

ISLAMIC DEVELOPMENT BANK STATISTICAL REPORTING TO THE OECD DEVELOPMENT ASSISTANCE COMMITTEE (DAC)

This note has been prepared by the Statistics and Development Finance Division of the Development Co-operation Directorate. The authors would like to thank the Islamic Development Bank for its collaboration.

Introduction

The Islamic Development Bank (IsDB) was established in 1975 and data on its concessional financing have been available in DAC statistics since 1977. In 2011, the IsDB expanded its reporting to cover non-concessional project financing to developing countries. This resulted in a major increase in reporting coverage, as concessional financing represents only about 10 per cent of IsDB's total project financing in developing countries. In that same year, IsDB started to report details on individual projects (activity-level reporting). Activities of other entities of the IsDB Group and special funds will be incorporated in the reporting in the coming years.

In collaboration with the Statistics and Development Finance Division of the Development Co-operation Directorate of the OECD, IsDB has mapped its financial instruments, all of which conform to Islamic financing principles, to the OECD-DAC's reporting system. This has enabled IsDB to report its concessional development finance and other resource flows to the OECD at the activity level in the standardised CRS++ format. Its data can now be incorporated in various analyses based on DAC statistics in a comparable manner with those of bilateral providers and, for example, the other International Financial Institutions (IFIs).

The OECD-DAC warmly welcomes the efforts of the IsDB to report its flows and stands ready to collaborate with other Arab donors to improve the tracking of development co-operation flows at the global level.

About the IsDB Group

The IsDB Group is a multilateral development finance institution comprising five entities: Islamic Development Bank (IsDB); Islamic Research and Training Institute (IRTI); Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC); Islamic Corporation for the Development of the Private Sector (ICD); and International Islamic Trade Finance Corporation (ITFC). The mission of the IsDB Group is “to promote comprehensive human development with a focus on alleviating poverty, improving health, promoting education, improving governance and prospering the people.”

The IsDB Group is one of the specialised organs of the Organization of the Islamic Cooperation (OIC); all member countries of the OIC are eligible to become members of the IsDB Group. The present membership consists of 56 countries spanning Africa, Asia, Europe, Latin America and the Middle East, including one OECD member (Turkey).

The main shareholders of IsDB are Saudi Arabia (24% of votes), followed by Libya, Iran, Nigeria, United Arab Emirates, Qatar, Egypt, Turkey and Kuwait. The authorised capital of the IsDB was USD 153 billion at the end of 2013.

Islamic modes of financing

The IsDB's instruments for concessional financing include technical assistance and loans. Other project financing is extended through various non-concessional financing including leasing, equity participation, instalment sale, Istisna'a and profit sharing (see below). All eight modes of financing which will be explained in this brief are Shari'ah-compliant. In Islamic finance, any financial transaction must be accompanied by an underlying productive economic activity that generates legitimate income, thereby creating a direct link between the financial transaction and the real economy. By contrast, interest is not Shari'ah compliant as it is considered as a payment for the use of money itself and therefore not directly linked with real economic activity. Another specificity of Islamic finance is that, if the buyer/debtor defaults on a deadline, it is impermissible for the seller/creditor to charge him any increment over the principal initially agreed upon.

1. **Loans** are used for financing development projects mainly in basic social infrastructure and rural development. The repayment period for loans is from 15 to 25 years, including a grace period of 3 to 7 years, depending on the beneficiary country. Even softer terms (30 years' maturity with a grace period of 10 years, service fee of 0.75%) may be provided for projects in least developed countries. Loans are extended to governments or public institutions with a government guarantee.
2. **Technical assistance** is provided for institutional capacity building programmes, feasibility studies and project preparation and design, mainly in the form of grants.

