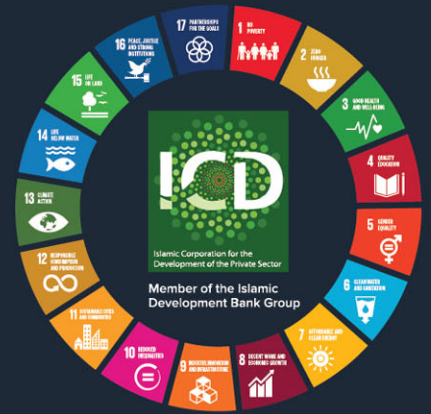


Annual Development Effectiveness Report 2017

With a Special Report on ICD's Contribution
to Achieving the Sustainable Development
Goals (SDGs)



Enabling Enterprise, Building Prosperity

4th Edition, 2018



This is the fourth Annual Development Effectiveness Report (ADER) of the Islamic Corporation for the Development of the Private Sector (ICD). The report consists of the following Sections:

- ◆ **Section 1** provides the strategic context.
- ◆ **Section 2** reports on the progress in implementing ICD's development effectiveness framework.
- ◆ **Section 3** discusses ICD's operational context, its portfolio of projects and overall development results in 2017 (based on the 2017 Annual Development Effectiveness Survey).
- ◆ **Section 4** provides a special report on the contribution of ICD's operations to the Sustainable Development Goals (SDGs) using the results of the Annual Development Effectiveness Survey.
- ◆ **Section 5** suggests a way forward for ICD to meet ongoing and future development challenges.

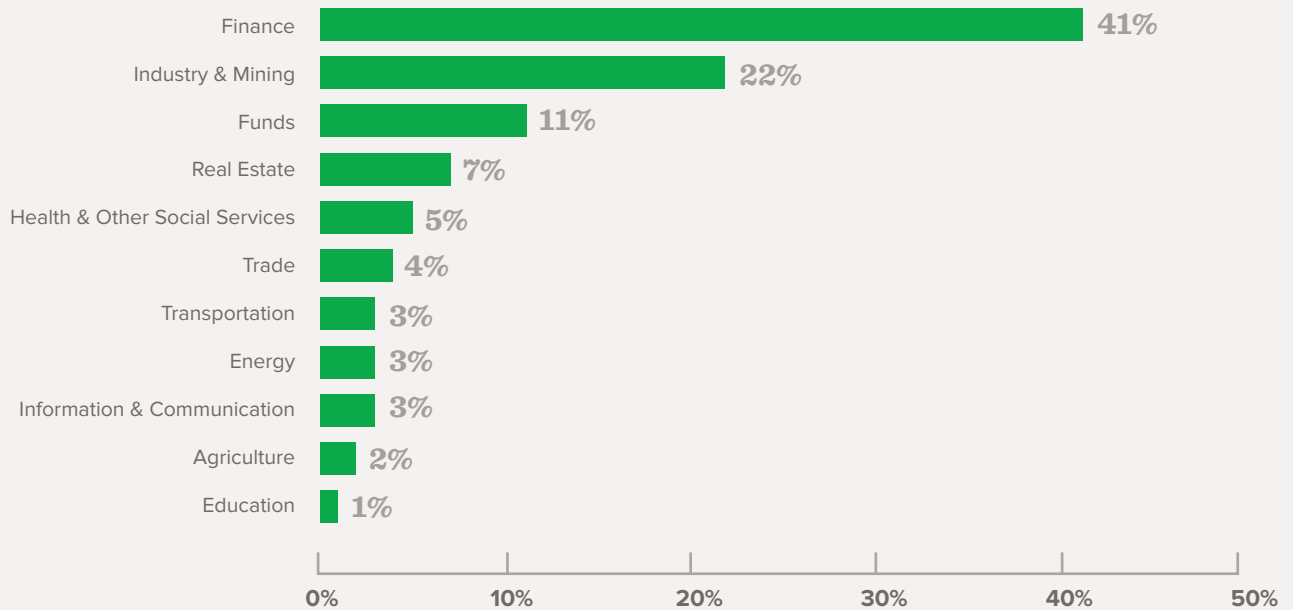
Contents

2017 Highlights	03	4.4	The 2017 Development Results and the SDGs	42
Development Effectiveness Survey Results	04	4.4.1	Results Highlights	42
Abbreviations	05	4.4.2	Contribution to the SDGs by ICD's Business Lines	45
Message from the CEO	07	4.4.2.1	Financial Sector Operations	45
Executive Summary	08	4.4.2.2	Real-Sector Operations	49
		4.4.2.3	Funds	51
		4.4.2.4	Advisory Services	51
Section 1 INTRODUCTION: THE STRATEGIC CONTEXT		Section 5 THE WAY FORWARD		
1.1 Overview	10	5.1 Overview of the SDGs	54	
1.2 The Global Landscape	11	5.2 ICD's Contribution to Achieving the SDGs	55	
1.3 A New Roadmap for Islamic Development Bank (IsDB)	12	5.3 Enhancing Development Effectiveness	56	
1.4 ICD's Strategy	14			
Section 2 ICD's DEVELOPMENT EFFECTIVENESS FRAMEWORK				
2.1 Overview	16			
2.2 ICD's Development Effectiveness Framework	17			
2.3 Achievements in the Development Effectiveness Agenda in 2017	18			
2.4 Improvements in the Development Effectiveness Measurement System (DIMS)	19			
2.4.1 The Important Role of DIMS in the Credit and Advisory Approval Process	19			
2.4.2 Adoption of Software for the ADER Survey	19			
2.4.3 SDGs Identification Matrix	20			
2.4.4 Design of an Impact Evaluation Methodology with the Abdul Latif Jameel Poverty Action Lab, Massachusetts Institute of Technology	20			
Section 3 ICD IN ACTION				
3.1 Overview	22			
3.2 Operating Context	23			
3.3 Portfolio and Investment Analysis	28			
Section 4 A SPECIAL REPORT ON ICD's CONTRIBUTION TO THE ACHIEVEMENT OF THE SUSTAINABLE DEVELOPMENT GOALS (SDGS)				
4.1 Overview on the SDGs	32			
4.2 The Challenges Facing Developing Countries in Meeting the SDGs Relevant to ICD's Current Strategy	34			
4.3 The Role of ICD	39			
		FIGURES		
		Fig. 3.3.1 Total Approvals by Product (2017)	28	
		Fig. 3.3.2 Total Approvals by Product (2016)	28	
		Fig. 3.3.3 Total Approvals by Sector (2017)	29	
		Fig. 3.3.4 Total Approvals by Sector (2016)	29	
		Fig. 3.3.5 Total Disbursements by Product (2017)	30	
		Fig. 3.3.6 Total Disbursements by Product (2016)	30	
		Fig. 3.3.7 Total Disbursements by Sector (2017)	31	
		Fig. 3.3.8 Total Disbursements by Sector (2016)	31	
		Fig. 3.3.9 Total Disbursements by Region (2017)	31	
		Fig. 3.3.10 Total Disbursements by Region (2016)	31	
		Fig. 4.2.1 SDG 1 - Poverty	34	
		Fig. 4.2.2 SDG 2 - Hunger	35	
		Fig. 4.2.3 SDG 3 - Health	35	
		Fig. 4.2.4 SDG 4 - Education	36	
		Fig. 4.2.5 SDG 7 - Energy	36	
		Fig. 4.2.6 SDG 8 - Financial Inclusion	37	
		Fig. 4.2.7 SDG 9 - Industry/Infrastructure	38	
		Fig. 4.2.8 SDG 11 - Housing/Cities	38	
		APPENDIX		
		Appendix I Key Development Effectiveness Indicators in the ADER Survey Questionnaire	57	

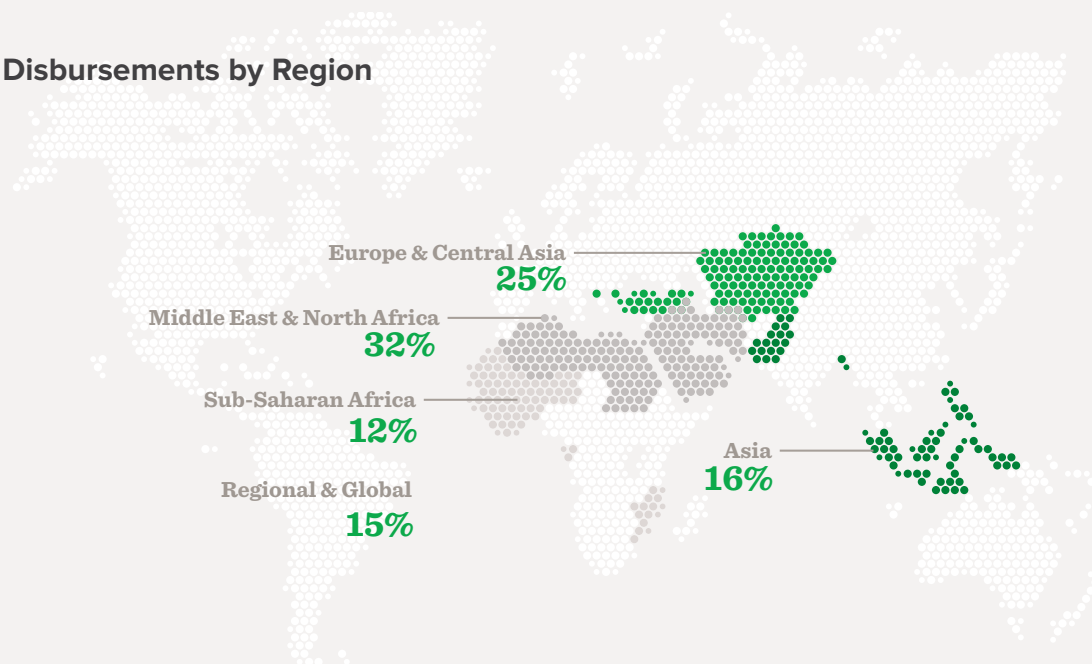


2017 Highlights

Disbursements by Sector



Disbursements by Region



Development Effectiveness Survey Results

The 2017 ICD Development Effectiveness Survey achieved a response rate of 82% (80 out of 97 targeted projects from 32 Member Countries).

The survey findings show the following results for ICD's operations, from January to December 2017:



95,609

people opened new Islamic finance accounts



9,367

micro, small and medium enterprises (MSMEs) were provided with new funding



USD 1.2bn

outstanding deposits were recorded



10,795

new employees were hired by ICD clients/partners



USD 629m

export sales were generated



USD 612m

value of net inflows of foreign currency was generated



USD 445m

in goods and services were purchased locally



USD 113m

were collected in taxes for government revenues in 2017



USD 13m

was spent in community development



603

employees were trained in Islamic finance or in business continuity plan

Abbreviations

ADER	Annual Development Effectiveness Report	J-PAL	The Abdul Latif Jameel Poverty Action Lab
BCP	Business Continuity Plan	LIC	Low Income Country
BRIC	Brazil, Russia, India and China	LMIC	Low Middle Income Country
CEO	Chief Executive Officer	LoF	Line of Finance
CIS	Commonwealth of Independent States	M&E	Monitoring and Evaluation
CRP	Concept Review Paper	MC	Member Country
DAC	Development Assistance Committee	MDG	Millennium Development Goal
DFI	Development Finance Institution	MENA	Middle East and North Africa
DIMS	Development Indicators Monitoring System	MIC	Middle Income Country
ECA	Europe and Central Asia	MIT	Massachusetts Institute of Technology
GDP	Gross Domestic Product	MSME	Micro, Small and Medium Enterprises
GNI	Gross National Income	RCT	Randomized Control Trial
HDI	Human Development Index	SDG	Sustainable Development Goal
HIC	High Income Country	SME	Small and Medium Enterprises
IBES	Industry and Business Environment Support	SSA	Sub-Saharan Africa
ICD	Islamic Corporation for the Development of the Private Sector	SWF	Sovereign Wealth Funds
IsDB	Islamic Development Bank	UMIC	Upper Middle Income Country
IsDBG	Islamic Development Bank Group	UN	United Nations
IFC	International Finance Corporation	UNHDR	United Nations Human Development Report
IMF	International Monetary Fund	XPSR	Expanded Project Supervision Report



Message from the CEO

“In the name of Allah, the Beneficent, the Merciful”

I am pleased to present the 2017 Annual Development Effectiveness Report (ADER) of the Islamic Corporation for the Development of the Private Sector (ICD).

The main purpose of this report is to communicate ICD's development results and to outline the Management's continuing efforts to improve the Corporation's development effectiveness.

In 2017, ICD saw the first results of the introduction of the Sustainable Development Goals (SDGs) in its strategy. As the major private sector development arm of the Islamic Development Bank Group (IsDBG), ICD has pledged to concentrate its investments in SDG 7 (energy), SDG 8 (jobs and financial inclusion) and SDG 9 (industry and infrastructure); engage in SDG 13 (climate action) and SDG 17 (partnerships) in order to impact on SDG 1 (poverty), SDG 2 (agriculture), SDG 3 (health), SDG 4 (education) and SDG 5 (gender equality).

ICD's operations during the year 2017 continued to reflect the specific needs of its Member Countries (MCs) in each region. For example, our efforts in Sub-Saharan Africa directly targeted poverty reduction, and those in Asia and Europe/Central Asia concentrated on improving the private sector's global competitiveness. In MENA, we focused our efforts on alleviating the negative effects of declining oil revenue as well as ongoing conflicts.

One apparent lesson is that ICD needs to continuously innovate in order to remain effective and relevant in meeting the needs of its MCs. Indeed, most of our MCs are now middle-income countries, highlighting the importance of the private sector as the primary engine of further growth in these countries. It also underscores the fact that these countries have many financing options available to them and that ICD will have to work diligently to establish its presence and that of Islamic finance.

Our fourth consecutive Annual Development Effectiveness Survey demonstrates that ICD is supporting its clients and partners to make a meaningful difference in improving people's lives through financial inclusion, access to finance for micro, small and medium enterprises (MSMEs), promotion of exports and job creation. I am pleased to report that the response rate to the 2017 survey was 82%, the highest achieved so far.

