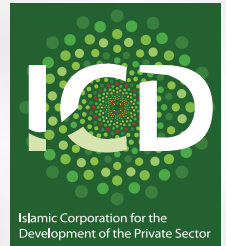


ANNUAL DEVELOPMENT EFFECTIVENESS REPORT 2021



Member of the Islamic
Development Bank Group



Sukuk – Raising Islamic Finance for Development

MAY 2022

ENABLING ENTERPRISE, BUILDING PROSPERITY



This is the Eighth Annual Development Effectiveness Report (ADER) of the Islamic Corporation for the Development of the Private Sector (ICD).

The report consists of five chapters:

- Chapter 1 Introduction: The strategic context
- Chapter 2 Innovations in ICD's development effectiveness framework
- Chapter 3 ICD in action
- Chapter 4 A Special Report on Sukuks – Raising Islamic Finance for Development
- Chapter 5 The Post-Pandemic Phase – Regaining the Development Momentum

Disclaimer: Country borders or names used in this report do not necessarily reflect ICD's official position. The maps are for illustrative purposes and do not imply the expression of any opinion of ICD concerning the legal status of any country or territory or concerning the delimitation of frontiers or boundaries.

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Abbreviations

AAOIFI	Accounting and Auditing Organization for Islamic Financing Institutions
EAP	East Asia and Pacific
ECA	Europe and Central Asia
EMDE	Emerging Market and Developing Economies
GDP	Gross Domestic Product
HIC	High Income Country
ICD	Islamic Corporation for the Development of the Private Sector
ICIEC	Islamic Corporation for the Insurance of Investment and Export Credit
IFC	International Finance Corporation
IsDB	Islamic Development Bank
IsDBI	Islamic Development Bank Institute
ITFC	International Islamic Trade Finance Corporation
KPI	Key Performance indicators
LAC	Latin America and the Caribbean
LIC	Low Income Country
LMIC	Lower-Middle Income Country
LOF	Lines of Finance
MCs	Member Countries
MDB	Multilateral Development Bank
MENA	Middle East and North Africa
MSME	Micro, Small and Medium Enterprise
OPHI	Oxford Poverty and Human Development Initiative
SAR	South Asia Region
SCM	Sukuk and Capital Markets Program
SDG	Sustainable Development Goal
SFF	Sustainable Finance Framework
SME	Small and Medium-Enterprises
SSA	Sub-Saharan Africa
UMIC	Upper-Middle Income Country

2021 Highlights:

Regaining the Growth Momentum

Approvals and Disbursements

Of the **US\$250mn** pledge to mitigate the impact of COVID-19, about **US\$185mn** were approved for disbursement in 2021 through 12 LOFs and 2 equity transactions. Actual disbursements in 2021 amounted to about **US\$80mn**.

General Approvals in 2021 amounted to **US\$243mn** (compared to **US\$306mn** in 2020) due to difficulties in planning and designing new projects in the pandemic situation in 2020.

Sectoral Allocation of Approvals: 2021



Finance
49.9%



Transportation
20.5%



Industry & Mining
18.5%



Health & other
Social Services
11.1%

Approvals by Region: 2021



MENA
31.6%



ASIA
30.8%



SSA
29.4%



ECA
6.2%



Global projects
2.0%

Cumulative approvals were **US\$7.08bn** since inception.

Disbursements rose to **US\$208.7mn** in 2021 (compared to **US\$135.5mn** in 2020) as economic activities in the MCs picked up speed

Sectoral Allocation of Disbursements: 2021



Finance

62.2%



Transportation

19.2%



Energy

13.8%



Industry & Mining

4.8%

Disbursements by Region: 2021



(reflecting their immediate crisis adaptation and mitigation requirements)

SSA

45.6%



ASIA

23.4%



MENA

19.2%



ECA

11.8%

Cumulative disbursements have reached **US\$3.76bn** since inception.

2021 Development Effectiveness Survey Results

Aggregate Survey Results

2021 Survey Highlights



New clients who gained access to Islamic Finance

400,193



People opening new Islamic finance accounts

69,101



Number of new clients who are women

26,450



SMEs supported through ICD financing

4,742



Women led/managed SMEs funded

628



Jobs sustained (of which women)

66,810 (24,376)



New jobs created (of which women)

7,830 (2,684)



Women in senior management positions

585

Survey response rate



Export sales generated

US\$ 74,491,021



Government revenues generated

US\$ 72,832,889



Community development (grants, scholarships etc.)

US\$ 2,310,992



Total energy produced

2,390,726 MW



Total patients served

1,883,923



Total students enrolled

50,311



Total farmers reached

21,631



Total housing units built

5,920



Number of people trained

635

Highlights of Sectoral Results



Line of Finance (LoF)

US\$298.1 mn provided to
427 SMEs;
23,770 jobs sustained
 (of which 10,305 were women);
1,009,440 patients served in
 supported health facilities



Direct Financing

US\$167mn
 locally purchased goods
 and services;
6,355
 jobs sustained
 (of which 401 were women)



Banking Equity

US\$107mn locally purchased goods and services;
1,800 jobs sustained (of which 515 were women)



Non-Banking Financial Institutions

11,074 new persons
 gained access to Islamic Finance;
368,260
 patients served by health partners;
621 SMEs funded;
US\$25.5mn locally purchased
 goods and services



Advisory Services

250 new MSMEs funded creating
908 new full-time employees;
45,298 students enrolled in
 education centres financed by Industry
 and Business Environmental Support
 (IBES) Advisory Services

Other Notable Results



79% of the respondents are or are planning to target SDGs 7,8 and 9 which are also ICD priorities.



The majority of the survey respondents approved policies to fairly compensate its employees.



Several new partnership agreements and MOUs with MC organizations and MDBS including Malaysia Ex-Im bank, CDC Group, UK, and the AfDB.




Continuation of networking and learning initiatives like the Bridge and the FinLit platforms.



ICD clients are at relatively early stages of their digital transformation process



 Azad Fahim

Project Examples



The SOFIB Huilerie project in Burkina Faso will meet increasing domestic needs for edible oil and increase incomes of the local population.



ICD's MoU with the Libyan Stock Market (LSM) involving information and knowledge exchange will raise LSM's capacity to develop Shariah compliant financial instruments.



