries, the international development community, and national interests of member countries. Overall, the policy emphasizes the following:

- Operations under the Fund will be well selected, innovative and support the most basic and productive activities that have immediate impact on the lives of the poor people.

- Partnership and joint action with other key players, such as bilateral and multilateral agencies, local development financing institutions, UN agencies, civil society organizations etc.

- Economic growth that is accompanied by “pro-poor” policies. This requires that the design of projects and programs under the Fund is pro-poor.
• To the maximum extent possible, the interventions will be community-based, to supplement Governments’ efforts in the area of poverty reduction. Wherever possible, NGOs and other civil society organizations will be utilized to implement such interventions.

• Though a larger share of the Fund’s resources would go into “basic needs,” such as water supply, primary and secondary education, primary health care, agricultural development and food security, higher education and science & technology would also be considered – basically for two reasons: (a) as drivers for productivity and growth; and (b) as “enhancers” of a country’s competitive edge in the global economy.

• While the Fund will benefit the poor segments or vulnerable groups in the society in all member countries, topmost priority will be given to the least developed member countries, especially Sub-Saharan African countries, as well as countries affected by conflicts.

• The Fund shall play a catalytic and facilitator 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.

BOX 1.2
ISFD Priority Sectors

In pursuing its objective, the ISFD undertakes operations which are aimed at equitable distribution of benefits of economic growth, and meeting the basic needs of the poorest segments of the population, such as:

(a) Infrastructure development, particularly rural infrastructure.
(b) Human development, including education (particularly for girls); health sector development (fighting malaria, tuberculosis and other diseases), and water and sanitation.
(c) Agriculture and rural development, given the sector’s predominance in providing livelihoods to millions of people.
(d) Microfinance, as an employment and income generator.
2.1 The Strategy
In line with the IDB Vision, which makes ‘alleviating poverty’ on top of the IDB’s strategic objectives, the ISFD developed its First Five-Year Strategy (2008-2012), which represents an additional leverage to the various windows and instruments of the IDB Group for addressing poverty in member countries.

Approved by the ISFD Board of Directors in February 2008, the Strategy emphasises the key aspects of pro-poor growth and employment generation activities in selected programmes which would be utilized to combat poverty in both least developed member countries (LDMCs) and poverty pockets in non-LDMCs. These programs are aimed to follow one or more of the following approaches:

- Thematic Approach, mainly microfinance and vocational training
- Multi-Year/Multi-Sector Approach
- Individual Projects

The total cost of the programs and projects envisaged by the Strategy is estimated at US$13.5 billion, with a contribution of the Fund of US$2.0 billion as concessional financing, implying an overall targeted leverage of 1:6 for all programs/projects for every US dollar spent by the ISFD on these programs/projects.

2.2 Sector Focus
The first ISFD Five-Year Strategy focuses on the following priority areas:

- **Agriculture & Rural Development**: Since poverty is still predominantly a rural phenomenon in IDB member countries, investment in the agricultural sector, on which the bulk of the population depends for its livelihood, is an obvious target for the ISFD Strategy. To support economic growth, in addition to food security, investments in this sector will be targeted in high-value addition sub-sectors, such as agro-processing, land development, animal health facilities, irrigation, crop research and development, marketing, storage facilities, micro-finance schemes, rural tracks and feeder roads, etc.

- **Human Development**: In addition to agriculture, health and education, collectively referred to as human development sector, are targeted by the Strategy. The Fund programs will aim to broadly focus on illiteracy, vocational training, and basic education in the education sector. In the heath sector, the Fund’s operations will focus on fighting of epidemics and communicable diseases, mainly malaria, HIV/AIDS, tuberculosis and polio, depending on the needs of specific countries.
• **Basic Infrastructure:** Essential services of water supply and sanitation, transport and power supply fall under the thematic group of infrastructure. Poor infrastructure is one of the most serious constraints to growth and poverty reduction throughout the IDB member countries and, as such, is a prime target of the ISFD programs. Efficient transportation services, telecommunications, power supply, and water systems, dramatically improve individuals’ lives and incomes by increasing production capacity and employment opportunities. Improving information flow, broadening markets, substitutes for physical travel and transport and reduces trade transaction costs.

• **Micro-enterprises** are a source of income and employment creation for millions of people in member countries. However, statistics show that access to financial services is lacking for low-income households, fresh graduates and needy people in the member countries. Yet, these services are now considered critical to small business development and income and employment growth in all countries. Consequently, the ISFD Strategy targets support to the financial services and micro-finance for very small and small-scale enterprises as one of its main tools for fighting poverty in member countries.

The Strategy also identified a number of cross-cutting themes which would be emphasized in all the projects and programs of the Fund. These are related mainly to capacity-building, programmes supporting women, and environmental protection.

**2.3 ISFD Special Programs**

Two thematic programs have been emphasized by the ISFD Strategy: Vocational Literacy Program (VOLIP) and Microfinance Support Program (MFSP). These programs have been developed by the Fund for implementation starting 1429H (2008). The total cost of each of them is estimated at US$500 million, to which the ISFD will contribute US$100.0 million over the Strategy period. Given the catalyst/facilitator role of the ISFD, the programs are expected to attract resources from other development partners and stakeholders with a leverage of 1:4.

(i) **Vocational Literacy Program for Poverty Reduction**

The scope and main characteristics of the program will be:

a. Geographically focused
b. It will reach about 4 million people in IDB member countries.
c. It will provide non-formal education to about 1.1 million people, including out of school children – 9-15 years old; teenagers and young adults - 16-24 years old - and women workers.
d. It will provide functional literacy programs to about 1.8 million adults.
e. About one million people will have access to microfinance through local associations in small businesses in agriculture, stockbreeding, mining, fishing and informal sector.

(ii) *Microfinance Support Program (MFSP)*
The Microfinance Support Program is aimed at promoting access of the economically active poor to financial resources and means to reduce vulnerability, create employment opportunities and improve their living conditions.