With a view to become more effective and efficient, ICD is continuously improving its development effectiveness framework. The major achievements in this respect in 2017 were the mainstreaming of the SDGs in its project approval processes – all

projects must now demonstrate how they contribute to the SDGs based on an SDG identification matrix.

ICD's accomplishments in 2017 would have been impossible without the support and the guidance of the Chairman of the Board, the Board members and the hard work of ICD's staff. Most importantly, I want to thank our partners in the MCs for their dedication to development. I believe that together, we can strive to achieve the noble targets of the SDGs and make the world a better place for all.

I pray to Allah the Almighty to guide us in our efforts to overcome the challenges ahead and to help in increasing the welfare and prosperity of our MCs. Amin.



Khaled Mohammed Al-Aboodi
CEO & General Manager

Executive Summary

This is the fourth Annual Development Effectiveness Report (ADER) of the Islamic Corporation for the Development of the Private Sector (ICD). It describes the global development context as well as the operational environment of ICD Member Countries (MCs) and the development results of ICD's operations in 2017.

ICD has been implementing its development effectiveness strategy over the last few years. A significant component of ICD's activities in 2017 was the start of the implementation of IsDBG's framework for supporting the Sustainable Development Goals (SDGs). This Report provides a preliminary analysis of the scope of ICD's work in this regard.

Strategic Context

The major driving force for ICD in 2017 has been the IsDBG President's 5-Year Program (P5P). This program has six dimensions: (i) awareness, (ii) linkages, (iii) competence, (iv) funding, (v) delivery, and (vi) reinforcement.

For its part, ICD will contribute to the achievement of IsDBG's strategic goals by finding innovative private sector solutions and leveraging additional resources for its MCs. In particular, it will promote entrepreneurship, help create an enabling environment for the private sector, facilitate financing from other investors and encourage investments in new sectors and markets.

In 2017, ICD has continued to further improve its development effectiveness agenda. From a strategic perspective, ICD's results framework was based on the IsDBG's 10 year strategy. Two key process changes were made in 2017: (a) the approval processes for the investment and the advisory projects were modified to include development impact assessment requirements and (b) to mainstream the SDGs, each new project would now have

to demonstrate its alignment with the SDGs as part of its submission to ICD's Investment Committee based on an SDG identification matrix.

ICD in Action

In 2017, the external operating conditions facing ICD continued to be uncertain, volatile and in some circumstances subject to fragility. In addition, the development needs in its MCs varied widely: meeting basic human needs and creating enabling environments and capacity in low income countries in Sub-Saharan Africa; creating efficient private sectors in middle income countries in Asia and Europe/Central Asia; and grappling with the requirements of the private sector in conflict-prone countries in the Middle-East and North Africa. In 2017, 13 out of the 54 ICD MCs were low-income countries concentrated in Sub-Saharan Africa.

In 2017, ICD approved USD 930.8 million in financing, USD 106.4 million increase from 2016. As in the past years, the lines of finance commitments accounted for the major share (62.7%) of the approvals

with term financing accounting for another (36%). The financial sector received the largest amount of funding (62.7%) followed by the industry & mining (16%) and energy (14%) sectors. Among the regions, Europe and Central Asia received 46% of the approvals followed by MENA (20%), Asia (13%) and Sub-Saharan Africa (10%).

In terms of disbursement, ICD was able to disburse USD 292 million in 2017, reflecting the difficult operating conditions ICD faced in 2017. Financial products such as term finance (38%) and lines of finance (30%) accounted for the biggest part of ICD's disbursement. The highest proportion of disbursements went to MENA (33%), followed by Europe and Central Asia region (25%).

ICD's SDG Results

ICD's SDGs framework is based on its mandate (promoting private sector development), with a direct focus on SDGs 7, 8 and 9. In specific terms, ICD is investing in SDG 7 (energy), SDG 8 (jobs and financial inclusion) and SDG 9 (industry and infrastructure) and engaging in SDG 13 (climate action) and SDG 17 (partnerships) in order to impact on SDG 1 (poverty), SDG 2 (agriculture), SDG 3 (health), SDG 4 (education) and SDG 5 (gender equality).

The fourth ICD Annual Development Effectiveness Survey included specific questions about the contribution of the projects supported by ICD to SDGs. 80 out of 97 surveyed projects responded to the survey (82% response rate). The results of the survey showed that operations supported by ICD contributed substantially to development. For example:

- ◆ **95,609** persons opened new Islamic finance accounts
- ◆ **9,356** micro, small and medium enterprises (MSMEs) received new funding
- ◆ **9,860** employees were newly hired
- ◆ **USD 616 million** in export sales were generated
- ◆ **USD 113 million** of taxes were collected by government of MCs
- ◆ An additional **USD 13 million** were spent on community development.

All ICD's operations have contributed to these results. For example, Banking Equity and Islamic Finance Advisory Services helped in creating new Islamic finance accounts; Direct Investment provided term financing that helped generate export sales; Ijara operations contributed to setting up MSMEs, Line of Finance provided access to Sharia compliant financing services to MSMEs in partnership with both Islamic and Conventional Financial Institutions; Industry and Business Environment Support provided training and grants to MSMEs in fragile context.

Way Forward

In order to further and better contribute to the SDGs, ICD aims to facilitate partnerships and leverage on its own resources with other International Financial Institutions and private sector entities to achieve common development goals. ICD will also enhance its development effectiveness by forming a monitoring and evaluation partnership with its clients. At the same time, this will help them build their capacity to assess development results. Last but not least, ICD's work with J-PAL/MIT on evaluating the effectiveness of Islamic financing will yield useful insights on how to make ICD's development interventions more cost-effective.



Section 1

Introduction: The Strategic Context

1.1 Overview

This section describes the new direction of the Islamic Development Bank (IsDB) and how ICD as its major private sector arm is aligning with the new vision within the emerging global development context.

1.2 The Global Landscape

In 2017, the global economy continued to be marked by uncertainty. The isolationist and protectionist sentiments became more pronounced in Europe (the acceptance of Brexit for example) and in the United States as global production patterns continued to change.

China and other emerging economies have become the manufacturing hubs leading to a hollowing out of traditional manufacturing in the West. In addition, technological innovations have raised the specter of jobless growth causing further unease among various populations. This changing environment could stall globalization and in turn, global prosperity. To complicate matters, the United States is no longer the preeminent and dominant global economic power and is currently sharing its power with rapidly rising regional economic forces in the Americas and Asia.

For IsDB's MCs, economic growth rate suffered a decline at 3.6% in 2017 compared to 4.3% in 2016. This was largely driven by the lower energy and commodity prices in the previous year¹. At the same time, it has also provided “energy dividends” for oil-importing countries that are the major clients of ICD. Growth for IsDB Sub-Saharan Africa continued rising from 0.5% in 2016 to an estimated 2.3% in 2017.

The transformation of the global

development industry has quickened in response to the changing nature of the developing regions. The Americas and Asia now comprise of, essentially, Middle-Income Countries (MICs) with remaining Low-Income Countries (LICs) concentrated in Sub-Saharan Africa. However, more than 70% of the poor live in MICs, mostly in urban areas and half of the world's poor will live in conflict affected regions by 2030.

There are also more development actors now than any time before. For example, three preeminent sets for donors have emerged: the traditional OECD donors, the regional economic powers like Brazil, Russia, India and China (BRIC), and the Arab countries. These donors have different aid philosophies that are often incompatible. The private sectors in developed and developing countries are becoming major players in development as are southern philanthropies. This crowded and competitive environment has meant that established institutions such as IsDB risk becoming irrelevant

unless they innovate and respond to new development needs.

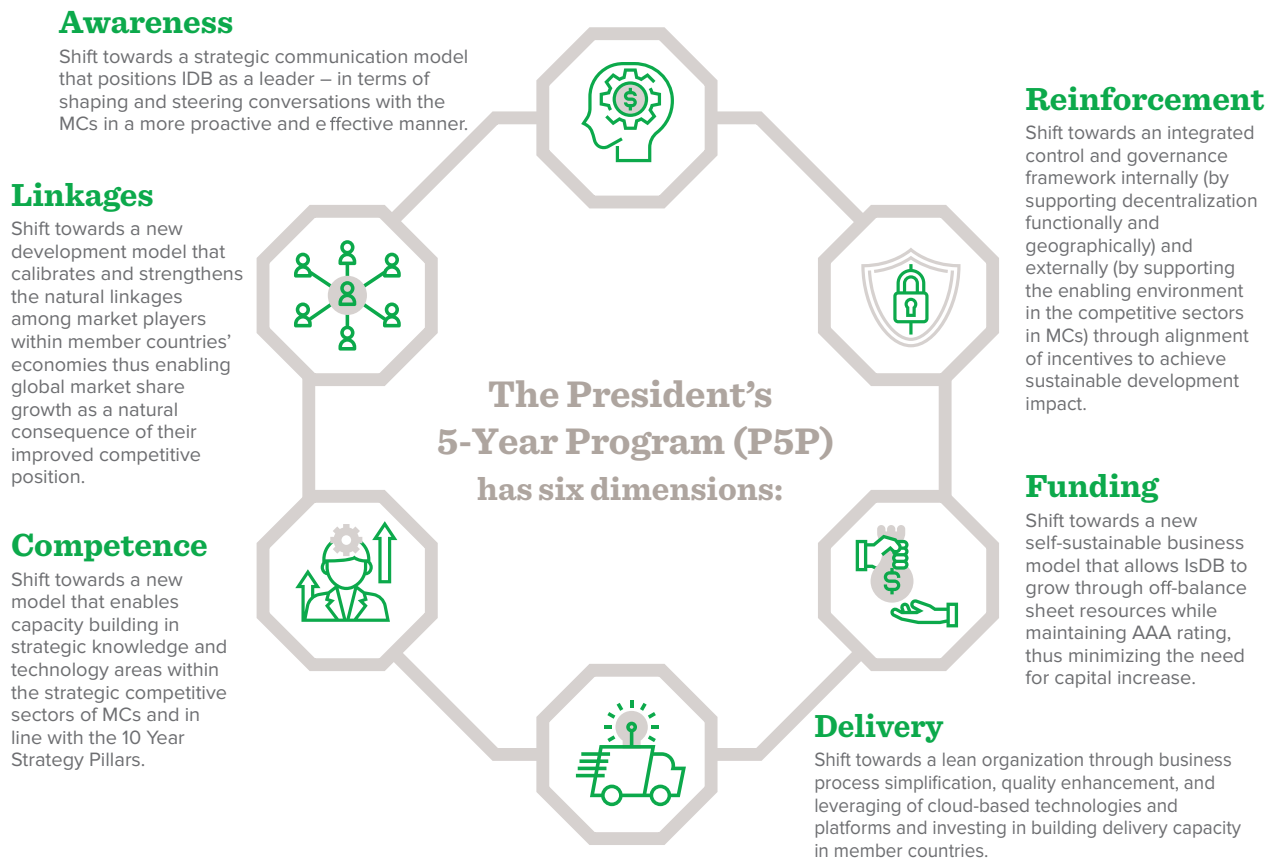
SDGs provide a common platform for the diverse development actors. Even here, the preeminence of international goals has become more muted than before as newly (and relatively more) affluent nations in the developing world now use them more as indicators than aspirational goals as was the case for the Millennium Development Goals (MDGs). The new national development planning processes are based more on national priorities and often pick a subset of SDGs as their targets. While completing the MDGs, continuing economic growth, promoting inclusive growth and supporting sustainable development will continue to be major development objectives, a major international focus will now be on finding “the trillions” required to achieve them. The private sector will have to play a major part and official institutions like the IsDB and ICD will have to facilitate their participation.

¹ “Update on Economic and Financial Outlook”, Economic Research & Institutional Learning, IsDB, Feb. 2018

1.3 A New Roadmap for Islamic Development Bank (IsDB)

The President of IsDBG has a new five-year program to support the achievement of the development goals of the MCs. This program is based on a performance assessment of the Bank's 40 years of experience as well as the MCs' expectations. The MCs expect IsDB to be proactive, at the frontier of development and to be fast and adaptive.

There are six dimensions to the IsDBG President's 5-Year Program (P5P):







1.4 ICD's Strategy

ICD's 3-Year Business Plan (2018 – 2020) takes into account the President's 5-Year Program (P5P) and recent changes in the international development landscape. The plan defines how ICD will reinforce its role as the leading multilateral development organization providing Shariah-compliant financial products and services for the private sector by:

- ◆ Providing access to finance to MSMEs and promoting entrepreneurship in MCs, thus creating new jobs and reducing poverty;
- ◆ Extending advisory services and technical assistance to create an enabling environment for private sector development as well as fostering growth in Islamic financing institutions;
- ◆ Connecting financing sources with investment opportunities in MCs;
- ◆ Providing comfort in difficult environments to facilitate financing from other investors in order to stimulate MCs' economic growth; and
- ◆ Demonstrating the viability of private solutions in difficult or new sectors, leading to further investments and creating or developing new markets.

The overall strategic direction of ICD for the next 3 years will be based on five key principles:

- 1. Contribution to the Sustainable Development Goals (SDGs):** ICD's strategy, business plans and operations will clearly demonstrate how they contribute directly and indirectly to the SDGs. The SDGs screening is now part of the project appraisal process.
- 2. Contribution to the IsDBG 10-Year Strategy:** As the major private sector arm of IsDBG, ICD will play a key role in achieving the main private sector development targets outlined in the IsDBG's 10-Year Strategy. Accordingly, the Corporation will focus on projects that have high potentials to reach key IsDBG targets, such as supporting new jobs, providing MSMEs with access to financing, and improving the enabling environment in ICD MCs.