The implementation of the **US\$ 14.3mn** Business Resilience Assistance for Value-Adding Enterprises (BRAVE) Women program in Nigeria will help women-owned/led businesses to survive in adverse circumstances. To date, 1505 applications from women-led SMEs have been received by the project of which **600** were retained in addition to 24 Lead Firms and 14 Business Associations.



ICD's financing of the Power Cement Limited in Pakistan will help the country meet increasing demands for cement - a critical infrastructural input. The production capacity is expected to expand by **7700** tons per day resulting in increases in direct employment, better wages, and a more robust supply chain.



ICD's lead role in setting up a **US\$ 1bn** Sukuk Program and the subsequent issuance of **US\$ 500mn** worth of Sukuks helped the Maldives to relieve its external liquidity pressure by raising funds from the Islamic financing markets. The results were an expansion of the reach of the Islamic financial markets and an upgrading of the Maldives credit ratings from CCC to **B-**.



Message from the CEO

“IN THE NAME OF ALLAH,
THE BENEFICENT, THE MERCIFUL”

ICD is pleased to present its 2021 Annual Development Effectiveness Report (ADER). The ADER reports on ICD’s development results and its efforts at increasing its development effectiveness.

The effect of the COVID-19 pandemic continues to linger on with the emergence of new COVID-19 strains and global supply chain bottlenecks. The impact is particularly harsh on small states and fragile and conflict affected economies. The pandemic is estimated to have increased extreme poverty in IsDB Member Countries (MCs) by about 51 million people during 2020-2021. It has stalled their progress towards the achievement of the SDGs particularly in Sub-Saharan Africa (SSA) due to low vaccination rates and inadequate resources.

ICD remains committed to supporting its MCs to offset the impact of the pandemic. I am pleased to report that, of the US\$250mn pledged in 2020 to help our MCs deal with the impact of COVID-19, US\$171mn has already been approved for use by the financial institutions and the private sector in our MCs. Another US\$14.2mn was approved for equity investments in Islamic financial institutions and industries related to healthcare and food. Our support concentrates in our MCs in SSA and ECA regions. ICD contributions will help the needy and protect people’s livelihoods.

Our overall approvals in 2021 were lower than its 2020 levels reflecting the difficulties in planning and designing new projects in pandemic situations. However, disbursements were up significantly as economic activities resumed in 2021. Our focus has been in our core competency areas of the promotion of Islamic finance and sustainable physical and social infrastructure development.

I am also pleased to report that in 2021, the Corporation updated its governance frameworks and undertook a series of key development effectiveness measures including portfolio enhancement and rebalancing as well as information technology initiatives like the Bridge and the financial literacy (FinLit) platforms. ICD plans to continue the growth momentum for its fixed income products like Sukuk in order to provide its MCs with Sharia compliant debt instruments.

We are also improving our development effectiveness by actively collaborating with other IsDB Group entities and international development financing institutions. I had the privilege of chairing the Technical Cooperation Committee (TCC) of the Bank Group in 2021 where more than 35 deals were shared between the Committee members (worth US\$1.8bn) who also co-invested in nine sukuk transactions valued at over US\$617mn. Over the next three years, ICD will complete at least one flagship co-financing/joint transaction with other Group entities each quarter. We have undertaken joint investments with international development financial institutions and held numerous consultations and workshops on opportunities for enhanced cooperation.

I am also happy to report that, according to our 2021 Annual Development Effectiveness Survey, despite difficult circumstances, ICD has contributed to sustaining and creating employment for men and women, promoting Islamic finance, and contributing to sectors such as finance



ICD remains committed to supporting its MCs to offset the impact of the pandemic. I am pleased to report that, of the US\$250mn pledged in 2020 to help our MCs deal with the impact of COVID-19, US\$171mn has already been approved for use by the financial institutions and the private sector in our MCs



and health in its MCs. For example, in 2021, more than 400,000 new clients gained access to Islamic finance and nearly 66,000 jobs were sustained with our support. We will be working with our partners to increase the alignment of ICD's efforts with the SDGs and in accelerating their rate of digital transformation.

I am thankful to ICD's Chairman of the Board and the Board itself for their strategic direction in these trying times. I would like to commend the ICD staff for their dedication and hard work. The support of our partners and clients has been invaluable in helping ICD reach its objectives.

I pray to Allah the Almighty to guide and help us in our efforts to contribute to the well-being and prosperity of the people in our member countries. Amin.

Ayman Amin Sejny

Chief Executive Officer, Islamic Corporation for the Development of the Private Sector

Message from the Director

“Difficult times bring out the best of (us)”. That what the world should have noticed after a very challenging and unprecedented thirty months of the global pandemic. Economies made, and still are working on making, sure that they must develop the proper environment for one main aspect: Financial Sustainability.

In general, sustainability stands on three pillars: environment, economy, and social. Such three pillars, when developed and maintained at the highest level, would definitely bring prosperity to people, planet, and profits.

When zoom in, financial sustainability is one major component under the economic pillar of sustainability. And here, the focus is on a good list of factors and elements including Islamic financing products as part of the whole finance ecosystem.

Sukuk, as you will read in chapter four of this report, is one of the Islamic flagship financing products. In fact, it is one of the earliest Islamic financing products to be discovered and utilized. Recently, the finance sector observed a notable growing in sukuk; both in public sector (sovereign sukuk) and private sector (corporate sukuk).

Moreover, Sustainability Sukuk and Green Sukuk are 2 notable types of sukuk that getting greater attention from investors. The former includes social and green projects which impact the infrastructure, decent jobs, SMEs. It also include green projects which would positively impact environment. Green Sukuk, on the other hand, would focus mainly on green energy projects and environmentally friendly projects with the aim to enhance the results of such interventions.

As the world just started to recover from the global pandemic, Islamic financing can be, and actually is, a major engine to support and maintain sustainability. This has been already proven through practice and research. Hence, this

is a call to investors all over the planet to dive deep into Islamic financing instruments in general, and in sukuk in particular with the aim to support a Better Tomorrow.

One final note, our 2021 survey results reveal that 79% of ICD's partners/clients focus on one or more of ICD main targeted SDGs which are SDG 7 (Affordable and Clean Energy), SDG 8 (Decent Work and Economic Growth) and SDG 9 (Industry, Innovation and Infrastructure). That really reflect a robust and clear strategy of ICD and a high level of engagement and alignment from our partners/clients.