The scope of the Program comprises the following main components:
a. Extend lines of financing and equity capital to selected banks and microfinance institutions (MFIs).
b. Provide technical assistance capacity building to microfinance institutions, banks, and vocational training institutions.
c. Provide market oriented training for the economically active poor in order to improve their technical capabilities and skills for small business development and management.
d. Promote and assist in establishing guarantee funds to enhance banks financing capacities in providing microfinance services in favour of the poor.
e. Promote and assist in establishing Social Safety Net Funds to provide resources to rebuild livelihoods, replace lost assets, and gain productive skills for the high-risk groups.
OPERATIONS
3.1 Introduction
The new IDB Policy for Poverty Reduction calls for a more systematic and pro-active approach to helping member countries in their poverty reduction efforts. This includes carrying out of a Country Poverty Analysis (CPA), followed by a Country Assistance Program (CAP) where all stakeholders including local communities would participate. This is combined with developing a well grounded program/project design, which incorporates international best-practices. This new approach also fits in with the shift to a more integrated approach for development, including soft development components of community empowerment, micro-finance, capacity building, health, education and vocational training.

3.2 Programs'/Projects’ Approvals
Although the new IDB Policy for Poverty Reduction emphasizes the programmatic approach in the Fund’s operations, 1429H was a transitional year for implementing this policy pending the completion of the Country Poverty Analysis (CPAs) in the targeted member countries. Hence, most of the approved operations during the year were individual projects. The CPAs will constitute the basis for the implementation of comprehensive Country Assistance Programs (CAPs) in the future. In 1429H, 26 operations amounting to US$320.26 million were approved under the umbrella of the ISFD.

Nonetheless, the underlying objective of all the projects approved in 1429H was the extent to which they would impact on reducing poverty in the target countries. Given the limited resources available, the Fund was selective in picking up these projects and formulating them in such a way as to achieve the maximum possible impact. This is reflected in the sector priorities, geographical focus, as well as in the terms and conditions of financing.

3.3 Sector Distribution of Approved Projects – 1429H (2008G)
The sector distribution of the approved projects has been as follows:

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<th>Sector</th>
<th>No. of Proj.</th>
<th>Value (US$m)</th>
<th>%</th>
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<tbody>
<tr>
<td>Transport</td>
<td>12</td>
<td>151.83</td>
<td>47</td>
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<tr>
<td>Education</td>
<td>4</td>
<td>41.56</td>
<td>13</td>
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<tr>
<td>Water Resources</td>
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<td>44.34</td>
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<td>Public Utilities</td>
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<td>Microfinance</td>
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<td>16.40</td>
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<tr>
<td>Multi-sector</td>
<td>2</td>
<td>37.95</td>
<td>12</td>
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The noticed focus on transport, accounting for 47% of total approvals was due to the high importance of this sector in the IDB policy for poverty reduction as well as the national development plans of member countries. Roads and transport in general have the capacity to boost pro-poor growth through opening up trade and market channels and thus help in addressing the root causes of poverty in the rural areas.
In the area of thematic programs, three operations (two microfinance and one VOLIP) were approved during the year.

In the health sector, ISFD has two programs on malaria and river blindness which have been under implementation by the concerned IDB departments. In implementing these programs, due attention was paid to the possibility of replicating them on a multi-year basis with partners (including UN specialized agencies and the private sector) who could add value not only through co-financing but also by taking the responsibility of administering at least part of the project on behalf of the IDB, thus enhancing the cost-effectiveness of the financed projects despite the multiplicity of policies and procedures which can occur. This catalyst/facilitator role is essential in view of the Fund’s limited resource base in comparison with member countries’ financing requirements.

3.4 Country Distribution
The Least Developed Member Countries (LDMCs) are the main beneficiaries of the ISFD. The basic criteria for country allocation include the depth of poverty (i.e. at least 20% of the population, or more are classified as living below the poverty line), progress towards MDGs (i.e. whether the country is reversing or making progress), dire need for resources, and absorptive capacity of the recipient country. Eighty percent of the annual financing would be directed towards the LDMCs, and 20% to non-LDMCs.

As can be seen in Annex I, 16 out of the 18 countries which benefited from ISFD financing in 1429H were LDMCs(3), most of which are in sub-Saharan Africa. In fact, concerned with the low state of development of most African countries, the IDB has launched the new Special Program for the Development of Africa (SPDA) and endorsed the New Partnership for Africa’s Development (NEPAD) which are aimed to support short- and long-term economic development of Africa. Thus, placing priority on African countries for ISFD operations was in line with these initiatives. Moreover, a policy was adopted whereby the programs supported by the IDB Group, SPDA and Jeddah Declaration would be implemented in tandem so as to supplement the amount of resources available from the Fund to member countries and give more incentive to other partners to contribute to these programs.

3.5 Terms & Conditions of Financing
All approved ISFD operations in 1429H were financed on concessional terms, i.e. ranging from 0.75% to 2.0% for service charges, 7 to 10 years for grace periods, and 20 to 30 years for repayment periods. This was in line with the approved ISFD loans terms and conditions.

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(3) The LDMCs include 24 IDB member countries, namely Afghanistan, Bangladesh, Benin, Burkina Faso, Chad, Comoros, Djibouti, The Gambia, Guinea, Guinea-Bissau, Maldives, Mali, Mauritania, Mozambique, Niger, Senegal, Sierra Leone, Somalia, Sudan, Togo, Uganda, Yemen, Kyrgyzstan Republic, and Tajikistan. As a special case, the State of Palestine is treated as an LDMC as are Albania, Azerbaijan, and Uzbekistan.
3.6 Co-financing
The total cost of the approved projects in 1429H was US$948.32 million, whereas the ISFD contributed US$320.26 million – representing 33.8%, and the remaining cost was covered by other partners including the IDB, national Governments, Saudi Fund, African Development Fund and some bilateral donors.

3.7 Partnerships for VOLIP and Microfinance
Forming partnerships is one of the key objectives of the ISFD Five-Year Strategy (2008 – 2012), and one of the best ways of leveraging resources and scaling up its projects/programs. Consequently, several partnership avenues were identified and developed with institutions to assist in the effective implementation by the ISFD of Vocational Literacy (VOLIP) and Microfinance Support Programs. Some of these partnerships are briefly described below.