IsDBG Development Indicators Relevant to Private Sector Operations	2025 Target
Jobs created	1m
Number of Micro, Small, and Medium Enterprises (MSMEs) funded	TBD
Share of Islamic finance clients (as % of world population with formal account)	18%
People provided with access to infrastructure	290m
People reached with basic social services	44m
People to attend training/learning events	1.6m

- 3. Alignment with Clients' Needs:** ICD will rely on the IsDBG Member Country Partnership Strategy (MCPS) exercise as well as on its in-house systematic regional/country diagnostics studies, to select its operational sectors. The development needs identified in these exercises include: (i) infrastructure with a large concentration on energy, (ii) access to finance, and (iii) financial inclusion. In a growing number of countries, ICD is expected also to support private education and healthcare projects.
- 4. Core Competencies:** As the sole Development Finance Institution (DFI) with a mandate to develop the private sector with Shariah-compliant financing, ICD aims at bringing innovative private sector solutions and capital to address the toughest development challenges.
- 5. Mobilizing Additional Resources:** During the next three years, ICD will prioritize projects that would enable unlocking additional resources from other sources at both the strategic and operational level to provide the highest development impact for its MCs.



Section 2

ICD's

Development Effectiveness Framework

2.1 Overview

In 2017, ICD continued its process of institutionalizing a development effectiveness culture with two key process changes:

- ◆ The credit and advisory approval process was modified to incorporate the Development Indicators Monitoring System (DIMS) information;
- ◆ The alignment analysis with the Sustainable Development Goals (SDGs) is being conducted for each new project submitted to the Investment Committee and to the Executive Committee of the Board.

2.2 ICD's Development Effectiveness Framework

The principal building block of ICD's development effectiveness framework is its Results Framework.

The latter is based on ICD's strategic goals towards contributing to the overall IsDBG's 10-year strategy and the Sustainable Development Goals (SDGs). It follows a classical results-based management (RBM) approach in identifying the causal chain from input to output, outcome and impact.

The ultimate goal of ICD's Results Framework is to improve social welfare

for both producers and consumers, through the development of a competitive private sector environment in its MCs. ICD's intervention helps develop the private sector and addresses some of the challenges that the sector, especially MSMEs, face. ICD clients can benefit from its credit and advisory services to improve their business processes and products,

which in turn could lead to an increase in sales and profits. Overall, the use of such services can lead to an expansion of the business activities, creation of more jobs, increase in export potential and ultimately in the improvement of the lives of the people.

ICD's Development Effectiveness Framework





2.3 Achievements in the Development Effectiveness Agenda in 2017

The key achievements in operationalizing ICD's development effectiveness agenda were as follows:

- ◆ The issuance of an administrative instruction to incorporate the Development Indicators Monitoring System (DIMS) assessment in the credit and advisory project appraisal process thereby enhancing the reporting on the achievement of results;
- ◆ The publication of the third consecutive ADER for year 2016;
- ◆ The completion of seven Expanded Project Supervision Reports (XPSRs) for the following projects: (1) Ijara Company (Kyrgyzstan), (2) Pran-RFL (Bangladesh), (3) Vitamed (Uzbekistan) (4) Magnus (Uzbekistan) (5) Agrobank (Uzbekistan) (6) Serba (Malaysia) (7) Albania Ijara Company (Albania);
- ◆ The completion of two real-time evaluations for (1) Wifack International Bank (Tunisia), and (2) Al Qadi Hospital (Saudi Arabia);
- ◆ The completion of a comprehensive design of the first Randomized Control Trial (RCT) on the development effectiveness of Islamic finance in collaboration with J-PAL/MIT;
- ◆ The training of the project officers on the SDGs targets and how to articulate them during project appraisal and business plan preparation;
- ◆ The preparation and inclusion of development effectiveness assessments for projects presented to the Investment Committee.

2.4 Improvements in the Development Indicators Measurement System (DIMS)

2.4.1 The important role of DIMS in the investment and advisory approval process

The Development Indicator Monitoring System (DIMS) is now a formal part of the project approval process. The DIMS Toolkit was prepared in 2017 to help the project officers in this regard. The process is as follows:

- ◆ At the Concept Review stage, the project team shall prepare a development impact section for each Concept Review Paper (CRP) based on a template of theory of change for the particular program.
- ◆ After the Concept Review, the project team shall ensure that the development impact questionnaire is filled by the client during the due diligence process.
- ◆ Based on this questionnaire, the Development Effectiveness Team shall provide a Development Effectiveness Note to support the project review by ICD's Investment Committee members.

2.4.2 Adoption of Software for the ADER Survey

In 2017, the Annual Development Effectiveness Survey was conducted using, for the first time, “Survey CTO”, a software designed specifically to improve the quality and the efficiency of data collection. The software offers key features such as user-friendliness, quality control processes, and guidance on answering the questions.

The screenshot displays the SurveyCTO user interface. At the top left is the SurveyCTO logo. To the right are menu items: 'Save form', 'Options', and 'Appearance'. Below this is a blue header bar with the text 'Financial Institution Line of Finance (LoF) Development Results in 2017'. The main content area is a white box with a grey border, containing the text: 'You are at the start of a form. When ready to begin, please click the the below or to the right. Next button' and 'At the end, you will have the opportunity to submit your responses.' A blue 'Next >' button is located at the bottom right of the content area. Navigation icons (back, forward, home, end) are visible on the left and right sides of the content area.

Survey questionnaire designed with SurveyCTO

2.4.3 SDGs Identification Matrix

The SDGs Identification Matrix is a very straightforward and user-friendly tool developed internally, which identifies the SDGs including the targets and the indicators that are directly relevant to ICD's mandate. The matrix was developed as part of the 2018-2020 Business Plan. Based on the matrix, the Business Units have elaborated on the contribution of their respective operations to the SDGs.



2.4.4 Design of an Impact Evaluation Methodology with the Abdul Latif Jameel Poverty Action Lab, Massachusetts Institute of Technology

Following the collaboration initiated by ICD in 2016 with the Abdul Latif Jameel Poverty Action Lab (J-PAL) at the Economics Department of the Massachusetts Institute of Technology (MIT), a joint mission was conducted in March 2017 in Senegal to finalize the design of the impact evaluation of the effectiveness of Islamic finance. The proposed research design will address the following three questions:

- ◆ **Demand for Islamic Finance:** How does the demand for Islamic finance compared to demand for conventional finance and how much does it differ based on the characteristics of the financial product itself (i.e. a commodity-based product vs. an asset-based product)?
- ◆ **Islamic Credit Performance:** How do the different Islamic finance products affect repayment and long-term utilization of bank services, and ultimately bank profits?
- ◆ **Development Impact of Islamic Finance:** How do Islamic finance products affect the welfare of the recipients?



Section 3

ICD in Action

3.1 Overview

This section reports on ICD's operating climate and its financial performance in 2017. A major conclusion is that the operating climate continues to remain volatile, uncertain and in some situations, insecure.

ICD's financial portfolio was balanced among the regions in 2017. Lines of Finance (LoF) continued to be ICD's preferred financing mechanism. The financial sector received most of the funding, followed by energy and industry & mining, reflecting ICD's experience and comparative advantage in these areas.

3.2 Operating Context

Three general trends are evident in terms of the development scenario in ICD MCs. These are – (1) disparities in development status between and across countries and regions, (2) impacts of low oil and commodity prices, and (3) conflicts and the resulting fragility on development.

(1) Disparities between and across countries and regions

Thirteen of the 54 ICD MCs were Low-Income Countries (LICs) based on their 2016 Gross National Income (GNI) per capita (Figure 3.2). All LICs are in Sub-Saharan Africa with per capita GNI ranging from USD 370 (Niger) to USD 950

(Senegal). Almost all of the Upper Middle-Income and High-Income MCs are located in Asia. Overall, the income classification of the MCs remained unchanged from their 2015 status even though many of the oil and resource dependent MCs experienced

a decline in income and economic growth. The encouraging news has been an increase in economic growth (at greater than 5% annual rate in 2016) in some LICs and Low Middle-Income Countries (LMICs) in Africa.

Figure 3.2 Member Country Classifications by Gross National Income per capita (current USD)* 2016

Classification	Africa	Asia	The Americas	Europe
Low Income Countries (LICs): 13	Benin, Burkina Faso, Chad, Comoros, Gambia, Guinea, Guinea-Bissau, Mali, Mozambique, Niger, Senegal, Sierra Leone, Uganda			
Lower Middle-Income Countries (LMICs): 17	Cameroon, Cote d'Ivoire, Djibouti, Egypt, Mauritania, Morocco, Nigeria, Sudan, Tunisia	Bangladesh, Indonesia, Jordan, Kyrgyz Republic, Pakistan, Tajikistan, Uzbekistan, Yemen		
Upper Middle-Income Countries (UMICs): 14	Algeria, Gabon, Libya	Azerbaijan, Iran, Iraq, Kazakhstan, Lebanon, Maldives, Malaysia, Turkey, Turkmenistan	Suriname	Albania
High Income Countries (HICs): 6		Bahrain, Brunei, Kuwait, Qatar, Saudi Arabia, UAE		

* Source: World Bank Development Indicators, <http://data.worldbank.org/indicator/NY.GNP.PCAP.CD> Classifications, accessed in January 2018. No per capita income numbers were available from World Bank Sources for Somalia. Latest per capita GNI for Syria was available for 2007 only.

The 2016 UN Human Development Report (UNHDR) suggests that the gains made in human development in many developing countries have been offset by internal income and other inequalities. It is estimated that about 25% of the value of the Human Development Index (HDI) are lost due to these factors. This is true for ICD MCs as well. For example, the HDI value for Cameroon was 0.518 in 2015;

however, the inequality-adjusted HDI was 0.348, a loss of 33% of its original value. Similar statistics for Tunisia are 0.725 and 0.562, Pakistan (0.550 and 0.380) and Uzbekistan (0.701 and 0.590) respectively. A Brookings Institution survey of existing evidence suggests that there is a great disparity of wealth in MENA countries as well. The loss in human development due to inequality in ICD MCs has implications

for the achievement of SDGs. In particular, attention needs to be paid to increasing adult literacy and primary education as well as health issues such as neo-natal care, child malnutrition and infant mortality. In addition, as more countries become MICs, fiscal policies redistributing the “growth dividend” to deliver social services to the poor gain greater importance.

(2) Impact of oil price decline

Oil prices have been highly volatile in recent decades. It experienced a sustained increase from USD 30/barrel in 2004 to a maximum of about USD 140/barrel in 2007. This increase was mainly boosted by growing demand from fast-growing economies in Asia. After a sharp decline in 2008, prices stabilized between USD 100 and USD 120/barrel for about 3.5 years (January 2011-June 2014). The oil price fell again from mid-2014 onwards and reached a minimum level of USD 26/barrel in January 2016. Since then, prices have been slowly going up to an average of about USD 40/barrel.

The volatility has been a function of unevenly distributed global oil reserves, different extraction costs and dynamics of demand and supply. The causes for the recent low oil prices include the weakening of demand from some large Asian importers, the availability of new energy sources, the strategic behavior of some large-reserve / low cost producers, the appreciation of the US Dollar, and the anticipation of emerging technologies seen as possible substitutes for oil in the transport sector.

For oil-exporting MCs, their GDP and government revenues are closely linked to oil price changes. However, there have been differential impacts and responses to the oil price decline. For example,

- ◆ 50%-65% of the economies of most Gulf countries are based on fossil fuel and related sectors. However, countries like United Arab Emirates had started to diversify their economy over the last decade (UAE now only depends for about 20% directly on fossil fuels). As most Gulf countries have high oil reserves per capita combined with very sizeable Sovereign Wealth Funds (SWF) generated from previous oil revenues, relative to the size of their economy, they are better insulated against the oil price slump in the short and medium term.
- ◆ Iran has a relatively more diversified economy, but it is still highly dependent on the fossil fuel sector (30% of GDP) and its SWF and reserves per capita are limited. This makes the country vulnerable to shocks on the oil market.
- ◆ In North Africa, Libya has relatively high reserves per capita, while those

of (more populated) Algeria are very low. Their economies are still highly dependent on the fossil fuels sectors (about 30% is generated from the oil and gas sector) and their SWFs are limited. This makes these countries vulnerable if the oil prices remain low for long periods.

- ◆ In Sub-Saharan Africa, revenues from fossil fuels account for about 20%-30% of the economy of Nigeria and the smaller producers. Their SWFs are virtually non-existent while the reserves per capita are very low. This makes these countries very vulnerable for long periods of low oil prices.



(3) Increasing fragility and conflict in some regions particularly the Middle East

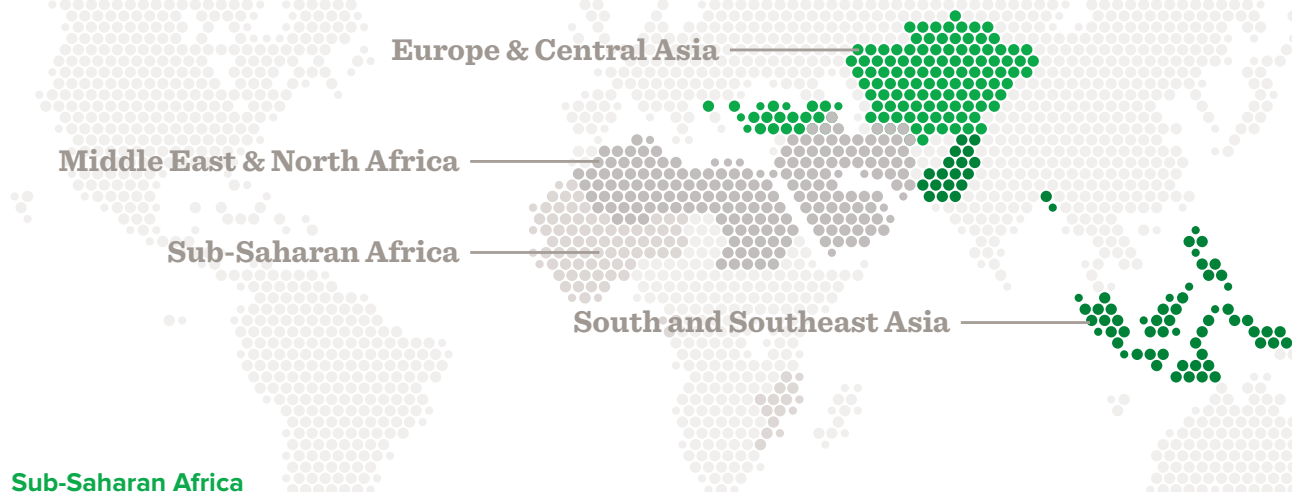
Continuous periods of debilitating conflicts have eroded previous development gains and destabilized the future prospects of countries such as Syria, Iraq, Libya and Yemen. Estimates by the UN show that more than 13 million children are out of school in these countries. The World Bank in a similar assessment for Yemen (done in collaboration with UN agencies, the European Union, the Islamic Development

Bank Group, and the country authorities), suggests as of October 31, 2015, the damage in six sectors (education, energy, health, housing, transport, and water and sanitation) in four cities - Sana'a, Aden, Taiz and Zinjibar – to be in the range of USD 4.0 – 5.0 billion. The conflicts have resulted in a humanitarian catastrophe, the mass displacement of people and destruction of homes, roads, bridges, and

other infrastructure. The total number of people displaced from Yemen, Syria, Libya and Iraq is estimated to be 15 million, with many of them fleeing to neighboring countries, such as Lebanon and Jordan. As a result, poverty and a deterioration in provision of healthcare and education have become endemic in the conflict-prone regions.