Mohammed Alyami

Director
Development Effectiveness Department

As the world just started to recover from the global pandemic, Islamic financing can be, and actually is, a major engine to support and maintain sustainability. This has been already proven through practice and research. Hence, this is a call to investors all over the planet to dive deep into Islamic financing instruments in general, and in sukuk in particular with the aim to support a Better Tomorrow.



Executive Summary

The Persistence of the Adverse Impacts of the Evolving Covid-19 Pandemic

“The (COVID) pandemic has significantly changed the global development landscape and in many cases rolled back the progress made in achieving the Sustainable Development Goals (SDGs) – Agenda 2030” (*Islamic Development Bank, Strategy 2025*).

Although the global economy rebounded from its recessionary trough in 2021, new COVID-19 strains and global supply chain bottlenecks will slow down the recovery in the foreseeable future. The advanced economies and larger emerging markets and developing economies will be faster in regaining their pre-pandemic trends while the smaller states and fragile and conflict affected economies will lag behind. The increase in extreme poverty in 2020 by nearly 100 million people globally, will continue to persist in the latter countries resulting in higher inter-country and in-country inequalities. Other global challenges will be the increasing commodity prices mainly due to supply chain issues, a rise in inflation and dealing with the debt stress caused by expansionary fiscal policies used to offset the impact of the pandemic.

The COVID-19 pandemic is estimated have increased extreme poverty in IsDB Member Countries (MCs) by about 51 million people during 2020-2021. The MCs progress towards the SDGs will likely stall. The low income and fragile MCs particularly in Sub-Saharan Africa (SSA) will take longer to recover due to low vaccination rates and inadequate availability of resources. Global factors such as the resumption of the international supply chain, stability of commodity prices and incidence of extreme climate events will be critical to the resumption of growth.

ICD’s Response

ICD is committed to helping its MCs deal with the uncertain and risky global scenario. ICD’s 2022-2024 business plan concentrates on its core competency areas of contributing to inclusive human capital development, enhancing green economic growth and building sustainable infrastructure

consistent with the IsDB’s Strategy 2025, and its own ten-year strategy.

ICD can play an important role in promoting the private sector and boosting COVID-19 response in line with its updated Development Effectiveness Policy (DEP). ICD will help its MCs achieve the SDGs, directly targeting SDGs 7,8 and 9 by providing access to financing to the small and medium sized enterprises (SMEs) and infrastructure development as well as funding green development.

During 2022-24, ICD expects to support the creation of 147,633 new jobs, provide financing access to 25,500 micro, small and medium-sized enterprise (MSMEs), and enable access to Islamic Finance to 268,423 persons in its MCs.

Improving ICD’s Development Effectiveness

ICD has focussed on improving its operations and structure to enhance the implementation of its ten-year strategy and business plan. It is creating a high-quality investment portfolio based on its core competencies of financial sector and sustainable physical and social infrastructure development in its MCs. Ensuring the financial sustainability of the Corporation by increasing its fee-based revenue generation through new Sukuk issuances and use of its advisory functions remains a key priority.

The Development Effectiveness Department (DED) spearheads ICD’s efforts to become more developmentally effective by creating systems and processes that help ICD become more results oriented and informing its Business Units of best practices through appropriate monitoring and

evaluation. For example, DED's Innovation and Knowledge Management (IKM) Unit will develop the ICD's financial literacy (FinLit) platform and organize knowledge sharing events on best practices.

In 2021, the Corporation updated its governance frameworks and information technology platforms to improve its development effectiveness including,



Portfolio enhancement and rebalancing: Renewed focus on financial institutions to contribute to the post-COVID-19 recovery of its MCs, and the repositioning of real sector term financing towards projects supporting green economic growth; winding down some of its non-core and non-performing assets within its portfolio; implementation of a development focussed intermediation model; growing its fee-based business.



Updating its delegation of authority matrix and setting up departmental and individual key performance indicators (KPIs).



Information technology initiatives: upgrading of iMAL (ICD's main information technology platform); using the Bridge platform to facilitate and structure communication among its partners and provide them access to Islamic finance product related information and business opportunities; raising financial awareness and skills among women, youth and small business owners using the FinLit platform. In 2021, two successful FinLit events were held in Saudi Arabia and Nigeria.

ICD has been actively engaged in collaborating with other IsDB Group entities and external development financing institutions to contribute to the sustainable development of its MCs. Within IsDB Group, ICD chaired the Technical Cooperation Committee (TCC) in 2021 – more than 35 deals were shared between the TCC members worth US\$1.8bn and there were co-investments in nine sukuk transactions totalling over US\$617mn. Over the next three years, ICD will complete at least one flagship co-financing/joint transaction with other Group entities each quarter. Synergies and collaboration with external development financial institutions included joint investments well as numerous consultations and workshops on opportunities for enhanced cooperation. ICD plays a significant role in a number of international fora including as member of the SDG Financial Advisory Board for the Global Councils on SDGs.

ICD in Action

Of the US\$250mn pledged in 2020 to help its MCs deal with the impact of COVID-19, US\$171mn has already been approved for financial institutions and the private sector through twelve Lines of Finance (LOF) and US\$14.2mn was approved for two equity investments in Islamic Financial Institutions (IFIs) and industries related to healthcare and food. MCs in SSA and ECA regions have been the major recipients. ICD contributions helped extend support to the needy, shore up demand, and protect people's livelihoods.


















While approvals slowed from its 2020 levels due to the difficulties in planning and designing new projects in pandemic situation in 2020, disbursements were up significantly as economic activities resumed in 2021. Private sector development particularly in the SMEs and critical industries remained the focus. The approvals were mainly in MCs in MENA, Asia and Sub-Saharan Africa. As in previous years, in 2021, ICD's approvals and disbursement portfolios were dominated by the finance sector which accounted for about 50 percent of total approvals and 62.3 percent of total disbursements.

The 2021 Annual Development Effectiveness Survey achieved a response rate of about 77 per cent. It indicated that despite the constraints imposed by the pandemic, ICD achieved good results in sustaining and creating employment especially in MSMEs, promoting Islamic finance, contributing to the financial well-being of its partners, and in sectors such as health, agriculture and digital transformation. The survey also suggested that increasing the alignment of ICD's partners with the SDGs and accelerating their rate of digital transformation remain work in progress.