Table 1. IsDB financing (core resources) by instrument, in USD million

Instrument	2011	2012	2011-2012 average % per instrument
Concessional			
Loan	347.8	391.0	10.8%
Grant (Technical Assistance)	31.0	11.5	0.6%
Non-concessional			
Istisna'a	1,591.3	1,559.9	46.3%
Leasing	1,024.2	520.0	22.7%
Instalment Sale	127.6	933.5	15.6%
Profit Sharing	100.0	50.0	2.2%
Equity	10.0	111.3	1.8%
Total	3,231.9	3,577.1	

The other modes of financing of the IsDB are non-concessional as the Bank makes a profit (mark-up) on the operations.

3. One of the main modes of financing extended by the IsDB is called **Istisna'a**. This is a form of sale agreement, applicable to assets that are not available or existing at the time of concluding the agreement. The asset can be, for example, a road, hospital or electricity transmission network, to be delivered on a specific future date. In practice, Istisna'a involves two parallel agreements – one between the Bank and the buyer and another between the Bank and the manufacturer, constructor or supplier – on the asset to be created, based on the specifications outlined by the buyer, at an agreed predetermined price. The direct link between the financial transaction and productive flows (the real economy) is established through agreement on project specifications and fixed date and place of delivery. In IsDB, Istisna'a sales are on credit, with semi-annual instalments over a period extending up to 20 years.
4. The IsDB also provides financing in the form of **leasing**. The Bank purchases the asset (e.g. machinery or equipment) and leases it to the beneficiary for a specific period of time, up to 20 years. The Bank remains the owner of the asset and lease instalments are not considered as debt. At the end of the rental period, the Bank transfers the ownership of the asset to the lessee as a gift. This latter feature, specific to the IsDB, warrants the inclusion of leasing operations in the Bank's reporting to DAC statistics, even if leasing is generally excluded. Leasing contracts often cover very large amounts (on average over USD 100 million in 2012). Agreements signed in 2012 were all targeted to the energy sector.
5. Another common mode of IsDB project financing is **instalment sale**. This consists of the Bank purchasing the asset (e.g. machinery or equipment) needed for a project and then re-selling the asset to the buyer at a higher price, which is mutually agreed between the Bank and the buyer. The ownership of the asset is transferred to the buyer upon delivery (which allows the buyer to use the asset to secure financing for operational purposes).
6. The other three IsDB instruments have been recorded in DAC statistics since 2010: lines of financing, profit sharing and equity participation. **Lines of financing** are extended to national development finance institutions (to be used for leasing, instalment sale and Istisna'a), with the objective of enhancing the role of SMEs and promoting Islamic finance.

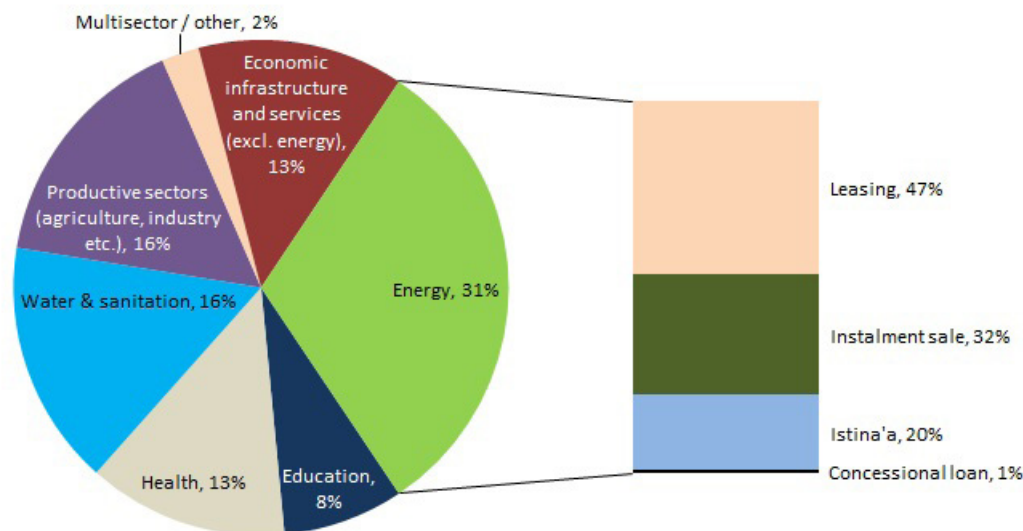
7. Projects with an expected high financial rate of return, are often financed by **profit sharing**. This instrument implies investing in a certain project together with another partner and both obtaining a percentage of the profit that corresponds to their respective investments.
8. Finally, the Shari'ah rules also regulate the **equity participation** of the IsDB. Equity can only be extended to activities in the "real sector" that have economic value. Islamic financial institutions are not allowed to undertake businesses which involve speculation. In 2012, the IsDB approved two equity capital investments for a micro-finance institution in Sudan. Another possibility for investment is in public-private partnerships and equity capital of companies (public and private). One such operation was committed in 2012. Cumulative figures show that 9% of IsDB's project financing has been in the form of equity since 1975.