An end to the conflicts in MENA will restore security, increase investment, and allow the commencement of reconstruction and rehabilitation activities. It will also permit the governments to shift budgetary resources away from military expenditure to social services such as education and health particularly to the poor. Stability and peace in the currently fragile countries will also have a positive impact on the rest of the region.

Regional Outlooks



Sub-Saharan Africa

While the region has tremendous growth potential, difficult international and national conditions have constrained its ability to have a sustained economic expansion. The regional growth rate fell to 1.4% - the lowest level of growth in two decades. This was due to the fact that most oil exporters were in recession and conditions in other resource-intensive economies remained fragile. Nigeria had a negative growth rate of -1.62% in 2016 and Chad of -7%. Some relatively large MCs such as Senegal (6.74%) and Cote d'Ivoire (8.34%) exhibited strong growth as did some smaller ones such as Djibouti and Sierra Leone. The World Bank expects a modest recovery in growth of about 2.6% in 2017 for the region. Nevertheless, these growth rates fall far short of what is required to put Sub-Saharan Africa on a path of sustained rising living standards and poverty reduction. This region will continue to need external support in meeting its basic human needs and in building capacity to nurture an internally viable economic structure including private sector growth.

South and Southeast Asia

The World Bank suggests that regional economic growth in South Asia is expected to slow to 6.9% in 2017 from 7.5 % in 2016, but growth could rebound to 7.1 % in 2018 with the right mix of policies and reforms. The slowdown in South Asia has mostly been driven by internal factors, most notably in India, such as a decrease in private investment and an increase in imports and government spending. MCs such as Pakistan experienced slow economic growth in 2016 of 2.75%. However, it could attain higher growth if deficits are well-managed and external stability is maintained. Bangladesh maintained its fast-paced economic growth (6.46% in 2016) and its industrial production has continued to accelerate. One worrisome feature is an increase in its fiscal deficits. Overall, MCs in South Asia will benefit from continued recovery in advanced economies, which are their largest export markets as well as the relatively low international energy prices. Both Pakistan and Bangladesh have reached LMIC status with the private sector playing a critical role in the further development of the economy. In Maldives, an UMIC, the government has embarked on several major infrastructure projects to help move Maldivians to the capital city Malé. However, it needs to prepare for the impacts of climate change including

rising sea levels and could benefit from providing more employment opportunities, and better health as well as education services. With a combined population of over 620 million and an economy of USD 2.6 trillion, Southeast Asia will be the world's fifth largest economic region by 2020 and boasts some of the world's fastest expanding economies such as the Philippines and Vietnam, with growth rates of more than 6 %. ICD MCs such as Indonesia and Malaysia are part of this high growth trajectory. Here too, further maturation of the private sector will be a key element in determining their future prosperity.

Europe and Central Asia

GDP growth in the Europe and Central Asia region is expected to reach 2.2% in 2017, its strongest growth in six years. Out of the MCs in this region, only Azerbaijan, the country that was hit the hardest by the fall in oil prices is expected to remain in recession this year. Other countries including Turkmenistan and Kazakhstan seem to be on a stable growth path with declining inflation and fiscal deficits. In several countries in the region, unemployment rates have fallen below pre-2008 levels and labor participation rates are above pre-crisis levels. However, many of these economies are starting to experience the introduction of labor-saving technologies and a rapid growth of the use of digital devices for business activities. These new technologies will increase efficiency, but they will also change the distributions of wealth and income. The banking sector remains fragile in many countries especially those that directly or indirectly depend on commodity exports such as Azerbaijan and Kazakhstan. Moreover, the financial sectors in the region are struggling to absorb new technologies and meet new demand for risky capital. In addition, regional economic and political cohesion is being tested. For example, the eastern part of the region where most of the MCs are located, has still not fully adjusted to the dramatic fall in income triggered by falling oil prices.

Middle East & North Africa (MENA)

Low oil prices, conflicts, and the impacts of a global economic slowdown have meant that economic growth in MENA has stagnated. The World Bank projects overall GDP growth to be less than 3% for the third year running—about 2.8% for 2015. The short-term prospects of recovery are favorable. In particular, the GCC countries - Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates - and Algeria are suffering from low oil prices and fiscal spending deficits. Further fall in oil prices will likely make the fiscal situation even worse. In addition, a number of economies such as Syria, Libya, Lebanon, Yemen and Jordan have taken a double hit of low oil prices and the continuation of internecine conflicts. Syria and Libya have seen a drop of about 40% or more to their oil output, as a result of physical damage to the sector and a fall in production. The result has been a rise in fiscal deficits in many of these countries – Libya stands out with a fiscal deficit of more than 55% of GDP. Iran's economy was expected to grow faster from 2016 onwards, following the agreement to limit nuclear development and allow more inspections of its nuclear sites. However, that prospect has become uncertain at this time. In summary, in the recent periods, the MENA region has seen a slowdown in economic growth, an escalation of violence and civil war and, more recently, substantial macroeconomic imbalances resulting from lower oil prices. This situation is likely to continue for the foreseeable future putting in jeopardy its ability to achieve the SDGs.

3.3 Portfolio and Investment Analysis

Private sector development focusing on inclusive growth and sustainable progress is at the core of ICD's mandate. ICD ended 2017 with marked improvements in approvals, registering an annual increase of 13.0%. Total gross approvals were valued at USD 930.8 million – the highest in ICD's history.

Approvals

In 2017, ICD approved USD 930.8 million in financing, up USD 106.4 million from the previous year, mostly due to an increase in line of financing. ICD's portfolio has always been dominated by Lines of Finance (LoF), and 2017 was no exception. LoF commitments accounted for 63% of total approvals, comprising

USD 583.3 million. This included two regional projects for Africa and 17 country-level facilities, including for Bangladesh, Gambia, Kazakhstan, Kyrgyzstan, Mali, Niger, Palestine, Suriname, Tajikistan, Togo, Turkey, Suriname, and Uzbekistan. Term Finance received the second largest number of approvals, with a total of USD

336 million or 36% of total approvals in 24 projects. This was followed by 1.0% and 0.4% shares in Funds and Corporate Equity, respectively. To date, gross cumulative approvals stand at USD 5.89 billion, allocated to more than 390 projects.

Figure 3.3.1 Total Approvals by Product (2017)

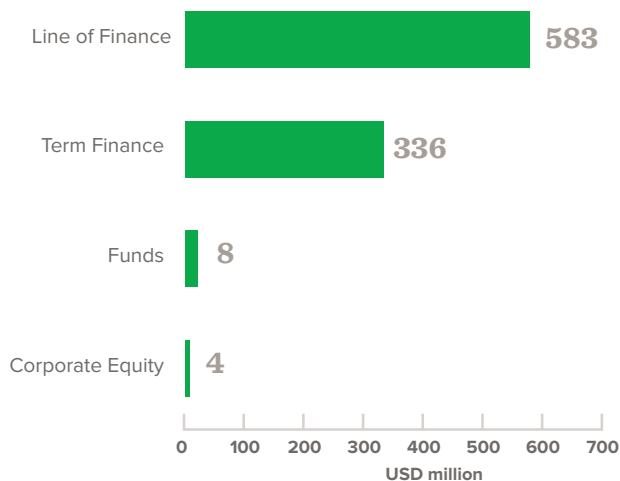
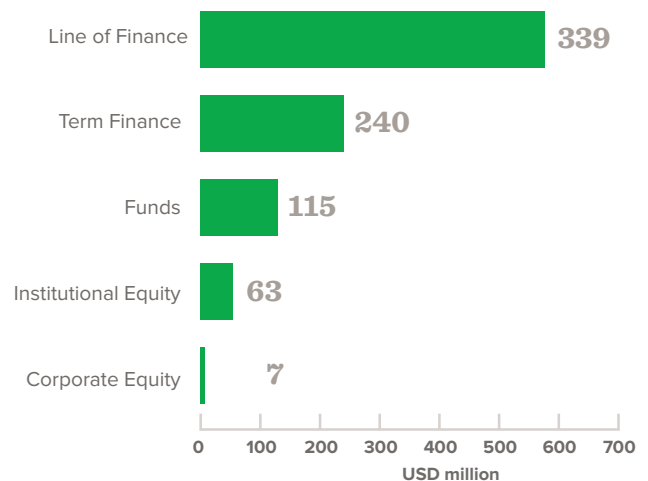


Figure 3.3.2 Total Approvals by Product (2016)



On a sectorial basis, in 2017, the financial sector accounted for the largest share of approvals, amounting to USD 583.3 million, or 62.7% of total approvals, with a total of 18 projects. The industry & mining and

energy sectors accounted for the second and third largest allocations, totalling USD 149 million (16% of total approvals, 10 projects) and USD 128.5 million (14% of total approvals, 10 projects), respectively.

The funds and real estate sectors make up the smallest percentage of ICD's portfolio in 2017 with a combined share of 1.3%, equivalent to a total of USD 10.7 million.

Figure 3.3.3 Total Approvals by Sector (2017)

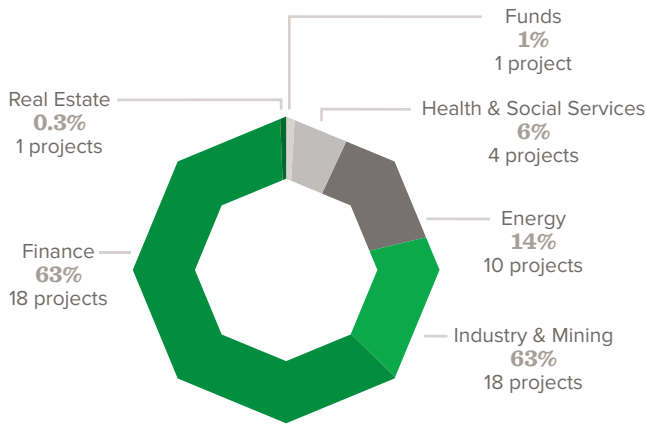
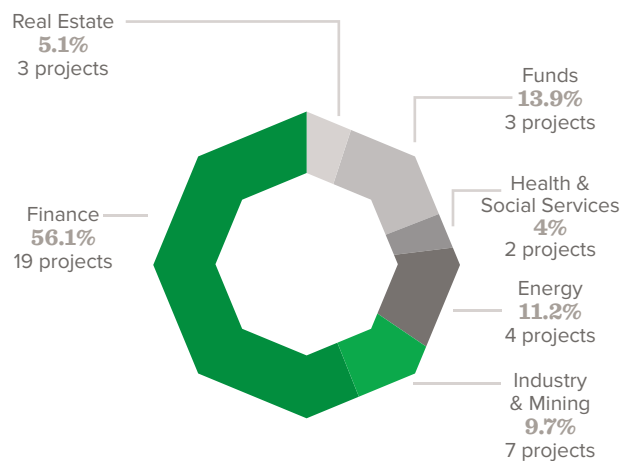


Figure 3.3.4 Total Approvals by Sector (2016)



In most years, the financial sector, with a significant focus on SMEs as end beneficiaries, is the largest sector in terms of project volume and funding. Since inception, the finance sector has accounted for the majority of gross approvals (46%). The industrial & mining sector takes up the second largest share (21.18%), with a gross approved amount of USD 1,248.2 million. This is followed by funds with 9.04%, then real estate, health

and other social services, information and communication, energy, trade and transportation, accounting for 22.2% of gross approvals. The remaining USD 74.38 million representing 1.3% of cumulative approvals, is allocated to three corporate sectors: agriculture, education, and water, sanitation & waste management. In comparison to the previous year, approvals were heavily concentrated in the Europe and Central Asia region,

accounting for almost 50% of total approvals, or USD 429.4 million, covering 15 projects in 2017 (2016: 18.3%, or USD 151.5 million). The largest recipients of ICD's financing by volume are Turkey (USD 259.4 million), Egypt (USD 112.5 million), Kazakhstan (USD 104.0 million), Regional (USD 100.0 million), and Togo (USD 71.5 million).

Historically, a majority of ICD's activities have tended to be in the MENA region, accounting for 34% of gross approvals since inception.

Disbursements

In terms of disbursement, ICD was able to disburse USD 292 million in 2017, reflecting the difficult operating conditions ICD faced in 2017. This amount excludes the disbursements made through by the

funds managed by ICD. Out of the USD 292 million, 50% of the total, or USD 147 million, went to Term Finance (2016 saw LoF receive the largest disbursement of 53.4% of total). LoF accounted for 38% of

total disbursements in 2017, followed by Institutional Equity, Funds and Corporate Equity (10%, 1.7% and 0.03% respectively). Since inception, ICD has disbursed a total of USD 2.65 billion to 51 MCs.