During 2022-24, ICD expects to support the creation of 147,633 new jobs, provide financing access to 25,500 micro, small and medium-sized enterprise (MSMEs), and enable access to Islamic Finance to 268,423 persons in its MCs.

2021 Survey Highlights

	New clients who gained access to Islamic finance	400,193		Government Revenues Generated	US\$ 72,832,889
	People opening new Islamic finance accounts in 2021	69,101		Community Development (grants, scholarships etc.)	US\$ 2,310,992
	Number of new clients who are Women	26,450		Total Energy Produced	2,390,726 MW
	SMEs supported through ICD financing	4,742		Total Patients Served	1,883,923
	Women led/managed SMEs funded	628		Total Students Enrolled	50,311
	Jobs Sustained (of which women)	66,810 (24,376)		Total Farmers Reached	21,631
	New Jobs Created (of which women)	7,830 (2,684)		Total Housing Units	5,920
	Women in senior management positions	585		Number of people trained in 2021	635
	Export Sales Generated	US\$74,491,021			


Sukuk – Raising Islamic Finance for Development

Sukuks provide a Sharia-compliant alternative for conventional bonds suitable for sovereign as well as private sector borrowers (issuers) and a safe vehicle for investors. The most commonly used structure by the IsDB Group is the Sukuk al-Ijara (a rental or lease contract). Sukuks can contribute to sustainable development by helping to achieve the goals and objectives of the Sharia (Maqasid Al-Sharia) regarding the preservation of wealth (Hifz al-Mal). This can include promoting social justice and social well-being with the distribution of wealth. Sukuks offer the possibility of raising funds from a relatively untapped Islamic financing source and can be useful in meeting the SDG funding gap. The global Sukuk market has grown rapidly with the value of issuances reaching US\$252.3bn in 2021.

ICD is the focal point for IsDB for Sukuks Advisory Services. It has pioneered their issuance at IsDB and in several African MCs. Specific services provided by the Sukuk Advisory Team of ICD includes business modelling, designing and implementing Sharia-compliant public-private partnerships. The Advisory team works in many sectors including infrastructure, banking, capital markets, regulatory and government matters.

All of the IsDB Sukuks were issued under its Sustainable Finance Framework (SFF) in the form of Green and Sustainability Sukuks. Since the debut issuance of Green Sukuk (Eur.1bn) in November 2019, the Bank Group has issued two Sustainability Sukuks worth US\$4.0bn in 2020 and 2021. The expected development benefits from these issuances are a blend of social development (adapting to and mitigation of the COVID-19 pandemic including access to essential services, SME financing and employment generation) and the promotion of a green economy



 Ashraful Islam Shimul

(renewable energy, clean transportation, sustainable land and water and wastewater management etc.).

ICD has pioneered Sukuk issuance in Africa playing a lead role in ten issuances since 2014. For six countries (Senegal, Togo, Ivory Coast, Jordan Mali Maldives), these Sukuks marked the debut of this type of financial instrument and allowed them to tap into previously unutilized or underutilized investor bases. Most of the Sukuks were Ijara based with those in the Maldives being the only exception (using the Wakala model). The proceeds of most of these Sukuks were to be used for financing development projects. The Sukuk funds reduced the debt stress of the Maldives and created financial space for the country to address its immediate pandemic related priorities. ICD has assisted in the development of the legal framework for Sukuks in the West African Economic and Monetary Union (WAEMU).

ICD plans to continue the growth momentum for its fixed income products like Sukuk. There are challenges like low

levels of awareness about Islamic finance products and services and the need for increased regulatory clarity and harmonization. ICD could play a very important leadership role using its network of MCs and multilateral development banks in collaboratively addressing these challenges.

Regaining the Growth Momentum in the Post-Covid Era

The status of the MCs in the post-pandemic phase will differ by regions, For SSA, the challenges will be dealing with the continuing pandemic issues such as vaccination reach and a resource gap leading to debt stresses. Many emerging economies in Asia and ECA will need to contend with inflationary pressures and financial sustainability. Resumption of pre-pandemic global supply chains will be important. ICD is well positioned to work with its partners to contribute to their development. In particular, its renewed emphasis on Sukuks will help alleviate the debt stress of its MCs and help IsDB access Sharia compliant Islamic financing sources.

CHAPTER 01

Introduction and Strategic Context

1.1 Overview

“The COVID-19 pandemic has significantly changed the global development landscape and in many cases rolled back the progress made in achieving the Sustainable Development Goals (SDGs) – Agenda 2030” (*Islamic Development Bank, Strategy 2025*).

This chapter outlines the strategic directions of ICD in helping its Member Countries (MCs) deal with an unprecedented, uncertain and risky global scenario. ICD’s 2022-2024 business plan will continue to concentrate its activities in its core competency areas of contributing to inclusive human capital development, enhancing green economic growth and building sustainable infrastructure consistent with the IsDB’s Strategy 2025, and its own ten-year strategy.

1.2 Global Context

Following two decades of strong growth, the global economies slumped into a recession in 2020 as the COVID-19 pandemic led to a sharp reduction in the global demand and created supply chain bottlenecks disrupting the flow of people, goods and services. The steady decline in extreme poverty, defined as people living under \$1.90 a day, witnessed during the last two decades, was reversed with an estimated 1.2% (or about 100 million) of the world population falling back into extreme poverty. Global progress toward the 2030 SDGs was stalled and, in some instances, reversed as countries concentrated on mitigating and adapting to COVID-19.

Fortunately, the global downturn was short lived as growth rebounded to an estimated 5.5 percent in 2021 (Table 1.1). However, emergence of new COVID strains, reduced fiscal support from governments and continuing supply chain problems have reduced growth forecasts to 4.1 percent in 2022. Inflation and high debt loads are emerging as worrisome prospects. Output and investment in advanced economies and the larger Emerging Market and Developing

Economies (EMDEs) are projected to return to pre-pandemic trends in the near term. However, the poorer and the smaller states as well as the fragile and conflict affected countries will experience a much slower recovery because of lower vaccination rates, tighter global fiscal and monetary conditions, and a persistently bad economic fallout from the pandemic.