One project can benefit from several modes of financing. For example, IsDB can support a tertiary education quality improvement project through a combination of a loan, Istisna'a and instalment sale.

Overview of IsDB financing for development

Chart 1 presents the sectoral breakdown of IsDB's net approvals in 2012 for concessional and non-concessional financing. Energy and other economic infrastructure and service accounted for almost half of its commitments in 2012, followed by the social sectors (water and sanitation, health and education) and the productive sectors such as agriculture and industry. 31% of financing was allocated to the energy sector, including all leasing and a significant part of the instalment sales and Istisna'a. The three main projects in this sector consisted of building power plants in Egypt, Morocco and Tunisia. With the Istisna'a instrument, USD 850 million was allocated to social sectors (like education, health and water), of which two projects (in total USD 345 million) were in Iran for water supply and sanitation. Instalment sales for over USD 200 million were approved for a rail transport project in Turkey and a polio eradication programme in Pakistan.

Chart 1. IsDB financing (core resources) for development by sector (commitment data 2012) including both concessional (USD 403 million) and non-concessional resources (USD 3.2 billion)



More than 50% of the concessional financing was allocated to social sectors, with main projects in Tajikistan (education) and Uganda (health). Technical assistance grants (USD 22 million) were extended to projects in many sectors in combination with loans and other modes of financing.

Chart 2 presents the regional distribution of IsDB finance in 2012 (gross disbursements) and **Chart 3** the main recipients. IsDB works in countries with significant Muslim communities, mainly in the Middle East, South Asia and Indonesia.

Chart 2. IsDB operations by region (concessional and non-concessional, core resources, 2012 gross disbursements)