- **Mauritania – Irrigation Development Project in R’Kiz Eastern Basin:**
The Project aims at increasing rice production through establishment of an adequate irrigation scheme covering a gross area of 2400 ha, providing access to social services and promoting the farmers’ professional organizations. The total cost of the project is estimated at US$23.51 million out of which ISFD contributed US$ 2.15 million (9%) through a Loan, IDB provided US$10.77 million (46%) by way of Istisna’a (manufacturing), while the Saudi Fund for Development (SFD) contributed US$8.59 million (37%).

- **ISFD-Grameen Social Business Enterprise Initiative:**
The ISFD has embarked on developing an ISFD-Grameen Social Business Enterprise initiated by Professor Mohammed Yunus, Managing Director of Grameen Bank, in November 2008. Further, the ISFD explored the technical and legal aspects for implementing this program on a global level where it can be implemented in other IDB Member Countries.

- **International Islamic Charitable Organization (IICO):**
The ISFD is working in collaboration with the International Islamic Charitable Organization (IICO), based in Kuwait, on a program to support needy women in several countries, such as Uganda, Sudan, Egypt, Jordan, Bahrain, Pakistan and Bangladesh. The initial cost of the program is estimated at US$15 million, to which IICO will provide US$4.0 million and the ISFD US$5.0 million. In addition, the IDB is considering to help IICO mobilize resources from other sources to cover the remaining amount. The ISFD financing will be used for microfinance aimed at productive projects that will provide employment opportunities for the needy communities and improve their living conditions.

- **Prince Salman Centre for Disability Research (PSCDR) and the Saudi Credit and Saving Bank (Kingdom of Saudi Arabia):**
The three parties (including ISFD) signed a tripartite Framework Agreement in which the Saudi Credit and Saving Bank has committed SR150.0 million (US$40.0 million) to the program, which will be used for microfinance to small and very small enterprises.

- **Other Partnerships:**
The ISFD is also in the process of entering into partnership with many organizations, such as the Community Service Program in Egypt (in collaboration with Abdul Latif Jameel Community Service Program), World Bank, African Development Bank, UN agencies, and implementing VOLIP and microfinance programs in Djibouti, Jordan, Niger, Senegal, and Uganda with several national institutions.
3.8 Looking Ahead
Plans are underway to develop and launch other targeted programs in 2009 as the Fund seeks to build broader and effective partnerships to meet its strategic objectives, which encompass efforts aimed at enhancing productive capacities of member countries (through initiatives that foster sustainable economic growth and job creation); reduce illiteracy; eradicate diseases and epidemics, particularly Malaria, Tuberculosis (TB) and HIV/AIDS; and develop basic infrastructure.

Box 3.1
Selection of Pro-poor Projects

A project/program is considered pro-poor if it primarily benefits the poor in absolute terms. If the intended beneficiaries support and sustain the local economy, then this will create a direct link between economic growth and poverty reduction. It also implies that the projects/programmes which will be targeted by the Fund must have clear and direct impact on the poor. This broad-based pro-poor growth approach will constitute the basis of the Fund’s intervention in member countries with a view to achieve the following:

- Help the poor to break away from poverty with a special focus on the absolute poor.
- Sustainable poverty reduction activities that not only help member countries achieve the MDGs, but also create opportunities for growth and employment for the poor.
4.1 Activities of the Board of Governors
The 32nd Annual Meeting of the IDB Board of Governors (BOG), held on 12-13 J. Awwal 1428H (29-30 May, 2007 in Dakar, Senegal, witnessed the official launching of the ISFD.

The meeting also adopted the Regulations of the ISFD and endorsed the contributions to the Fund as then announced by 19 IDB member countries as well as the IDB. It also issued a Resolution which requires the IDB to channel its concessionary financing resources through the ISFD until such time that the Fund obtains the targeted resources to meet the financing requirements of its operations.

The 1st Annual Meeting of the ISFD Board of Governors (BOG), was held on 29-30 J. Awwal 1429H (3-4 June, 2008), coinciding with the 33rd IDB Group Annual Meeting of the BOG, in Jeddah, Saudi Arabia.

The BOG deliberated the progress of the Fund during 1428H and emphasized the importance of resource mobilization for the success of the Fund. Also, the Procedures Committee of the BOG considered the views expressed by the ISFD Board of Directors (BOD) about the need to enhance the current levels of contributions to the ISFD and came up with the view that some criteria need to be set to guide member countries in determining the appropriate levels of their contributions. This view constituted the basis for follow-up consultations with the ISFD Governors throughout the year in an attempt to come up with an appropriate criteria for guiding member countries’ contributions to the Fund.

4.2 Activities of the ISFD Board of Directors
In accordance with the ISFD Regulations, the Board of Executive Directors of the IDB has been appointed as the Board of Directors of the Fund (BOD) to provide strategic guidance and take decisions regarding all forms of financing as well as the resources, operational procedures and policies, and rules and regulations of the Fund.

During 1429H, the BOD held nine meetings during which it considered several items related to policy issues, as well the first ISFD Five-Year Strategy (2008-2012) and programs/projects financing. The Board approved 26 operations amounting to US$320.26 million for poverty reduction in 18 IDB member countries. It also considered operations approved by the President of the IDB under the authority delegated to him by the BOD.

The BOD also endorsed new pledges to the Fund which were announced by 17 IDB member countries during 1429H.

4.3 ISFD High Level Advisory Committee Meetings
A High-Level Advisory Committee comprising a number of eminent personalities was called to provide advice on all issues/matters related to the ISFD, particularly resource mobilization.

The first meeting of the High-Level Advisory Committee was called for by the H.E. Ahmed Bin Mohammed

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**Corporate Aspects**

**4.1 Activities of the Board of Governors**

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The first meeting of the High-Level Advisory Committee was called for by the H.E. Ahmed Bin Mohammed
Al-Khalifa, the then Chairman of the ISFD Board of Governors and Minister of Finance of the Kingdom of Bahrain. The meeting was held in Manama, Bahrain, on 5 February 2008.