Figure 3.3.5 Total Disbursements by Product (2017)

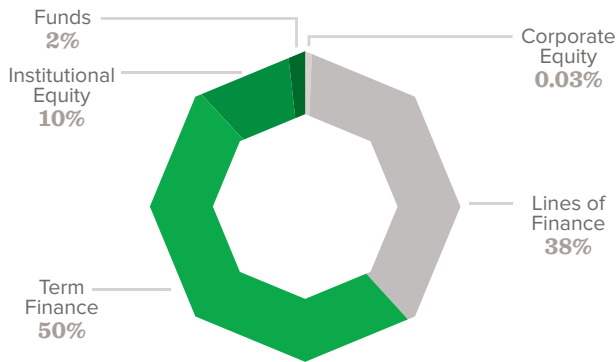


Figure 3.3.6 Total Disbursements by Product (2016)

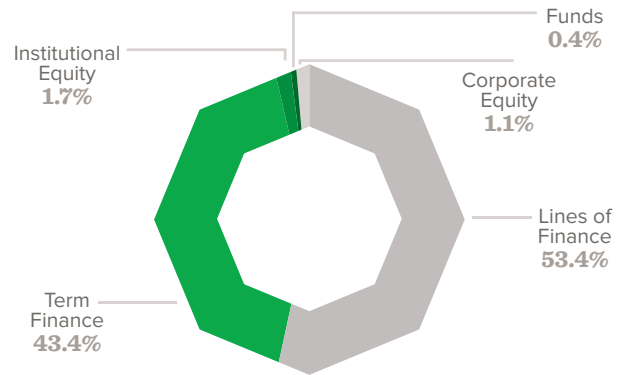


Figure 3.3.7 Total Disbursements by Sector (2017)

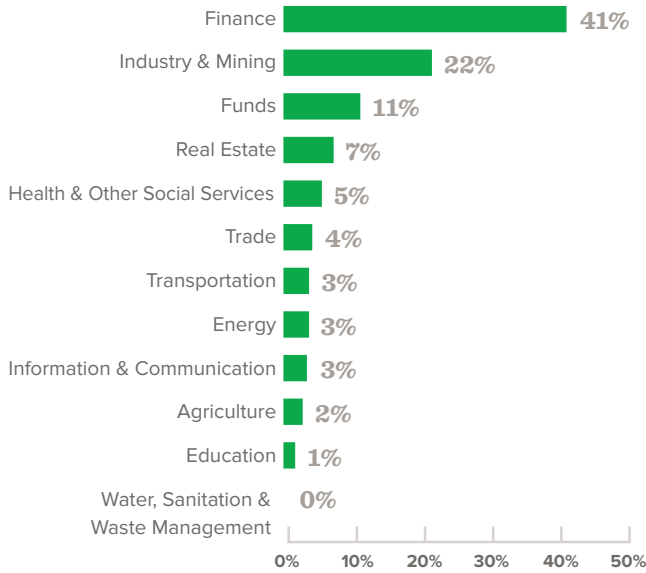


Figure 3.3.8 Total Disbursements by Sector (2016)

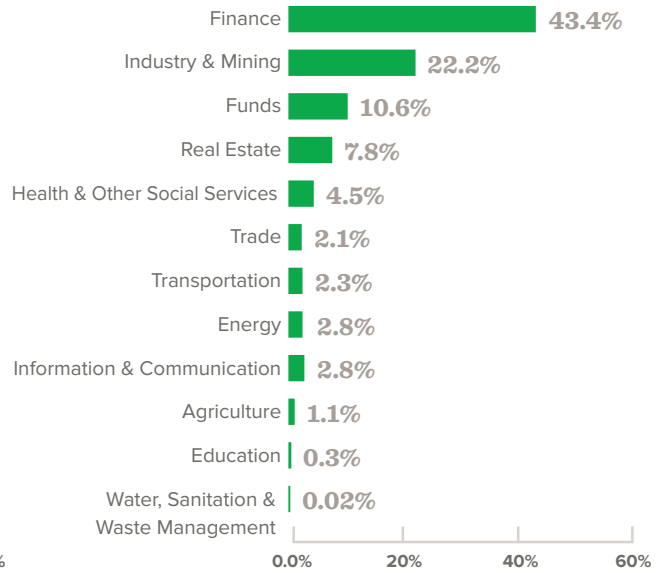


Figure 3.3.9 Total Disbursements by Region (2017)

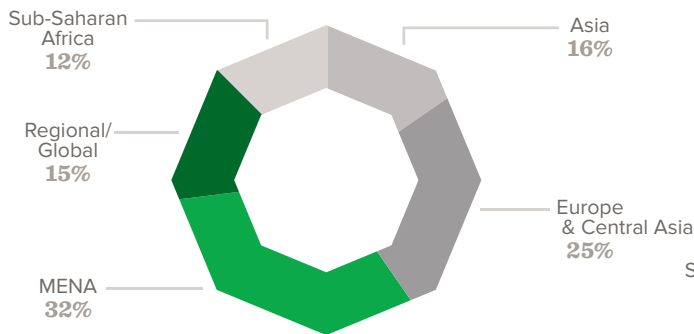
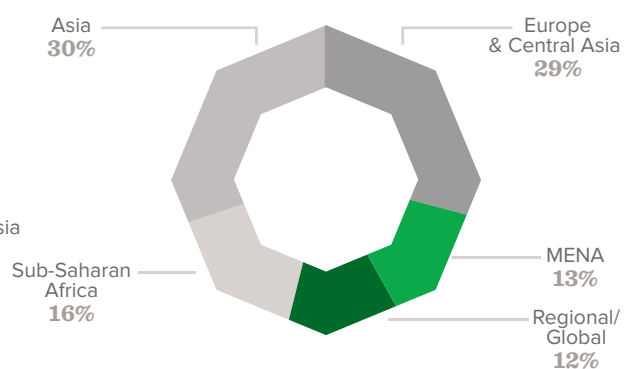


Figure 3.3.10 Total Disbursements by Region (2016)



Section 4

A Special Report on ICD's Contribution to the Achievement of the Sustainable Development Goals (SDGs)

4.1 Overview on the SDGs

In 2015, the Sustainable Development Goals (SDGs) replaced the Millennium Development Goals (MDGs) as the aspirational goals of the international development community. They also reflect better the needs of the current developing world.

As stated in Section 3, most developing countries are now MICs. This applies to ICD MCs as well. In contrast to the MDGs, the current and future development challenges now are not so much the basic human needs (although they will be important in the remaining LICs) but are challenges related to sustainable development, inequality and the redistribution of the growth dividends to improve social service delivery to the poor in areas such as education and health.

Another major difference between the SDGs and the MDGs is that the former are global aspirational goals while the latter concentrated on the developing countries.

This is a reflection of the recognition that many issues will now require global solutions.

The SDGs declaration explicitly recognizes that the private sector will be a key player in achieving the goals. Not only will it be important in generating more skill intensive employment fit for MICs, but it will also be the major financier in achieving the SDGs. One of the major roles of the official bilateral and multilateral agencies will be to figure out how they can turn the billions they can raise into the trillions required to meet the SDGs by engaging the private sector.

ICD can play a very important role in energizing the private sectors in its member countries in order to help meeting the SDGs. Ten (10) SDGs are well aligned with ICD's current strategy: SDG 1 (poverty), SDG 2 (hunger/agriculture), SDG 3 (health), SDG 4 (education), SDG 5 (gender equality), SDG 7 (energy), SDG 8 (economic growth), SDG 9 (industry/ infrastructure), SDG 13 (climate action) and SDG 17 (partnerships).



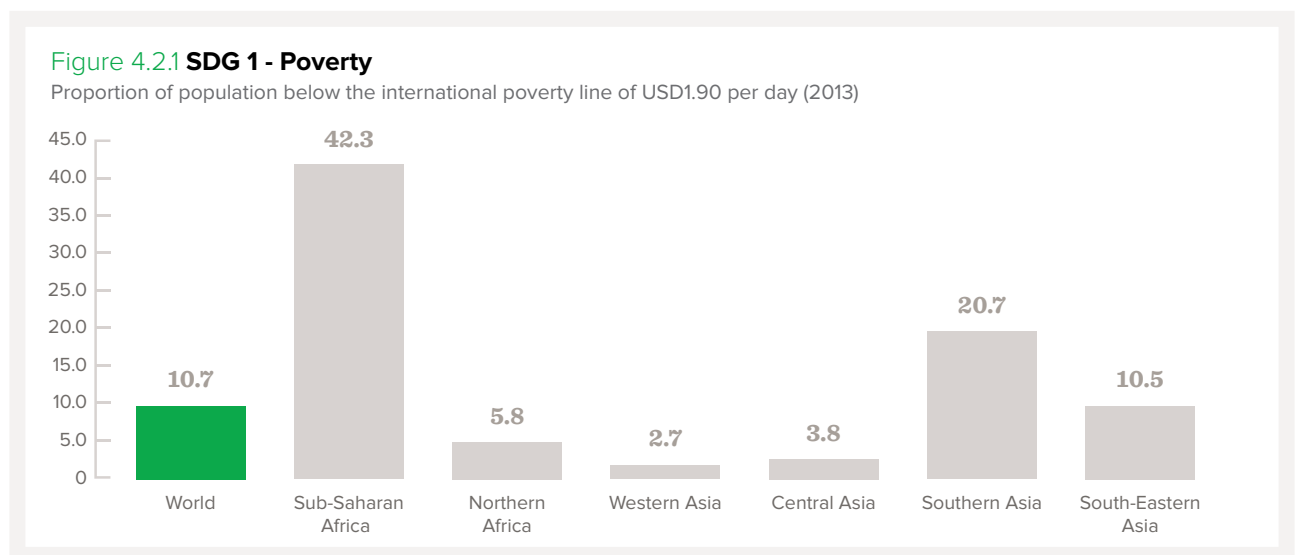
4.2 The Challenges Facing Developing Countries in Meeting The SDGs Relevant to ICD's Current Strategy

The 2017 report of the Secretary General of the United Nations, "Progress towards the Sustainable Development Goals," provides an overview of global progress to date in meeting the SDGs and its related targets by regions. This section reports on the SDGs that are relevant to ICD's strategy. ICD MCs are concentrated in six

United Nations identified geographical regions:

- ◆ Sub-Saharan Africa²
- ◆ Northern Africa³
- ◆ Western Asia⁴
- ◆ Central Asia⁵
- ◆ Southern Asia⁶
- ◆ South-Eastern Asia⁷

For illustrative purposes, a proxy indicator was chosen for each SDG that describes the challenges facing the regions where ICD MCs are located (*the below charts are developed from the data available at the Global Database of the SDG Indicators, updated on November 30, 2017*).



The most significant progress is seen in South-East Asia, where the rate declined from 35% in 1999 to 10% in 2013. In contrast, 42% of people in Sub-Saharan Africa continued to subsist in conditions of extreme poverty in 2013.

²Sub-Saharan Africa, including Benin, Burkina Faso, Cameroon, Chad, Comoros, Cote d'Ivoire, Djibouti, Gabon, Gambia, Guinea, Guinea Bissau, Mali, Mauritania, Mozambique, Niger, Nigeria, Senegal, Sierra Leone, Uganda

³Northern Africa, including Algeria, Egypt, Libya, Morocco, Sudan, Tunisia

⁴Western Asia, including Azerbaijan, Bahrain, Iraq, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Palestine, Syria, Turkey, United Arab Emirates, Yemen

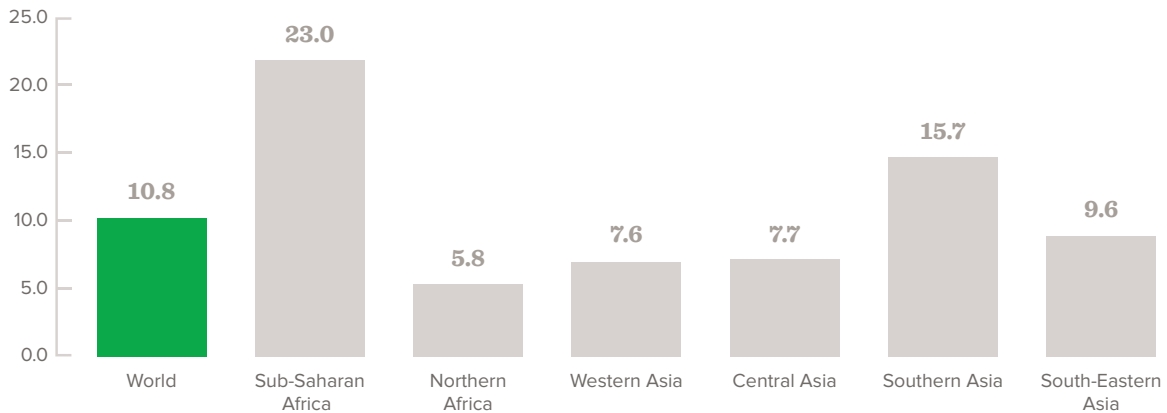
⁵Central Asia, including Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan (Albania is part of Southern Europe)

⁶Southern Asia, including Afghanistan, Bangladesh, Brunei, Iran, Pakistan, Maldives (Suriname is part of South America)

⁷South-Eastern Asia, including Indonesia, Malaysia

Figure 4.2.2 SDG 2 - Hunger

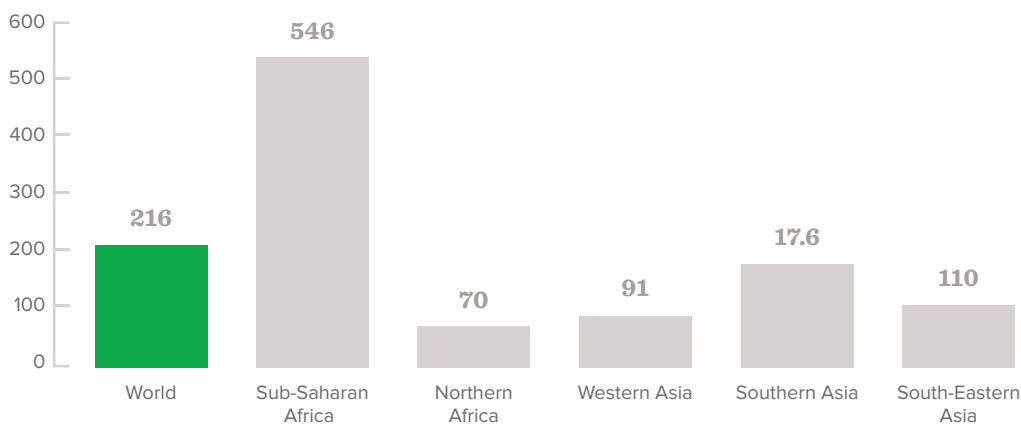
Prevalence of undernourishment (%) (2014 - 2016)



Ending hunger, food insecurity and malnutrition, will require continued and focused efforts, especially in Asia and Africa. Southern Asia and Sub-Saharan Africa accounted for three quarters of all stunted children in 2016.