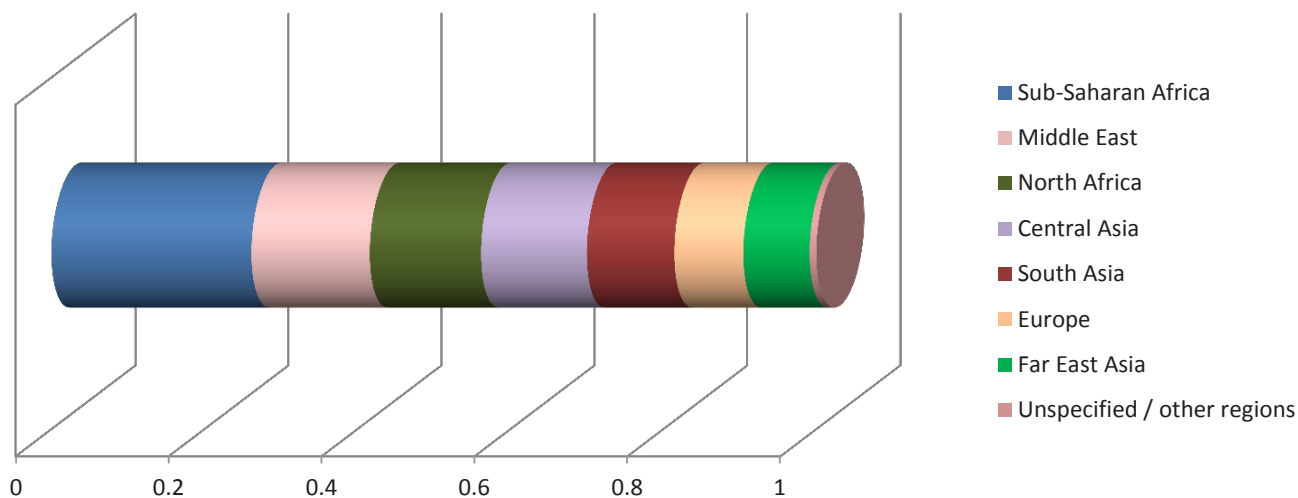
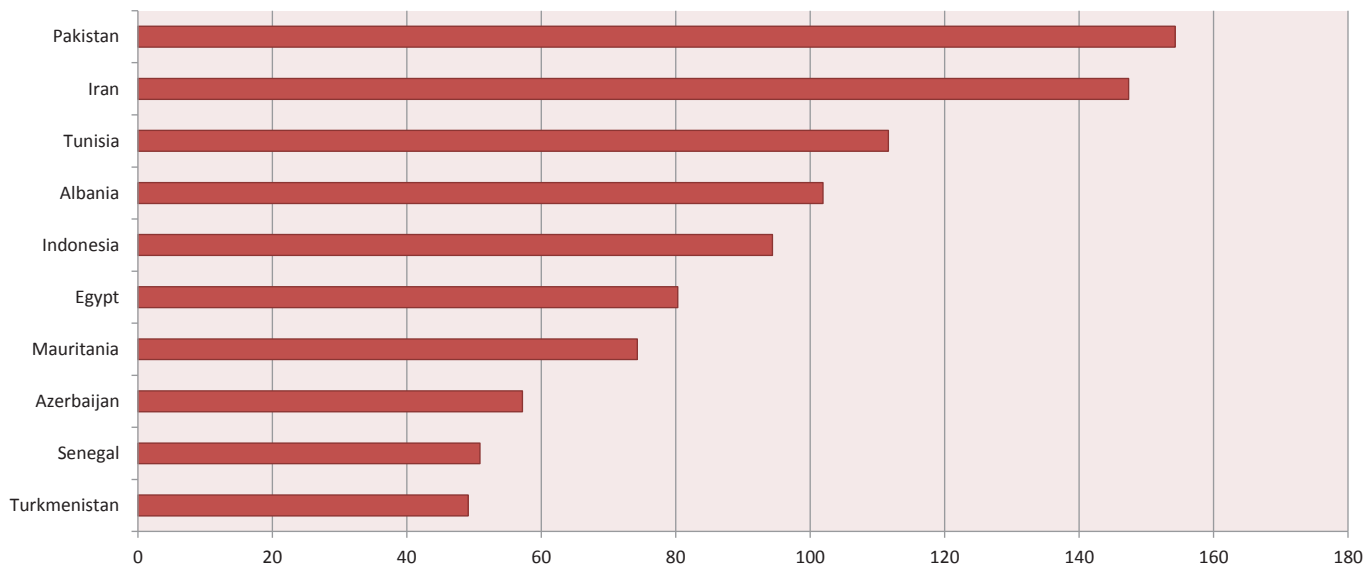


Chart 3. Top 10 recipients of IsDB's operations (concessional and non-concessional, core resources, 2012 gross disbursements, USD million)



Sources

IsDB website: www.isdb.org/irj/portal/anonymous

IsDB Group, Islamic Development Bank Group in brief 1434H (2013), (Jeddah, May 2013).

OECD-DAC statistics: www.oecd.org/dac/stats/