The Committee also held a second meeting in Kuwait on 24 R. Thani 1429H (30 April 2008) which was chaired by H.E. Abdullaye Wade, President of Senegal, and discussed modalities for enhancing the mobilization and utilization of the Fund’s resources. The main conclusions of the meetings of the Committee are summarized in Box 4.2 below.

### 4.6 ISFD Membership
Membership of the Fund is opened to member countries of the IDB and institutions of the member countries of the IDB subject to the terms and conditions that may be set by the ISFD BOG. As at the end of 1429H (2008G), 36 IDB member countries had joined the membership of the Fund as shown in Annex II.

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**Box 4.2**

**Major Conclusions of the ISFD High-Level Committee Meetings**

- The Waqf (Trust) nature of the Fund ensures its sustainability and is therefore quite appropriate and should be maintained.
- The Fund should accelerate formulation, design and implementation of programs to build success stories to help in resource mobilization.
- Efforts should be exerted by the Bank to attract the private sector to support the Fund’s activities.
- The Fund should attempt to develop appropriate mechanisms to enhance the role of Zakat and Waqf in fighting poverty.
- The OIC member countries which have not announced their contributions to the Fund were called upon to do that as soon as possible.
- A strong public relations company should be appointed to promote the Fund’s activities and attract partners.
- In additions to monetary resources, the importance of knowledge management and training as important elements in fighting poverty should be emphasized by the Fund.
Financial Review

5.1 Resources of the FUND
The initially target capital of the Fund is US$10.0 billion consisting mainly of contributions by IDB member countries and the Bank itself. The total pledges as at the end of 1429H stood at US$2.61 billion, composed of US$1.61 billion committed by 36 member countries, and US$1.0 billion committed by the IDB. As can be seen in Annex I, the biggest pledges were made by Saudi Arabia (US$1.0 billion), Kuwait (US$300.0 million), and Iran (US$100.0 million).

Paid up capital was US$538.2 million as at the end of 1429H (2008). Out of this, US$438.2 million was paid by member countries and US$100.0 million by the IDB. Retained earnings were USD21.8 million.

The resources of the Fund are held and utilized independent of the resources of the IDB. Also, 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 Waqfs (Trusts). Although the accounts of the Fund are kept in US dollar, the Regulations stipulate that they can be kept in any currency, currencies, or unit of account that the Board of Directors may deem appropriate.

5.2 Operations Financing
The ISFD approvals during in 1429H (2008) had amounted to US$320.26 million, for 26 operations in 18 countries. All financing was carried out from the IDB allocations for concessionary financing under the umbrella of ISFD. Being the first year of operations, these amounts constitute the cumulative approvals of the Fund since its inception. It is expected that commencement of disbursements for these approvals will start in 1430H (2009).

The applied terms and conditions to the Fund’s operations were set in a manner which would ensure that the financing is provided on concessional terms to the member countries while also ensuring the long-term sustainability of the Fund.

5.3 Income
During 1429H, the mobilized liquid funds, composed mainly of paid-up contributions from member countries and the IDB, were invested in Murabaha and short-term Shariah compatible placements. Given the need to preserve the value of the capital resources of the Fund, these investments were guided by the generally accepted sound investment principles with paramount consideration also given to the stability and maximization of the Fund’s income. Almost all the investments were made in US dollar and EUR, which yielded a return of US$23.54 million - equivalent to an average annual rate of return of 4.37 percent.
The income of the ISFD during the year - US$23.54 million - was composed of income from commodity placements US$23.06 million, murabah US$0.424 million and call accounts US$0.05 million. Net income was US$21.881 million, having registered an exchange loss of US$1.66 million due to fluctuations in the value of the US dollar.

5.4 Management of Liquid Funds
As a Waqf (i.e. Trust), the Principal Amount (capital resources) of the Fund will not be available for utilization in its operational activities and the Fund is required to invest its resources which will not be immediately required for financing its operations. Thus, contingent on the mobilization of the required capital resources, liquidity would be maintained only to the extent that would ensure uninterrupted availability of liquid funds to meet the Fund’s undistributed current commitments and other cash requirements.

The ISFD Regulations also require that these investments should be aimed to provide medium- to long-term finance and equity investments with suitable returns in sustainable projects that have a high socio-economic development impact. The aim is to maintain a carefully balanced portfolio of the Fund’s assets and generate a stable current yield that would meet the entire financing requirement of the operations of the Fund and ensure its long-term growth and sustainability. To meet all these requirements effectively, the ISFD is in the process of developing detailed guidelines for short- and long-term investment of its resources.
Challenges and Prospects

6.1 Limited Resource Base
Fighting poverty is the most daunting challenge facing the IDB, given its scale in the OIC member states. The decision to establish the ISFD has come as a direct expression of the desire of the leaders of the OIC member states to strengthen the spirit of brotherhood and Islamic solidarity among member countries to address this challenge. Since the launching of the Fund in Dakar in Senegal in May 2007, the IDB has instituted all the steps necessary to implement the Fund and the year 1429H (2008) witnessed the actual operationalization of the Fund. Despite the progress made, however, a limited resource base coupled with new development challenges in the member countries renders the need for more concerted collective action even more imperative.

6.2 Resource Mobilization:
Currently member countries pledges, amounting to of US$1.61 billion, are far below the targeted capital of US$10.0 billion. Actual payments, which stand at US$538.2 million - including US$100.0 million paid by the IDB - are only about 5% of that targeted amount. Moreover, with the Waqf (Trust) concept of the Fund, it is also clear that the current level of contributions needs to be substantially increased in order to generate enough income from the investment of these resources to finance the Fund’s operations.

Indeed, there are resolutions by the OIC Summit and IDB Board of Governors expressing concern over the wide gap between the initially targeted capital of the Fund and the low contributions which have been announced by member countries. The IDB looks forward for member countries who did not contribute so far to the Fund’s resources to do that at the soonest possible and those member countries who made initial contribution to increase it further to enable the Fund play its noble role.