Table 1.1: Change in Real Gross Domestic Product (GDP) (%)

Region/Country	2019	2020	2021e	2022f
World	2.8	-3.4	5.5	4.1
Advanced Economies	1.7	-4.6	5.0	3.8
Emerging Markets and Developing economies (EMDEs)	3.8	-1.7	6.3	4.6
East Asia and Pacific (EAP)	5.8	-1.2	7.1	5.1
Europe and Central Asia (ECA)	2.7	-2.0	5.8	3.0
Latin America and the Caribbean (LAC)	0.8	-6.4	6.7	2.6
Middle East and North Africa (MENA)	0.9	-4.0	3.1	4.4
South Asia Region (SAR)	4.4	-5.2	7.0	7.6
Sub-Saharan Africa (SSA)	2.5	-2.2	3.5	3.6

Note: e = estimate; f= forecast

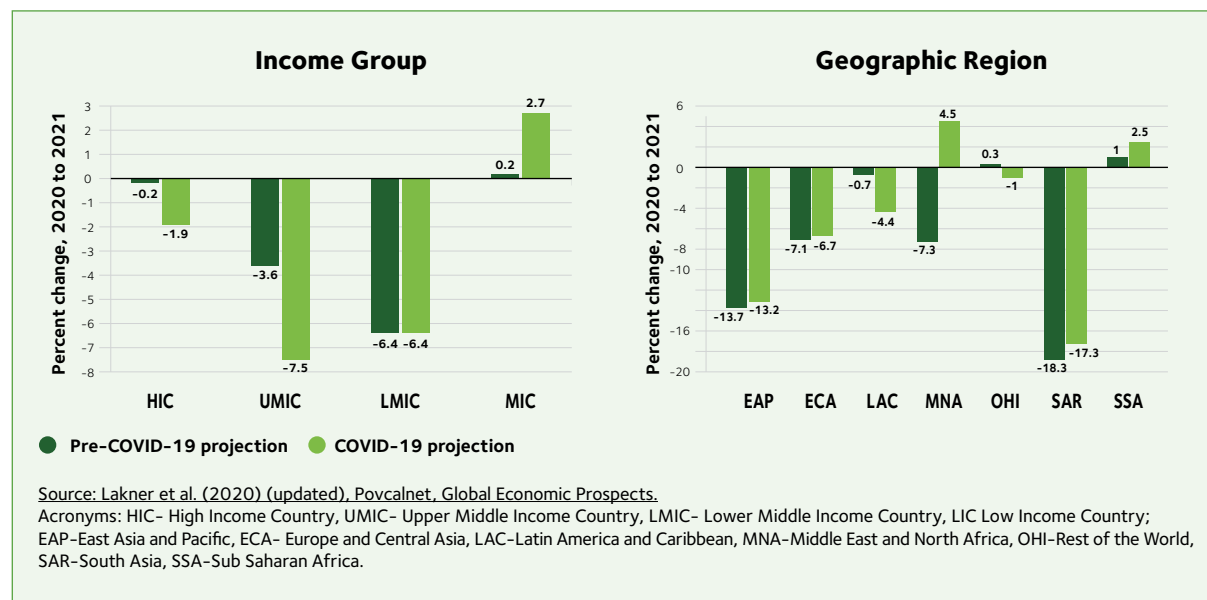
Source: World Bank Group, *Global Economic Prospects, January 2022*

1.2.1 COVID-19 – impact on global poverty and a rise in income inequality

Extreme poverty is estimated to decrease by about 21 million people in 2021 compared to 2020 with the resumption of economic activities worldwide. The pace of reduction is roughly similar to the pre-pandemic trends. Nevertheless, the effect of the nearly 100 million people falling into extreme poverty in 2020 will drag on for a long time.

The expected reduction of extreme poverty will be unevenly distributed (Figure 1) with most noticeable declines predicted to occur in High- and Middle-Income Countries (HIC, UMIC, LMIC), particularly in SAR and EAP. Low-Income Countries (LICs) and SSA economies will likely see further increases in poverty.

Figure 1.1: Percent change in the projected number of poor from 2020 to 2021, by income group and region



1.2.2 Global Development Challenges

The COVID-19 pandemic over the past two years has had a fundamental impact on the international community’s ability to meet the SDG targets. It has worsened pre-pandemic development challenges and introduced new issues. The World Bank Global Prospects January 2022, points to three major global development challenges.

1. Increase in Global Income Inequality: The pandemic has raised global income inequality inter-country and in-country. Increasing inter-country inequality is the result of the differential rate of recovery of the advanced economies and the EMDEs. The advanced economies are recovering relatively well and most of them are expected to regain their pre-pandemic real per capita income levels in 2022. However, only about half of the EMDEs and LICs are expected to recover their pre-pandemic real per capita income levels over the same period. The pandemic is also estimated to have increased in-country income inequality in EMDEs. The World Bank Global Prospects January 2022 reports that, “For a sample of 34 EMDEs, income inequality as measured by the Gini coefficient (*degree of inequality in a distribution of income/wealth*) is estimated to have increased in 2020 by a modest 0.3 points, equivalent to the annual average decline in within-country income inequality in these EMDEs

over the preceding two decades". Over the medium and long term, rising inflation, especially food price inflation, as well as pandemic-related disruptions to education may cause further increase of in-country inequality. Support targeted at vulnerable populations and designed to broaden access to education, health care, digital services and infrastructure, as well as an emphasis on supportive fiscal measures, can help lower in-country inequality. Rapid global rollout of vaccination and productivity-enhancing reforms can help reduce intra-country inequality.

2. Increasing Commodity Prices: The opening up of the economies in 2021 created a strong resurgence in commodity demand mainly driven by continued fiscal expansions in advanced economies. This combined with problems in rehabilitating supply chains disrupted in 2020, led to a significant rise in commodity prices led by energy and metals. In 2021, crude oil prices rose by nearly 82 percent and metal prices were up about 28 percent. Agricultural prices increased about 14 percent, with food prices rising the most in LICs. This trend is likely to continue given the rise in inflation in most advanced countries. Commodities are critical sources of export and fiscal revenues for almost

two-thirds of EMDEs, and three-quarters of LICs. More than half of the world's poor reside in commodity exporting EMDEs. Dependence on commodities is particularly high for oil exporters with oil exports accounting for 33 percent of total goods exports over 2017–20, considerably more than the 20 percent share for metals and the 15 percent share for agricultural commodities for metals and agricultural exporters, respectively. These countries will need to have proactive policies which take advantage of favorable price trends but at the same time insulate the economies from unfavorable price swings.