Figure 4.2.3 SDG 3 - Health

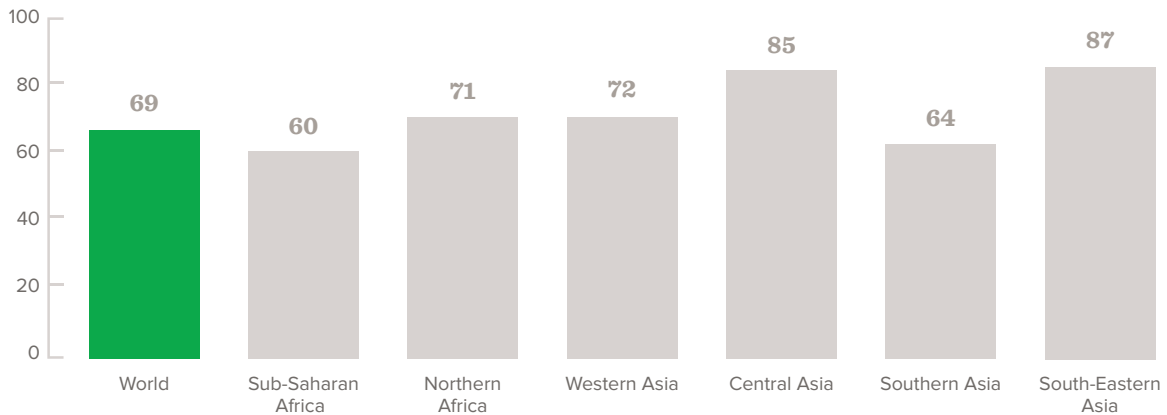
Maternal mortality ratio (Maternal deaths per 100,000 live births) (2015)



Sub-Saharan Africa and Southern Asia continue to record high maternal mortality rates. Most maternal deaths can be prevented. In 2016, 78% live births worldwide benefited from skilled care during delivery, compared to 61% in 2000. In Sub-Saharan Africa, however, only 53% of live births received skilled care during delivery in 2016.

Figure 4.2.4 SDG 4 - Education

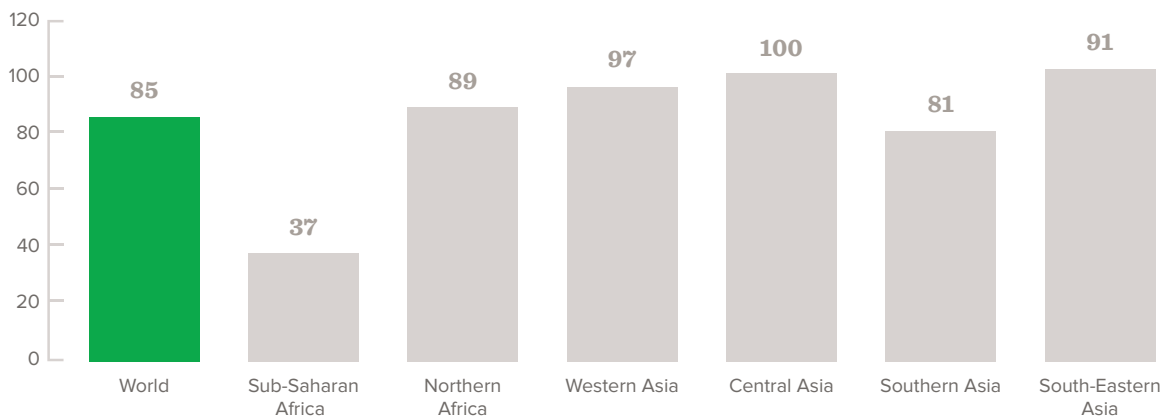
Proportion of children under 5 years of age who are developmentally on track in health, learning and psychosocial well-being (2009-2016)



Compared to other indicators, progress is being made in education for early learning. Increased efforts are required especially in Sub-Saharan Africa and Southern Asia and for vulnerable populations, including individuals with disabilities, indigenous people, refugee children and poor children in rural areas.

Figure 4.2.5 SDG 7 - Energy

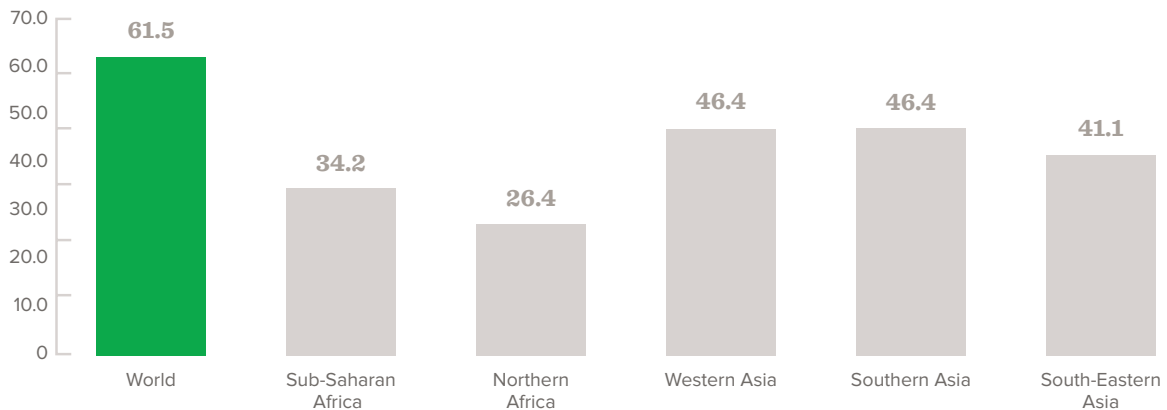
Proportion of population with access to electricity (2014)



Globally, 85.3% of the population had access to electricity in 2014, an increase of only 0.3% since 2012. This means that 1.06 billion people, predominantly rural dwellers, still function without electricity. Half of those people live in Sub-Saharan Africa.

Figure 4.2.6 SDG 8 - Financial Inclusion

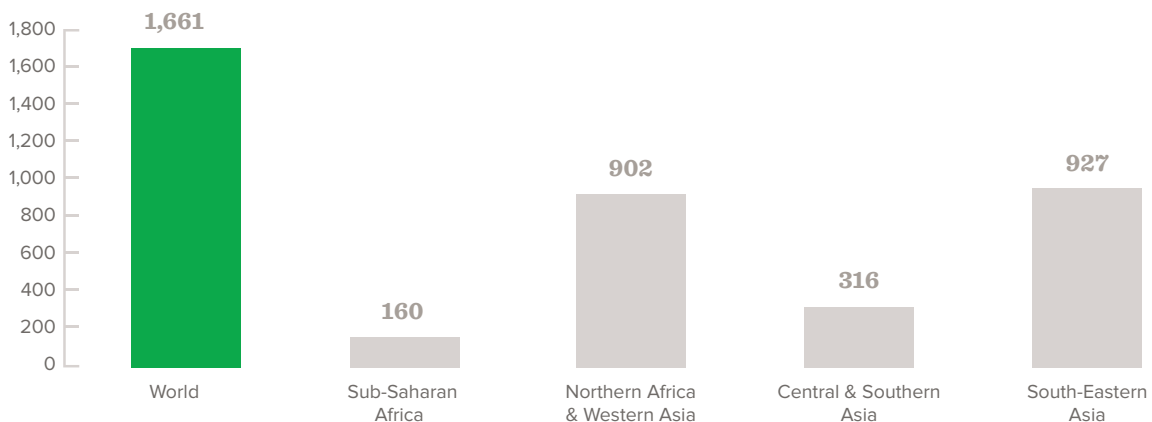
Proportion of adults (15 years and older) with an account at a bank or other financial institution (2014)



Sub-Saharan and Northern Africa are lagging behind in terms of financial inclusion. Islamic finance can help narrow the gap in the next few years.

Figure 4.2.7 SDG 9 - Industry/ Infrastructure

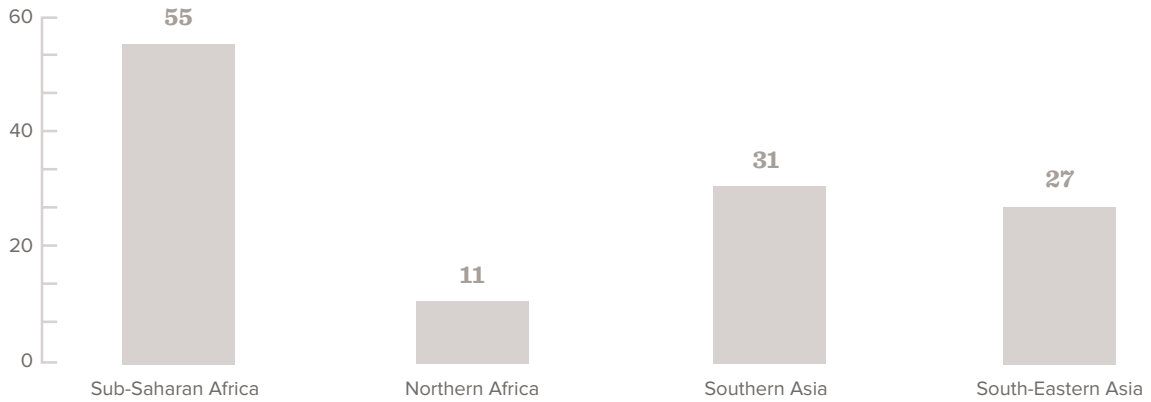
Manufacturing value added per capita at constant 2010 United States dollars (Constant 2010 United States dollar) (2016)



In 2016, manufacturing value added per capita was USD4,621 in Europe and Northern America, compared to about USD100 in the least developed countries.

Figure 4.2.8 SDG 11 - Housing/Cities

Proportion of urban population living in slums (2014)



The proportion of the urban population living in slums worldwide fell from 28% in 2000 to 23% in 2014. However, in Sub-Saharan Africa, more than half (55%) of urban residents lived in slum conditions.

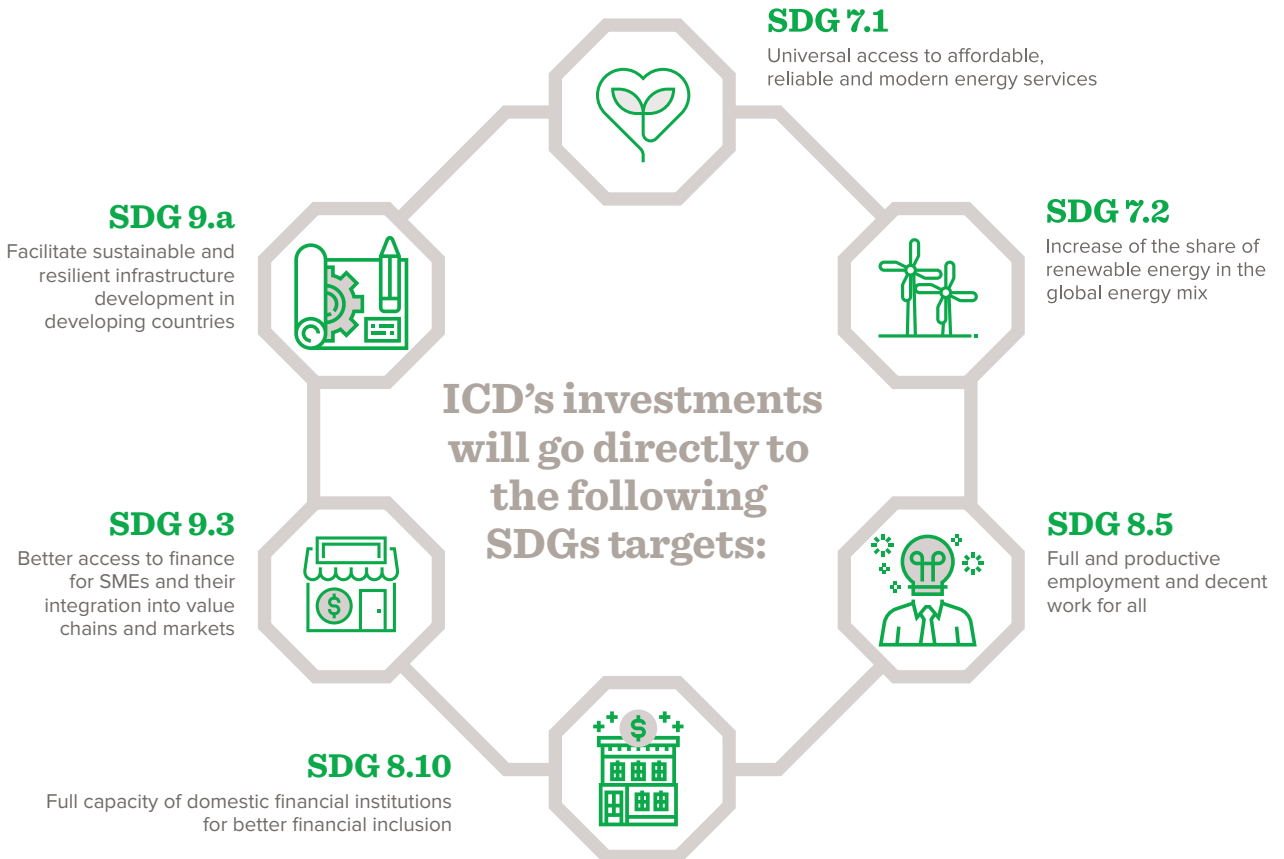


4.3 The Role of ICD

The role of ICD, as a premier Islamic multilateral financial institution for the development of the private sector within the IsDB Group, is to connect the investment community with the

development agenda of its MCs in a Shariah compliant manner. ICD is focusing on the second six SDGs (7-12), with a special emphasize on three of them that