The Fund looks forward with optimism that member countries will implement the resolutions in this regard as it is only through such strong commitment that the ISFD will be able to contribute significant amounts and attract strong partners to assist in the fight against poverty in the member countries, particularly the least developed ones.
In addition to the commitments of the member countries, the management of the Fund will exert effort to tap the Waqf/Zakat and private sector funds through the following:

- ISFD administering special funds as desired by the donor(s) to be applied to particular poverty-related program/project.
- Direct contribution to the ISFD resources
- Co-financing arrangements

6.3 Launching Resource Mobilization Campaign
The ISFD will launch a resource mobilization campaign through various activities, including:

- Mounting high-level missions to member countries with the help of the members of the ISFD Advisory Committee.
- Contracting a reputable public relations firm which could assist in promoting the activities of the fund as well as advising on various ways and means for resource mobilization.
- Organize conferences at a regional level for private sector, awqaf (Trusts) and Zakat institutions and charitable organizations to build up partnerships and augment ISFD resources.
- Enhance the ISFD staff capacity for better program’s/project’s formulation, design and timely implementation. as well as in the area of marketing and building of partnership skills.
ANNEXES

<table>
<thead>
<tr>
<th>S/ No.</th>
<th>Country</th>
<th>Project</th>
<th>Total Cost</th>
<th>ISFD Contribution</th>
<th>Approval Date</th>
<th>Description &amp; Objectives of the Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Albania</td>
<td>Water Supply &amp; Sanitation Project in Orikum</td>
<td>US$16.44 million</td>
<td>US$13.35 million</td>
<td>1/6/08</td>
<td>Provide uninterrupted safe drinking water to the residents in Orikum and enhance the environmental conditions through construction of a wider water supply network and sanitation facilities in the project’s area.</td>
</tr>
<tr>
<td>2</td>
<td>Bangladesh</td>
<td>Greater Rajshahi Division Integrated Rural Development Project</td>
<td>US$ 29.64 million</td>
<td>US$19.89 million</td>
<td>13/7/08</td>
<td>Reduce poverty in the project’s area through multi-sectoral interventions. This involves development of essential rural infrastructure (i.e. roads and markets); increasing employment opportunities for the rural population, especially the poor, disadvantaged women and youth; and improving water and sanitation facilities leading to enhanced health status.</td>
</tr>
<tr>
<td>3</td>
<td>Bangladesh</td>
<td>Improving Rural Households Livelihood Through Solar Energy Project</td>
<td>US$64.0 million</td>
<td>US$18.0 million</td>
<td>21/12/08</td>
<td>Raise the levels of social development and improve rural households livelihoods by increasing access to electricity and supporting initiatives that will make productive use of electricity.</td>
</tr>
<tr>
<td>4</td>
<td>Burkina Faso</td>
<td>Koudougou-Dedougou Road Project</td>
<td>US$67.8 million</td>
<td>US$16.3 million</td>
<td>24/8/08</td>
<td>Improves the accessibility to a large production area of the country with considerable agricultural potential through the upgrading of the existing earth road linking Dedougou and Koudougou to an all weather road over a distance of 130 kilometers.</td>
</tr>
<tr>
<td>5</td>
<td>Burkina Faso</td>
<td>Dangoumana Hydro-Agricultural Development Project</td>
<td>US$31.8 million</td>
<td>US$12.19 million</td>
<td>21/12/08</td>
<td>Improving food security and alleviating poverty in the North-West Region of the country through irrigation. It comprises construction of pumping stations, main canal, irrigated land development, and social infrastructure.</td>
</tr>
<tr>
<td>6</td>
<td>Chad</td>
<td>Microfinance Project</td>
<td>US$7.47 million</td>
<td>US$6.38 million</td>
<td>21/12/08</td>
<td>Providing microfinance for women and youth micro-entrepreneurs and assisting in the implementation of the country’s National Strategy for Microfinance.</td>
</tr>
<tr>
<td>7</td>
<td>Chad</td>
<td>Arboutchatak – Bitkine Road Project</td>
<td>US$69.18 million</td>
<td>US$11.07 million</td>
<td>21/12/08</td>
<td>Up-grading an existing road - Arboutchatak-Bitkine (76 km) - from an earth road to a modern paved road. The project will contribute to regional integration by facilitating trade between Chad and Sudan.</td>
</tr>
<tr>
<td>S/No.</td>
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<td>Description &amp; Objectives of the Project</td>
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<td>8</td>
<td>Cote D’Ivoire</td>
<td>Reconstruction Program for the Centre-North-West Zone</td>
<td>US$36.3 million</td>
<td>US$29.4 million</td>
<td>21/12/08</td>
<td>Increase access to, and improve the quality of urban infrastructure and services in the road, water and education sectors in four main cities in the Centre-North-West regions, the worst hit during the civil conflict in Cote d’Ivoire.</td>
</tr>
<tr>
<td>9</td>
<td>Djibouti</td>
<td>Integrated Djibouti-Loyada Road Construction and Rural Development Project</td>
<td>US$12.5 million</td>
<td>US$10.0 million</td>
<td>1/6/08</td>
<td>Improving transport conditions by constructing a 19 km road linking Djibouti-Gty to Loyada at the Somali border. In addition, the project will spur social and institutional development (health centres, multi-learning centre, feeder road, micro-finance and solar pumps for wells).</td>
</tr>
<tr>
<td>10</td>
<td>Djibouti</td>
<td>Balbala Urban Poverty Reduction Program</td>
<td>US$9.1 million</td>
<td>US$8.55 million</td>
<td>1/6/08</td>
<td>The Program will improve livelihoods and life conditions of the main Djibouti slum community of Balbala through increased access of deprived families to infrastructure and basic urban services, market-oriented vocational training (for insertion of unemployed youth into the mainstream) and microfinance services.</td>
</tr>
<tr>
<td>11</td>
<td>The Gambia</td>
<td>Gunjur Water supply Project</td>
<td>US$5.17 million</td>
<td>US$4.74 million</td>
<td>27/10/08</td>