3. Dealing with High Debt after the Pandemic: Global debt levels have increased significantly in 2020 as both advanced economies and EMDEs utilised expansionary fiscal policies to offset the pandemic-induced recession. In 2020, total global debt reached 263 percent of GDP, its highest level in half a century. In EMDEs, government debt rose by 9 percentage points to 63 percent of GDP in 2020, the fastest one-year increase in the past three decades. As a result, debt vulnerabilities have risen and more than half of the LICs are showing signs of debt distress. While some may be able to restructure their debts, others will have to seek debt relief.



 Badal Chandra Sarker

1.3 Status of ICD Member Countries (MCs)

Extreme poverty had already been on the rise in ICD MCs since 2019 particularly in fragile and conflict-affected states in the MENA and the SSA (*Islamic Development Bank: Economic Context and Development Challenges of IsDB Member Countries*). The pandemic is estimated to have pushed about 51 million additional people into extreme poverty in IsDB MCs in 2020–2021. This rise in poverty could persist over the medium- and the long-term, given the projected slow recovery in many MCs and the disproportionate income losses of the poor and vulnerable populations. 464 million people (almost one in every three) are living in multidimensional poverty, and 83% of the poor live in rural areas (*OPHI and IsDBI, 2021*).

1.3.1 Health Impact of COVID

Table 1.2 reports on the health impact of COVID-19 in Africa and Asia as of February 2022. In Africa, ICD MCs reporting most cases were Morocco (1,143,947 cases; 15,540 deaths) and Tunisia (934,712; 26,548). In Asia, MCs reporting most cases were Iran (6,543,836; 132,745), Indonesia (4,480,423; 144,497), and Malaysia (2,895,014; 32,011). In MENA, the MCs with the most cases were the United Arab Emirates (855,642; 2,263) and Saudi Arabia (705,637; 8,953). It is likely these are under-reported figures given that the relative lack of adequate statistical systems in some of these countries.

Table 1.2: Health Impact of COVID-19 in Africa and Asia

Region	Cases	Deaths
Africa	11,156,677	241,222
Asia	103,020,017	1,300,925

Source: <https://www.worldometers.info/coronavirus/>, February 4, 2022

1.3.2 Economic Impact

Table 1.3 illustrates the magnitude of the adverse economic impact in select ICD MCs. Overall, the ICD MCs' average GDP growth between 2000–2019 was about 4.8%. It declined sharply to 2.6% in 2019 and to 1.7% in 2020. In 2020, least developed MCs and the fragile and conflict affected MCs were most adversely affected contracting

by 3.0% and 8.5%, respectively. It is estimated that the pandemic cost IsDB MCs about US\$2.9 trillion (about 15% of their GDP) in cumulative lost output for 2020–22 (*Islamic Development Bank: Economic Context and Development Challenges of IsDB Member Countries*).

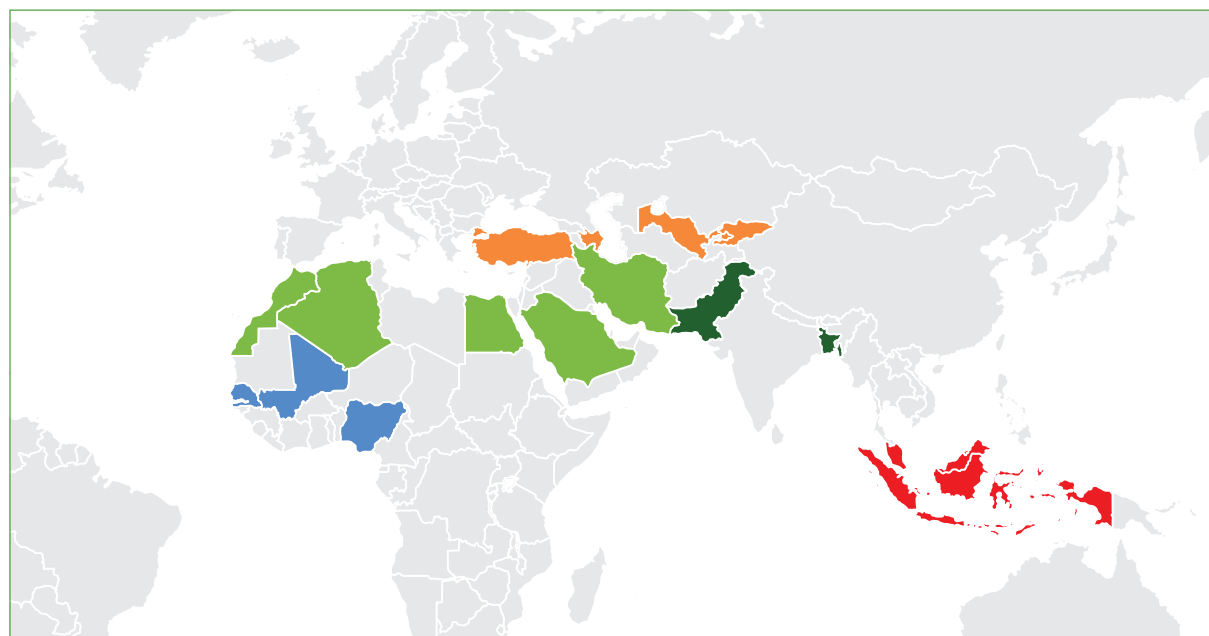


Table 1.3: Real GDP Growth Rates in Select Member Countries (in percent)

Region/Country	2019	2020e	2021e	2022f
East Asia & Pacific				
• Indonesia	5.0	-2.1	3.7	5.2
• Malaysia	4.4	-5.6	3.3	5.8
Europe, Central Asia				
• Turkey	0.9	1.8	9.5	2.0
• Azerbaijan	2.5	-4.3	5.0	3.1
• Kyrgyz Republic	4.6	-8.6	2.3	4.7
• Uzbekistan	5.7	1.7	6.2	5.6
MENA				
• Saudi Arabia	0.3	-4.1	2.4	4.9
• Iran	-6.8	3.4	3.1	2.4
• Egypt	5.6	3.6	3.3	5.5
• Algeria	1.0	-5.1	4.1	2.0
• Morocco	2.5	-6.3	5.3	3.2
South Asia				
• Pakistan	1.9	-1.5	0.5	2.0
• Bangladesh	8.2	3.5	5.0	6.5
Sub-Saharan Africa				
• Nigeria	2.2	1.5	2.4	2.5
• Senegal	4.4	-0.7	4.7	5.5
• Mali	4.8	-1.6	4.0	5.2