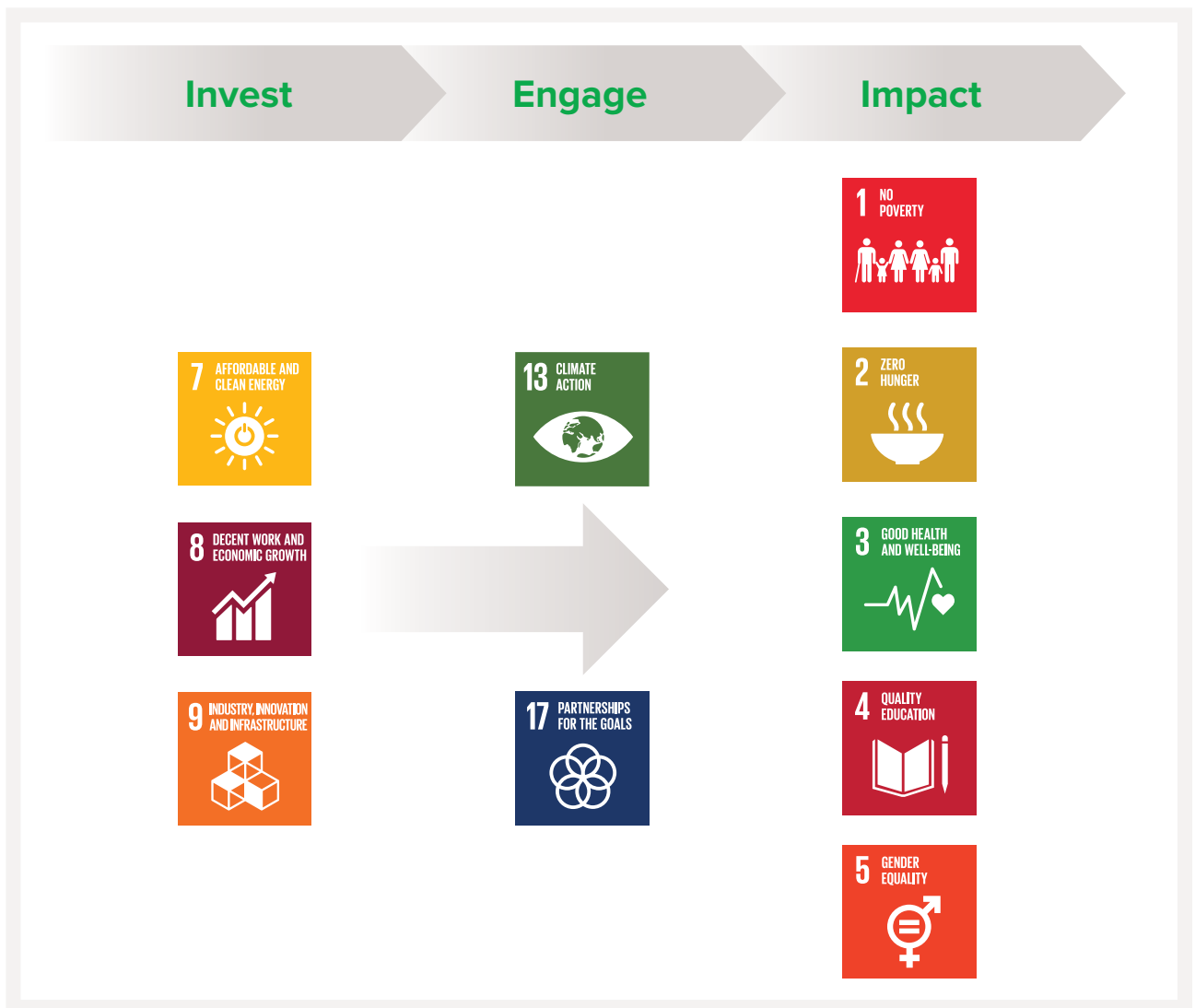
are consistent with its specific mandate: SDG 7 (energy), SDG 8 (jobs and financial inclusion), and SDG 9 (industry and infrastructure).



ICD has updated its Results Framework in the context of the SDGs. ICD has pledged to invest directly in energy (SDG 7), financial inclusion (SDG 8), industry and infrastructure (SDG 9) and engage

in SDG 13 on climate action and SDG 17 on partnerships. ICD and its clients/partners will contribute directly to the achievement of these SDGs. These contributions will in turn help in achieving

other SDGs, including SDG 1 (poverty), SDG 2 (agriculture), SDG 3 (health), SDG 4 (education) and, SDG 5 (gender equality).



ICD has developed a new business plan for the period 2018-2020 with the following investment targets based on the aforementioned strategy

		2018	2019	2020
Business Activities	SDGs Targets for Real Sector Investments	Approvals (USD millions)		
Real Sector Investments	SDG 3.8 Healthcare	78	88	94
	SDG 7.1 Energy	166	201	216
	SDG 9.a Infrastructure	213	263	281
	SDGs Targets for Financial Sector Investments	Approvals (USD millions)		
Financial Sector Investments	SDG 8.10 Financial Services	80	92	103
	SDG 9.3 SMEs Finance	500	624	699
	SDGs Targets for Advisory Services	Mandates (Number of Projects)		
Advisory Services	SDG 8.10 Set-up/Strengthen Financial Institutions (IFIs Program)	4	4	4
	SDG 8.10 Set-up/Strengthen Financial Institutions (Sukuk Program)	3	3	4
	SDG 8.10 Microfinance Program	2	2	3
	SDG 9.a Infrastructure (Infrastructure Advisory Program)	1	2	2
	SDG 9.a Infrastructure (IBES Program)	2	3	3

4.4 The 2017 Development Results and the SDGs

In 2017, ICD's Annual Development Effectiveness Survey included specific questions about the contribution of ICD clients/partners in addressing the selected SDGs and the amount of resources they have invested in each of the respective SDG.

The survey also took into account the development indicators of the IsDBG's Scorecard updated in January 2018, the ICD's Scorecard and the development indicators agreed upon with 25 Development Financial Institutions (DFIs). In terms of scope, the SDGs survey

covered ICD's operations in Banking Equity, Banking LoF, Ijara, Non-Banking Institutions, Direct Investment, Corporate Equity, Funds and Advisory Services.

The survey, designed with an advanced data collection software (SurveyCTO), was

officially launched on January 10, 2018 and closed on February 15, 2018. Eighty (80) out of 97 targeted projects from 32 MCs responded to the survey, which represents a response rate of 82%.

4.4.1 Results Highlights

The responding clients/partners have reported that the number of active projects and resources invested in the various SDGs areas in 2017 were as follows:



All of these projects contribute to SDG 8 in terms of generating decent work and economic growth.

The responding clients/partners have also reported that, with regard to SDG 8 (economic growth, financial inclusion and jobs creation), their contribution from January to December 2017, as a result of their partnerships with ICD included:

- ◆ 95,609 people opened new Islamic finance accounts
- ◆ 9,367 micro, small and medium enterprises (MSMEs) were provided with new funding
- ◆ USD 1.2 billion outstanding deposits were recorded
- ◆ 10,795 new employees were hired by ICD clients/partners
- ◆ USD 629m export sales was generated
- ◆ USD 612m value of net inflows of foreign currency was generated
- ◆ USD 445m in goods and services were purchased locally
- ◆ USD 113m were collected in taxes for government revenues
- ◆ USD 13m was spent in community development
- ◆ 603 employees were trained in Islamic finance or in business continuity plan

Overall, the 2017 survey showed that ICD continued to contribute substantially in promoting Islamic financing practices as well as creating employment. The focus on poverty reduction was further substantiated by the growth in micro, small and medium enterprises. The gains to government revenues was noticeable.

Case Study 1



Supporting Innovation: Rangpur Metal Industries Limited (PRAN-RFL Group) in Bangladesh

PRAN-RFL is the largest industrial group in Bangladesh. It comprises two different groups:

- ◆ PRAN for food items and,
- ◆ RFL for non-food items.

The PRAN Group commenced its operations in 1981 as a processor of fruits and vegetables in Bangladesh. As of 2017, the Group comprised of 17 entities, with a total of 46,000 employees. The company produces more than 400 food products. Its products are sold in Bangladesh and exported to more than 100 countries around the world.

In 1980, the RFL Group began manufacturing cast iron products with an initial objective to provide access to clean water and affordable irrigation materials for rural life improvement. Today, the Group comprises 12 entities with a total of 55,000 employees and produces a wide range of products including agricultural utilities, building materials, engineering utilities, electric/electronic, bicycles, cables etc.

The Rangpur Metal Industries Limited (RMIL) project falls under the RFL Group. Established in 2008, the company operates on the manufacturing, selling and trading of gas stoves, kitchen sinks, water pumps, taplon taps, electric cables, bicycle parts, metal furniture and so on.

In February 2015, ICD provided USD 20 million to finance RMIL capital expenditure to set-up the manufacturing factories for bicycles and cables. As a result, not only does RMIL produce traditional bicycles, but also electric bicycles.

The results of this operations were as follows:

- ◆ 3,394 direct jobs were created by the project, including 149 engineers
- ◆ 17% of the staff are female in the bikes line and 80% of the staff are under 30 years
- ◆ A total of 120,000 bikes units were exported to Europe in 2016
- ◆ USD 3.35 million were invested in community development (such as schools and hospitals)

The Project contributed to the following seven SDGs:

 SUSTAINABLE DEVELOPMENT GOALS



4.4.2 Contribution to the SDGs by ICD's business lines

This section reports the results of the 2017 Annual Development Effectiveness Survey for ICD's business lines.

4.4.2.1 Financial Sector Operations

Banking Equity

Provision of equity finance is one of ICD's key strategies to promote Islamic financing practices. It also promotes SME growth as a "funder of funds" by providing financing to SMEs through a domestic financial intermediary. ICD maximizes the development potential of its contribution

by encouraging the creation of new jobs and transferring knowledge and technologies.

The survey was filled by 12 out of 13 of ICD banking equity partners (3 in Asia, 1 in CIS/Europe, 4 in MENA and 4 in Sub-Saharan

Africa). The following illustrates these results in terms of their impact on the SDGs including SDG 8 of generating decent work and economic growth.

2017 Project Areas and Funding in terms of SDGs

- ◆ SDG 2: Agriculture - 9 projects; USD 9 million
- ◆ SDG 3: Health - 6 projects; USD 38 million
- ◆ SDG 4: Education - 6 projects; USD 5 million
- ◆ SDG 6: Water and Sanitation - 3 projects; USD 8 million
- ◆ SDG 7: Energy - 6 projects; USD 48 million
- ◆ SDG 9: Industry/Infrastructure - 9 projects; USD 176 million
- ◆ SDG 11: Housing/Cities - 8 projects; USD 120 million

2017 Outcomes

- ◆ 93,877 people opened new Islamic finance accounts
- ◆ USD 1 billion of deposits collected
- ◆ New funding to 8,460 MSMEs
- ◆ 1,110 new employees hired
- ◆ USD 18 million collected in taxes by the government
- ◆ USD 0.2 million spent on community development

Ijara (leasing) Companies

The equity investment projects provide equity capital to set up or strengthen non-banking financial institutions, such as Ijara Companies.

All 11 surveyed partners responded to the survey and provided information on development results linked to Ijara projects (1 in Asia, 7 in CIS/Europe, and 3 in MENA region).

2017 Project Areas and Funding in terms of SDGs	2017 Outcomes
◆ SDG 2: Agriculture - 8 projects; USD 3 million	◆ 903 new people with access to Islamic finance accounts
◆ SDG 3: Health - 9 projects; USD 3 million	◆ New funding to 465 MSMEs
◆ SDG 4: Education - 3 projects; USD 0.5 million	◆ 2,770 new employees hired at MSMEs level and 30 at the Ijara companies level
◆ SDG 7: Energy - 6 projects; USD 2 million	◆ USD 10 million collected in taxes by the government at clients or sub-projects level and USD 2m at the Ijara companies level
◆ SDG 9: Industry/Infrastructure - 10 projects; USD 14 million	◆ USD 3 million spent on community development at sub-projects level
◆ SDG 11: Housing/Cities - 2 projects; USD 13 million	◆ USD 3 million export sales at sub-projects level
	◆ USD 107 million goods and services purchased locally at sub-projects level

Banking Line of Finance (LoF)

ICD's portfolio has always been dominated by Lines of Finance (LoF), and 2017 was no exception. LoF commitments accounted for 62.7% of total approvals. LoF are particularly relevant for economies with

limited access to Islamic and/or affordable financing.

19 out of the 35 ICD LoF partners targeted for the survey responded and reported

results (3 in Asia, 1 in CIS/Europe, 13 in CIS/Europe, 4 in MENA and 3 in Sub-Saharan Africa). The development outcomes linked to Line of Financing are as follows:

2017 Project Areas and Funding in terms of SDGs

- ◆ SDG 2: Agriculture - 8 projects; USD 14 million
- ◆ SDG 3: Health - 2 projects; USD 5 million
- ◆ SDG 7: Energy - 4 projects; USD 50 million
- ◆ SDG 9: Industry/Infrastructure - 12 projects; USD 61 million
- ◆ SDG 11: Housing/Cities - 2 projects; USD 11 million

2017 Outcomes

- ◆ New funding to 18 MSMEs
- ◆ 2,118 new employees hired directly
- ◆ USD 54 million additional export sales
- ◆ USD 43 million goods and services purchased locally
- ◆ USD 17 million collected in taxes by the government
- ◆ USD 1 million spent on community development

Case Study 2



Supporting an Agriculture Bank: Agrobank in Uzbekistan

The Joint Stock Commercial Bank (Agrobank) is one of the largest commercial banks in Uzbekistan with a total of 12 regional offices, 183 branches, 271 mini-banks, 205 special cash offices and 187 money transfer offices.

The Bank currently provides services to over 200,000 businesses and more than 3 million individuals.

ICD provided two LoF facilities to JSCB Agrobank for a total amount of USD 11 million in 2010 to promote SMEs. The projects financed through JSCB Agrobank have been fully settled (full repayment) without any default.

As of June 2017, Agrobank has disbursed a total line of USD 10.6 million to finance 26 SMEs in various sectors located in different regions in Uzbekistan.