<td>Improving public health through better and wider access to clean water supply and sanitation services.</td>
</tr>
<tr>
<td>12</td>
<td>Indonesia</td>
<td>IDB PNPM - Integrated Community Driven Development (ICDD) Project</td>
<td>US$126.96 million</td>
<td>US$15.0 million</td>
<td>10/1/09</td>
<td>Improve socio-economic conditions of communities in the targeted area, especially women and the poorest, through improved infrastructure and institutional capacity.</td>
</tr>
<tr>
<td>13</td>
<td>Indonesia</td>
<td>Development &amp; Upgrading of University of Jakarta Unj Project</td>
<td>US$38.68 million</td>
<td>US$3.38 million</td>
<td>1/6/08</td>
<td>Upgrade and expand the academic and research facilities at the University, in addition to updating the curriculum and training facilities of the Faculty.</td>
</tr>
<tr>
<td>14</td>
<td>Jordan</td>
<td>Microfinance Support Program (MFSP)</td>
<td>US$13.85 million</td>
<td>US$10.0 million</td>
<td>21/12/08</td>
<td>Improving the livelihoods and life conditions of unemployed active poor through access to microfinance services, vocational training, and business opportunities/networking with the private sector.</td>
</tr>
<tr>
<td>15</td>
<td>Kyrgyz Republic</td>
<td>Reconstruction of Taraz-Talas-Suusamyr Road (Phase-II)</td>
<td>US$12.77 million</td>
<td>US$11.20 million</td>
<td>1/6/08</td>
<td>Reconstruct an existing road that will allow faster access to the border areas and provide an important link with Kazakhstan. The total project length, being built in phases, is 198 km.</td>
</tr>
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<td>S/No.</td>
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<tr>
<td>16</td>
<td>Lebanon</td>
<td>Upgrading of Shebaa Roads Project</td>
<td>US$6.62 million</td>
<td>US$5.23 million</td>
<td>1/6/08</td>
<td>Constructing and upgrading 23 km long road sections linking a number of villages in south Lebanon.</td>
</tr>
<tr>
<td>17</td>
<td>Mali</td>
<td>Tien-Konou/Taman Rural Development Support Project</td>
<td>US$33.30 million</td>
<td>US$11.5 million</td>
<td>27/10/08</td>
<td>Improve Mali’s food security through the development of irrigation infrastructure and provision of extension services and micro finance.</td>
</tr>
<tr>
<td>18</td>
<td>Mali</td>
<td>Taoussa Dam</td>
<td>US$195.4 million</td>
<td>US$30.0 million</td>
<td>21/12/08</td>
<td>Among other benefits, the project will enhance food security and nutrition. It will also restore the ecosystem deteriorated by long and recurrent droughts. It includes construction of the dam and its related facilities, access road and land re-development covering 2,300 ha.</td>
</tr>
<tr>
<td>19</td>
<td>Mauritania</td>
<td>Integrated Agricultural Development Project</td>
<td>US$14.523 million</td>
<td>US$10.00 million</td>
<td>19/10/08</td>
<td>Re-vitalizing agriculture in three communes increased agricultural productivity and other measures that will lead to sustained food security.</td>
</tr>
<tr>
<td>20</td>
<td>Mauritania</td>
<td>Irrigation Development Project in Rkiz Eastern Basin</td>
<td>US$23.5 million</td>
<td>US$2.15 million</td>
<td>27/10/08</td>
<td>Increasing rice production through an irrigation scheme covering 2400 ha, provision of social services and promoting farmers' professional organizations.</td>
</tr>
<tr>
<td>21</td>
<td>Mozambique</td>
<td>Lower Secondary Education Development Project</td>
<td>US$18.31 million</td>
<td>US$15.26 million</td>
<td>27/10/08</td>
<td>The project involves the construction and equipping of 5 secondary schools, promotion of girls’ education, and curriculum development.</td>
</tr>
<tr>
<td>22</td>
<td>Senegal</td>
<td>Vocational Literacy Program for Poverty Reduction (VOLIP)</td>
<td>US$14.55 million</td>
<td>US$11.75 million</td>
<td>21/12/08</td>
<td>Contributing to poverty reduction, particularly among women and the rural poor, by equipping them with relevant functional literacy competencies and notional skills and by giving them access to microfinance services to enable them improve their well-being.</td>
</tr>
<tr>
<td>23</td>
<td>Sierra Leone</td>
<td>Kenema-Koindu Road Project</td>
<td>US$61.56 million</td>
<td>US$12.43 million</td>
<td>24/8/08</td>
<td>Up-grad-ing an existing road Kenema-Pendembu (86 km long) from an earth road to a modern paved one. The project will facilitate physical access to markets, essential services and development opportunities. The project will also facilitate trade exchange between Sierra Leone and its neighbors, namely Guinea and Liberia.</td>
</tr>
<tr>
<td>S/ No.</td>
<td>Country</td>
<td>Project</td>
<td>Total Cost</td>
<td>ISFD Contribution</td>
<td>Approval Date</td>
<td>Description &amp; Objectives of the Project</td>
</tr>
<tr>
<td>-------</td>
<td>-----------</td>
<td>---------------------------------------------------</td>
<td>------------------</td>
<td>-------------------</td>
<td>--------------</td>
<td>----------------------------------------</td>
</tr>
<tr>
<td>24</td>
<td>Sudan</td>
<td>Gezira University Upgrading and Development Project</td>
<td>US$11.83 million</td>
<td>US$11.17 million</td>
<td>1/6/08</td>
<td>Targeting mainly the Medical and Agricultural Faculties, the project is designed to improve the physical learning environment, enhance the quality and relevance of the courses to be more responsive to labor market needs, and develop the faculty and technicians skills.</td>
</tr>
<tr>
<td>25</td>
<td>Yemen</td>
<td>Rural Access Program</td>
<td>US$13.89 million</td>
<td>US$ 11.20 million</td>
<td>13/7/08</td>
<td>Provide a direct link to the rural population in the target Governorates by providing all year accessibility. The project includes the construction of Assoha - Suq Arrabu Road in the Governorate of Lahj (27.3 km) and Al-Berain - Al-Qadaha Road in the Governorate of Taiz (24 km).</td>
</tr>
<tr>
<td>26</td>
<td>Yemen</td>
<td>Urban Water Supply and Sanitation Project</td>
<td>US$13.18 million</td>
<td>US$10.1 million</td>
<td>24/8/08</td>
<td>The project, which is located in Lahej Governorate, is aimed to improve people's livelihood and the overall health conditions in the area by providing clean drinking water and appropriate sanitation facilities.</td>
</tr>
</tbody>
</table>
## Annex-II