Note: e = estimate; f= forecast

Source: World Bank, *Global Economic Prospects, January 2022*

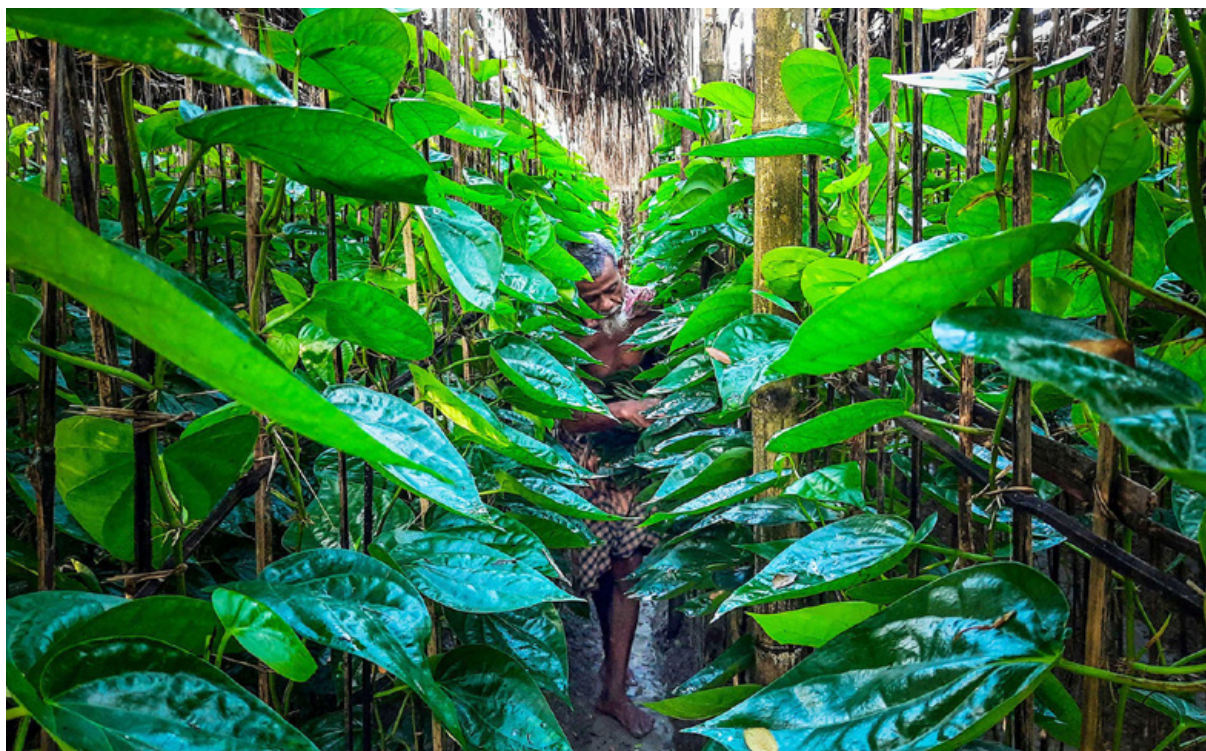


Most MCs undertook fiscal expansionary measures to offset the impacts of the pandemic to finance vaccination of their citizens, strengthen the social safety nets, and provide economic stimulus. These expenditures more than doubled the MCs fiscal deficits from 2.7% of GDP in 2019 to 7.3% in 2020. As a result, public debt levels grew from 52% of GDP in 2018 to 65% in 2020, with an expected decline to 62% by end-2021. The rate of rise in fiscal deficits is expected to decline for the more developed MCs. However, least developed MCs could see their debt increase. Eleven MCs face a high risk of debt distress and two are already classified as in distress.

Notwithstanding measures to mitigate the socio-economic effects of the pandemic, the MCs progress toward SDGs targets has stalled, and reversed on several goals (including poverty, inequality, education quality, and urban life). The pandemic has also set back progress on gender equality, particularly in terms of education and employment. Unemployment rose, particularly among the large youth cohort in the MCs.

Relatively wider availability of vaccines, better health infrastructure, and stronger macroeconomic fundamentals and institutions will mean that the more advanced MCs will recover faster from the pandemic induced recession with some expected to reach pre-pandemic levels by 2022. Recovery will take longer for the low income, less diversified MCs, and fragile economies with inadequate resources to address both the health and social impact and to afford continued investments for growth. This will be particularly true in the SSA.

The MCs recovery process will be affected by global factors. Resumption of a reasonably operational international supply chain will be critical. Fluctuations in commodity demand and prices will be important for commodity dependent MCs. Many MCs are also at extreme climate risk. For these MCs, incidence of severe climate events can significantly put their recovery and growth at risk.



 *Habibur Rahman*

1.3.3 Regional Perspectives

Half or more of the economies in EAP, LAC, and MENA, and two-fifths of economies in SSA may be below their 2019 per capita GDP levels by 2023.

Regional perspectives: Recent developments and outlook

East Asia and Pacific (EAP). Growth in the East Asia and Pacific region is projected to be 5.1 percent in 2022 supported by pent-up demand and accelerated COVID-19 vaccination. Recovery will be stronger in tourism-dependent economies returning output to its 2019 levels. Downside risks to the outlook include recurrent pandemic-related human and commodity mobility restrictions, inadequate vaccinations, heightened financial stress, and disruptions from natural disasters.

Europe and Central Asia (ECA). The regional growth rate is forecast to slow down to 3 percent in 2022 from an estimated 5.8 percent in 2021, as domestic and external demand and commodity prices stabilize. Key risks to the regional outlook include a further resurgence of the pandemic, financial stress, less supportive external conditions than expected, and an additional rise in policy uncertainty or escalation in geopolitical tensions.