The overall development outcomes of the project were highly positive.

For example, the impact of the project on employment was assessed using a sample of five SMEs visited during an ICD evaluation mission:

- ◆ Great Goal LLC: Employment rose from 40 to 104 after ICD financing
- ◆ Most Trans Montaj LLC: from 10 to 20
- ◆ Choshgoh LLC: from 20 to 90
- ◆ Namangan Momiq Sochiqlar LLC: from 64 to 289
- ◆ Sof Gigienik LLC: from 10 to 100

In addition, the LoF projects contributed to the local economy. For example, the Great Goal LLC received 90% of its raw materials from local suppliers. Namangan Momiq Sochiqlar LLC bought USD 5.76 million worth of raw material from domestic suppliers in 2016. Meanwhile, the cost of local raw materials was UZS 8bn for Choshgoh LLC last year.

Furthermore, Namangan Momiq Sochiqlar LLC were able export their textile products to Russia, Kazakhstan, Ukraine, Moldova and Bulgaria. The volume of export amounted to USD 5 million in 2016 from USD 182,000 previously.

Finally, the LoF project contributed to at least three SDGs:



SUSTAINABLE DEVELOPMENT GOALS

4.4.2.2 Real-Sector Operations

As part of its new strategy, ICD is engaged in targeting real (non-financial) sector projects. The key mechanisms to support these projects are term finance and various corporate equity products.

Term Finance

16 out of the 17 surveyed ICD partners reported on their development results (6 in Asia, 5 in CIS/Europe, 4 in MENA and 1 in Sub-Saharan Africa).

2017 Project Areas and Funding in terms of SDGs	2017 Outcomes
◆ SDG 2: Agribusiness - 2 projects; USD 20 million	◆ 2,660 new employees hired
◆ SDG 3: Health - 4 projects; USD 18 million	◆ USD 542 million incremental export sales
◆ SDG 6: Water and Sanitation - 4 projects; USD 30 million	◆ USD 258 million additional goods and services purchased locally
◆ SDG 7: Energy - 3 projects; USD 70 million	◆ USD 67 million collected in taxes by the government
◆ SDG 9: Industry/Infrastructure - 8 projects; USD 164 million	◆ USD 10 million spent on community development
◆ SDG 11: Housing/Cities – 1 project; USD 10 million	

Corporate Equity

Two out of three surveyed ICD partners reported results on their corporate equity financing, both in MENA region and in the health sector (SDG 3). The development results include:

- ◆ 118 new employees hired directly
- ◆ USD 31 million export sales
- ◆ USD 6 million goods and services purchased locally
- ◆ USD 1 million collected in taxes for government revenues

Case Study 3



Connecting Emerging and Frontier Markets: SERBA, Malaysia

Serba Dinamik Group is one of the leading companies in Malaysia which provides fully integrated and specialized engineering services and maintenance to the oil & gas, petrochemicals and utilities industries.

The Group has diversified its products and services to various sectors including power generation & water and sanitation. It provides comprehensive package solutions in the areas of construction and fabrication, plant operations and maintenance (O&M), system integrator/ packager and information technology solutions.

When ICD established its partnership with SERBA in 2015, the objectives of the partnership were:

- ◆ to support the regional expansion of SERBA in other member countries;
- ◆ to promote connectivity between member countries; and
- ◆ to build a story to market ICD's future deals.

ICD provided a USD 25 million financing facility to SERBA.

As of December 2017, these three objectives were fully met (See Box).

SERBA was able to mobilize additional

funding of USD 134 million. This helped SERBA develop its overseas operations in Qatar and Bahrain. Subsequently, with the company's outstanding track record, SERBA was able to raise significant equity funding from Bursa Malaysia's main market through an IPO.

ICD's teams in the regional offices of Kuala Lumpur and Dakar played a critical advisory role to introduce SERBA to the African markets. They facilitated the connection with local investors and international financiers, which resulted in an EPCC contract of USD 70 million awarded to SERBA in Tanzania.

Moreover, ICD supported SERBA in fulfilling the criteria set by Bursa Malaysia Sharia Committee for public listed companies with a Sharia-compliant stock. The conventional borrowings for these companies must not exceed 33% of their total assets. As of 31 December 2017, SERBA's Islamic funding made-up approximately 83.48% of the total financing.

The Overall Development Outcome of the project was rated "**Highly Successful**":

- ◆ **600 direct jobs** created at SERBA, including 52 engineers with 56% increase of the number of staff after ICD financing (216 new jobs in 3 years);
- ◆ **20%** of the staff are **women**;
- ◆ A total of **24.5 million cumulative work hours** without any Loss Time Injury in both Malaysia (10.8 million hours) and overseas (13.7 million hours);
- ◆ **Islamic Finance** represents **83%** of the total financing;
- ◆ **Training program** certified by City & Guilds for SMEs;
- ◆ Market Expansion to **MENA** and **Africa**;
- ◆ Contribution to **five SDGs** :



4.4.2.3 Funds

Funds connect clients with investment opportunities across emerging markets. Over the years, ICD has assembled a diverse portfolio of Sharia-compliant funds. This portfolio includes Income and Capital Market Funds, SMEs Funds and Private Equity Funds.

The Funds are contributing mainly to SDG 17, specifically target 17.3: “mobilize additional financial resources for developing countries from multiple sources”.

Five ICD partners reported to have mobilized and made available a total amount of USD 103 million in 2017 to portfolio companies, including 49 MSMEs.

4.4.2.4 Advisory Services

Advisory Services play a key role in the implementation of ICD’s two strategic pillars: fostering an enabling private sector environment and resource mobilization. The Corporation aims at providing world-class advice for member countries and private sector entities to help them

improve their development potential and raise capital. ICD provides advisory services through four programs:

- ◆ Industry and Business Environmental Support (IBES);
- ◆ Islamic Financial Institution Development Program;

- ◆ Sukuk and Capital Markets Program; and
- ◆ Microfinance Program.

The development results reported for the first two programs are:

Islamic Financial Institution Development Program

The three surveyed project reported the following achievements in 2017:

- ◆ 4,014 new clients opened Islamic finance account.
- ◆ USD 3 million of deposits were collected.
- ◆ 59 people received training in Islamic Finance.

Industry and Business Environmental Support (IBES)

The three surveyed projects have reported the following development results in 2017:

- ◆ New funding to 270 MSMEs.
- ◆ 15,600 jobs sustained in conflict situation in Yemen with the BRAVE project
- ◆ USD 3 million made available to MSMEs.
- 544 people received training in business continuity plan.

Case Study 4



Building Business Resilience in Fragile States: BRAVE Project in Yemen

Since the recent turmoil in Yemen, over a quarter (26%) of all enterprises have ceased operations.

The most affected have been women-owned enterprises where almost half have been forced to close (42%), including those operating in the vital health sector, further compounding the struggle of the average Yemeni citizen to access basic health services.

The Business Resilience Assistance for Value-adding Enterprise (BRAVE) project was designed through joint efforts between ICD and the Small and Micro Enterprise Promotion Service (SMEPS), an NGO based in Yemen. The aim was to combine value chain design principles, grant-matching scheme concepts for MSMEs and banking credit practices within an integrated framework that responds to the challenges of the private sector operating in a conflict zone with key focus on pro-poor/value-adding sectors namely: agribusiness, fisheries, private health care and garment.

After 10 months of implementation of Phase 1 in 2017 in the cities of Sanaa, Aden and Mukalla:

- ◆ 1,226 firms have applied for support from the project;
- ◆ 528 firms have been trained in developing a Business Continuity Plan (BCP);
- ◆ The supported firms have sustained over 15,600 jobs, including 22% female employees and 62 female business owners;
- ◆ 501 firms have submitted a primary BCP;
- ◆ 285 MSMEs and 10 value chain leader firms have benefited from the matching grants (typically it is required from the firm to match at least 50% of the grant provided by the program;)
- ◆ Contributed to four SDGs (3, 5, 7 and 9).

 SUSTAINABLE DEVELOPMENT GOALS



The project has built trust between the selected Yemeni Banks and the MSMEs. For example, four companies in Hadramout that have benefited from the BCP training but were unfortunately not qualified in the random selection, were still able to successfully receive direct financing from banks and suppliers.



Section 5

The Way Forward

5.1 Overview of the SDGs

ICD will need to become more selective in its development approach in the various regions. It must strengthen its ties with other international and national development partners and proactively seek out and lead blended financing opportunities. Its ability to contribute to the achievement of the SDGs will depend on its ability to adopt a diversified strategy.

5.2 ICD's Contribution to Achieving the SDGs

ICD has adopted a strategic approach in determining its contribution to the achievement of the SDGs. Given its concentration on private sector development, it has chosen to invest directly in energy (SDG 7), financial inclusion (SDG 8), industry and infrastructure (SDG 9) and engage in SDG 13 on climate action and SDG 17 on partnerships.

The hypothesis is that these contributions will also help in achieving other SDGs, including SDG 1 (Poverty), SDG 2 (Agriculture), SDG 3 (Health), SDG 4 (Education), and SDG 5 (Gender Equality). In addition, it is committed to the promotion of Islamic finance and conducting all of its business in a Shariah compliant fashion.

In implementing its strategy, ICD will have to be circumspect in determining the goals of its investments depending on the location of its MCs. For example, in Sub-Saharan Africa, the remaining low-income region, the approach will be one of targeted poverty reduction with emphasis on the promotion of MSMEs. In Asia and Europe, regions dominated by middle-income member countries, growing the private sector by increasing its efficiency and scale will be important. In MENA, ICD is faced with the difficult proposition of

promoting private sector development in conflict-prone situations. In addition, with the growth of protectionist sentiments in the west, the likely markets for ICD MCs will decrease. These factors, along with lower oil prices, will affect ICD's ability to foster the development of MCs. ICD must therefore continuously improve operational effectiveness to more efficiently utilize available resources.

As is often stated, the achievement of SDGs will require significant investment well beyond the capacity of the official development institutions. The conundrum for these institutions is how to turn their billions into trillions needed to achieve the SDGs. The good news is that numerous innovative financing mechanisms have emerged. Many MICs and traditional and emerging donors are linking aid resources from traditional donors to other types of development financing, whether from

the private sector or from northern and southern philanthropists. One example is that of the Green Bonds (World Bank).

ICD, through the Asset Management Department and programs such as the IBES and the IFI Advisory Services, is working with other international development partners as fund managers or in an advisory capacity for creating Islamic financing windows and institutions. These efforts should be increased. ICD could leverage its own funds with that of other international and national development financing institutions and organizations to achieve common development goals. Potential partners could include government and non-government institutions, including the private sector. Finally, ICD is uniquely positioned for this role, given its convening power, credibility and ability to assume quasi-sovereign risk.

5.3 Enhancing Development Effectiveness

ICD believes in the importance of forming partnerships with clients to become developmentally effective. A critical component will be building a strong monitoring and evaluation system in order to ensure that its projects are achieving the desired results and contributing to the SDGs. For its part, ICD has committed to all its partners and clients who have participated in the survey to send them individual reports (based on the results of the survey) that could be included in their annual report as a mean to highlight their contributions to the SDGs. In addition, ICD will offer a sample of clients' technical assistance to engage in local dialogues about SDGs in their respective country through the auspices of the United Nations Global Compact Network.

Finally, to complement the survey ICD is partnering with the Abdul Latif Jameel Poverty Action Lab at the Department of Economics at the Massachusetts Institute of Technology (MIT), to launch an experimental evaluation of the impact of the effectiveness of Islamic Finance in reducing poverty.



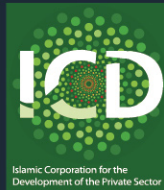
Appendix I

Key Development Effectiveness Indicators in the ADER Survey Questionnaire

- ◆ Number of clients that have access to Islamic finance as of December 2017
- ◆ Number of new clients from January to December 2017
- ◆ Amount (in USD) of outstanding Facilities to Micro, Small & Medium Enterprises (MSMEs) as of December 2017
- ◆ Number of outstanding Micro, Small & Medium Enterprises (MSMEs) facilities as of December 2017
- ◆ Number of new Micro, Small & Medium Enterprises (MSMEs) Facilities from January to December 2017
- ◆ Amount (in USD) of Deposits as of December 2017
- ◆ Payments to Government (all form of taxes or dividends paid to the government) from January to December 2017 (in USD)
- ◆ Number of full-time employees as of December 2017
- ◆ Number of full-time women employees as of December 2017
- ◆ Number of new employees from January to December 2017
- ◆ Community Development Contribution through Corporate Social Responsibility (CSR) from January to December 2017
- ◆ Export sales (in US Dollars) from January to December 2017
- ◆ Value of net inflows of foreign currency due to the operation of the project company (in US Dollars) from January to December 2017
- ◆ Goods and services purchased locally (in USD)
- ◆ Total resources made available to portfolio companies since inception
- ◆ Total resources made available to portfolio companies (in US Dollars) from January to December 2017
- ◆ Number of people trained since inception
- ◆ Number of people trained in 2017
- ◆ Number of farmers reached (number of farmers linked to client company as suppliers, buyers, contractors or farming employees)
- ◆ Number of patients that have benefited from the services/ products provided by the client from January to December 2017
- ◆ Number of students that have benefited from the services/ products provided by the client from January to December 2017
- ◆ Number of people that have benefited from the services/ products provided by the client in water and sanitation from January to December 2017
- ◆ Number of people that have benefited from the services/ products provided by the client in Energy from January to December 2017
- ◆ Number of people that have benefited from the services/ products provided by the client in Industry, Infrastructure from January to December 2017
- ◆ Number of new residential dwellings (≥1 family per unit) constructed by the client company from January to December 2017

ICD Clients / Partners who completed the 2017 Development Effectiveness Survey

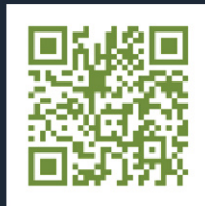




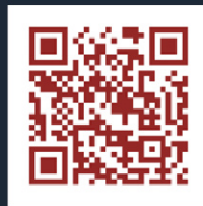
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