### Capital Contributions to the ISFD

**As of End-1429H (28 December 2008)**

<table>
<thead>
<tr>
<th>SN</th>
<th>Country</th>
<th>Pledges (US$ Million)</th>
<th>Payment (US$ Million)</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Algeria</td>
<td>50,000,000</td>
<td>20,000,000</td>
<td>1st Installment</td>
</tr>
<tr>
<td>2</td>
<td>Azerbaijan</td>
<td>300,000</td>
<td>300,000</td>
<td>Full Payment</td>
</tr>
<tr>
<td>3</td>
<td>Bahrain</td>
<td>2,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Bangladesh</td>
<td>1,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Benin</td>
<td>2,300,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Brunei</td>
<td>2,000,000</td>
<td>2,000,000</td>
<td>Full Payment</td>
</tr>
<tr>
<td>7</td>
<td>Burkina Faso</td>
<td>2,200,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Cameroon</td>
<td>2,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Chad</td>
<td>2,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Cote d’Ivoire</td>
<td>5,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Gabon</td>
<td>2,000,000</td>
<td>2,000,000</td>
<td>Full Payment</td>
</tr>
<tr>
<td>12</td>
<td>Guinea</td>
<td>2,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Iran</td>
<td>100,000,000</td>
<td>30,000,000*</td>
<td>1st Installment</td>
</tr>
<tr>
<td>14</td>
<td>Iraq</td>
<td>1,000,000</td>
<td>1,000,000</td>
<td>Full Payment</td>
</tr>
<tr>
<td>15</td>
<td>Jordan</td>
<td>3,000,000</td>
<td>3,000,000</td>
<td>Full Payment</td>
</tr>
<tr>
<td>16</td>
<td>Kuwait</td>
<td>300,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Lebanon</td>
<td>1,000,000</td>
<td>1,000,000</td>
<td>Full Payment</td>
</tr>
<tr>
<td>18</td>
<td>Malaysia</td>
<td>20,000,000</td>
<td>1,000,000</td>
<td>Part of 1st Installment</td>
</tr>
<tr>
<td>19</td>
<td>Mali</td>
<td>4,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>Mauritania</td>
<td>5,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>Morocco</td>
<td>5,000,000</td>
<td>1,666,667</td>
<td>1st Installment</td>
</tr>
<tr>
<td>22</td>
<td>Niger</td>
<td>2,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>Nigeria</td>
<td>2,000,000</td>
<td>666,667</td>
<td>1st Installment</td>
</tr>
<tr>
<td>24</td>
<td>Oman</td>
<td>5,000,000</td>
<td>5,000,000</td>
<td>Full Payment</td>
</tr>
<tr>
<td>25</td>
<td>Pakistan</td>
<td>10,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>Palestine</td>
<td>500,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>27</td>
<td>Qatar</td>
<td>50,000,000</td>
<td>33,333,334</td>
<td>1st &amp; 2nd Installments</td>
</tr>
<tr>
<td>28</td>
<td>Saudi Arabia</td>
<td>1,000,000,000</td>
<td>333,333,333</td>
<td>1st Installment</td>
</tr>
</tbody>
</table>

* In Euro
<table>
<thead>
<tr>
<th></th>
<th>Country</th>
<th>Amount</th>
<th>Payment</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>29</td>
<td>Senegal</td>
<td>10,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>Sudan</td>
<td>15,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>Suriname</td>
<td>500,000</td>
<td>500,000</td>
<td>Full Payment</td>
</tr>
<tr>
<td>32</td>
<td>Syria</td>
<td>2,000,000</td>
<td>666,667</td>
<td>1st Installment</td>
</tr>
<tr>
<td>33</td>
<td>Togo</td>
<td>1,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>34</td>
<td>Turkey</td>
<td>5,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>35</td>
<td>Uzbekistan</td>
<td>300,000</td>
<td>100,000</td>
<td>1st Installment</td>
</tr>
<tr>
<td>36</td>
<td>Yemen Republic</td>
<td>3,000,000</td>
<td>1,991,195.00</td>
<td>1st &amp; 2nd Installments</td>
</tr>
<tr>
<td>37</td>
<td>IDB</td>
<td>1,000,000,000</td>
<td>100,000,000</td>
<td>1st Installment</td>
</tr>
</tbody>
</table>
FINANCIAL STATEMENTS
FOR THE PERIOD FROM JUMAD AWAL 13, 1428H (INCEPTION)
TO DHUL HIJJAH 30, 1429H
WITH AUDITORS’ REPORT
AUDITORS’ REPORT

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

Scope of Audit

We have audited the accompanying statement of financial position of Islamic Development Bank - Islamic Solidarity Fund For Development (the “Fund”) as of Dhul Hijjah 30, 1429H and the related statements of activities, and cash flows statement for the period from Jumad Awwal 13, 1428H (inception) to Dhul Hijjah 30, 1429H and a summary of significant accounting policies and other explanatory notes as prepared by the management and presented to us with all the necessary information and explanations. These financial statements are the responsibility of the management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified Opinion

In our opinion, financial statements referred above present fairly, in all material respects the financial position of the Fund as of Dhul Hijjah 30, 1429, and the results of its operations and its cash flows for the period from Jumad Awwal 13, 1428H (inception) to Dhul Hijjah 30, 1429H in conformity with the significant accounting policies as mentioned in (note 2).

Deloitte & Touche
Bakr Abulkhair & Co.

Al-Mutahhar Y. Hamidaddin
License No. 296
23 Rabi’I, 1430
April 19, 2009

Audit, Tax, Consulting, Financial Advisory.
# ISLAMIC DEVELOPMENT BANK
## ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
### STATEMENT OF FINANCIAL POSITION
#### AS OF DHUL HIJJAH 30, 1429H  (In Thousands of USD)

<table>
<thead>
<tr>
<th>Notes</th>
<th>NET ASSETS</th>
<th>ASSETS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Cash and cash equivalents</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Short term placements with banks</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Investment in Murabaha</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Accrued income</td>
<td></td>
</tr>
<tr>
<td></td>
<td>TOTAL ASSETS</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Notes</th>
<th>LIABILITIES</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Payable to Islamic Development Bank – Ordinary Capital Resources</td>
<td>5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Notes</th>
<th>NET ASSETS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TOTAL LIABILITIES</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Notes</th>
<th>NET ASSETS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NET ASSETS</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Notes</th>
<th>REPRESENTED BY:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fund Resources</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Surplus of income over expenditure for the period</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The financial statements were authorized for issue in accordance with a resolution of the Board of Executive Directors on 23 Rabi’II, 1430H (April 19, 2009).

The attached notes from 1 to 6 form an integral part of these financial statements.
ISLAMIC DEVELOPMENT BANK
ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
STATEMENT OF ACTIVITIES
FOR THE PERIOD FROM JUMAD 13 AWWAL 1428H (INCEPTION) TO
30 DHUL HIJJAH 1429H (In Thousands of USD)

Income from:
Commodity placements with banks 23,063
Murabaha 424
Call accounts 50

23,537

Exchange loss (1,656)

Surplus of income over expenditure 21,881

The attached notes from 1 to 6 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM JUMAD 13 AWWAL 1428H (INCEPTION) TO
30 DHUL HIJJAH 1429H (In Thousands of USD)

CASH FLOWS FROM OPERATING ACTIVITIES:
Surplus of income over expenditure 21,881

Changes in assets and liabilities:
Accrued income (2,696)
Payable to IDB – OCR 9,895

Net cash from operating activities 29,080

CASH FLOWS FROM INVESTING ACTIVITIES:
Short term placements (449,428)
Investment in Murabaha (8,299)

Net cash (used in) investing activities (457,727)

CASH FLOWS FROM FINANCING ACTIVITIES:
Fund resources 538,224

Net cash from financing activities 538,224

Net movement in cash and cash equivalents 109,577

Cash and cash equivalents at the beginning of the period -
Cash and cash equivalents at the end of the period 109,577

The attached notes from 1 to 6 form an integral part of these financial statements.
1. INCORPORATION AND ACTIVITIES

The Islamic Solidarity Fund for Development (“the Fund”) was established pursuant to the decision taken at the Third Extraordinary session of the OIC Islamic Summit conference in Makkah in December 2006 (Dhul Qadah 1426H).

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

The target principal amount of the Fund is US$ 10 billion. The principal amount shall consist of contributions from IDB and institutions of member countries. IDB has committed to contribute US$ 1 billion, payable in 10 annual installments of US$ 100 million each.

The Fund shall be administered by a Board of Directors. The President of IDB shall be ex-officio Chairman of the Board of Directors.

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

1. Income from the Waqf;
2. Fund derived from operations or otherwise accruing to the Fund;
3. Others resources received by the Fund.

All dealings and activities of the Fund shall be in conformity with Islamic Shariah. The financial statements of the Fund are expressed in thousands of United States Dollars (USD).

The Fund’s financial year is the lunar Hijra year.

As a Fund of the Bank, which is an international institution, the ISFD is not subject to an external regulatory authority.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The financial statements have been prepared in accordance with the following significant accounting policies. The financial statements are prepared under the historical cost convention on the accrual basis of accounting.
b) Murabaha
Murabaha 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.

c) Translation of currencies
Transactions in currencies other than the US dollar are recorded at the exchange rates prevailing at the dates of the respective transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated the US dollar on the basis of rate prevailing in the market at the date of the statement of financial position. Foreign currency exchange gains and losses are included in the statement of activities.

d) 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 acquisition.

e) Revenue recognition
Return on short term placement with banks is accrued evenly over the period of the deposits. The rate of return approximates the prevailing market rates.

Any income from cash and cash equivalents and other investments, which is considered by management as forbidden by Shari’ah, is not included in the Fund’s statement of income but is transferred to Special Account Resources Waqf Fund (an affiliate).

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.
3. CASH AND CASH EQUIVALENTS  

Cash and cash equivalents at the end of Dhul Hijjah 1429H comprise the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash at banks</td>
<td>4,704</td>
</tr>
<tr>
<td>Short term placements with banks</td>
<td>104,873</td>
</tr>
<tr>
<td></td>
<td>109,577</td>
</tr>
</tbody>
</table>

Short term placements with banks comprise those placements with original maturities of three months or less.

4. INVESTMENT IN MURABAHA

This represents the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross amounts receivables</td>
<td>8,307</td>
</tr>
<tr>
<td>Less: Unearned income</td>
<td>(8)</td>
</tr>
<tr>
<td></td>
<td>8,299</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.
5. RELATED PARTY TRANSACTIONS
During the ordinary course of its business, the Fund has certain transactions with IDB - OCR relating to investments and realization of investments made through the inter-fund account between the Fund and IDB. The balance due to IDB-OCR as at Dhul Hijjah 30, 1429H was USD 9,895 thousands.

6. ZAKAT AND TAX TREATMENT
Per IDB, the Fund is considered a part of Baitul Mal (public money), it shall not be subject to zakat or tax.
Islamic Solidarity Fund for Development (ISFD)
(Special Fund within the Islamic Development Bank Group)

P.O. Box 5925, Jeddah 21432, Kingdom of Saudi Arabia
Telephone: (+966-2) 636 1400 - Fax: (+966-2) 637 4131
E-mail: isfd@isdb.org