Middle East and North Africa (MENA). Growth in MENA is expected to accelerate to 4.4 percent in 2022 reflecting conditions in the energy market, and progress in vaccination. Growth prospects are uneven across the region. Key risks include possibilities of further COVID-19 outbreaks, social unrest, high debt in some economies, ongoing conflicts, continued reliance on fossil fuels, and the impact of climate change, particularly the availability of potable water.

South Asia Region (SAR). Output in South Asia is projected to expand by 7.6 percent in 2022, accelerating from 7.0 percent the previous year, as COVID-19 vaccination progresses amid a rise in internal and external demand. Key risks include a resurgence of the pandemic, inflationary pressures requiring more monetary policy tightening, and heightened stress in the financial sector. The rising frequency and cost of natural and climate-related disasters expose the region to climate-induced increases in poverty, disease, child mortality, and food prices.

Sub-Saharan Africa (SSA). Recurrent virus flare-ups in several countries and low vaccination rates are expected to slow down pace of the recovery in 2022 to 3.7 percent. This rate will not be sufficient to reverse increases in poverty and losses in per capita income experienced during the pandemic. The key risks are the slow pace of vaccination leading to an anemic recovery of domestic demand and heightened debt-stress in many countries, amplified vulnerabilities to climate change, poverty, food insecurity, and violence.

Source: World Bank, Global Economic Prospects, January 2022

Finally, in 2019, 14 of ICD MCs were LICs, 18 were Low Middle-Income Countries (LMICs), 14 were upper MICs and 6 were High-Income Countries. It is not possible at this time to provide an accurate estimate of how many, or which ICD MCs have retained their 2019 status because of the

volatility of their economic conditions. However, it is safe to say that many countries would likely have retrogressed given the depth and the magnitude of the impact of the COVID-19 pandemic.

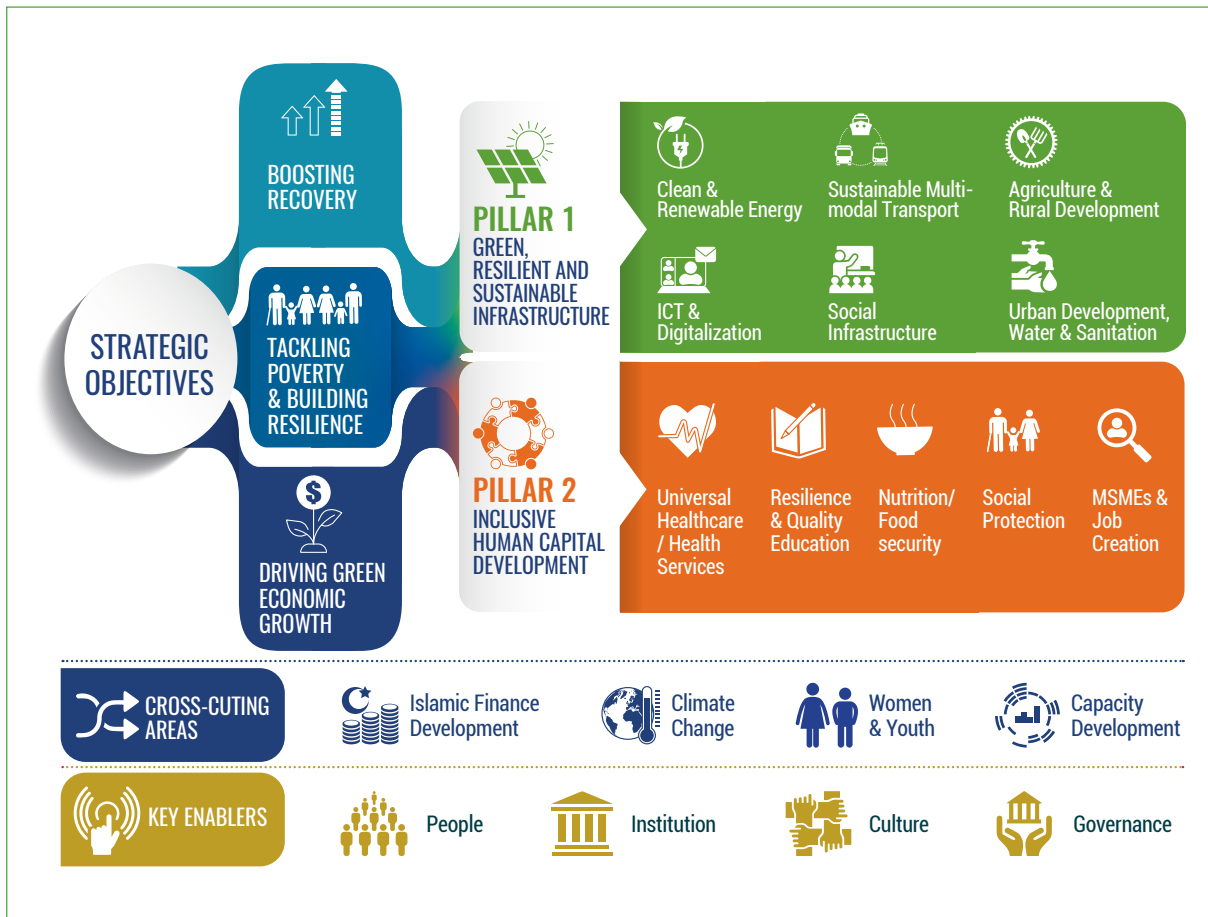
1.4 ICD’s Strategic Response

ICD’s response to the development requirements of its MCs is contained in its three-year business plan (2022-2024) and is part of and consistent with the broader IsDB Strategy 2025 exercise.

1.4.1 IsDB Strategy 2025

The Bank has updated its strategic priorities in light of the challenges posed by the COVID-19 pandemic and the help its MCs achieve the SDGs (Figure 1.2). These priorities were guided by the outcome of the 46th IsDB Group Annual Meeting.

Figure 1.2: IsDB Strategy 2025 – Objectives, Pillars, Cross- Cutting Areas and Enabler



Source: Islamic Development Bank, Strategy 2025, Supporting Comprehensive Human Development and Sustainable Infrastructure

The strategy focuses on three interconnected strategic objectives: (i) boosting recovery; (ii) tackling poverty and building resilience; and (iii) driving green economic growth. The Bank will focus on two strategic outcomes to achieve its objectives - (1) develop green, resilient and sustainable infrastructure and (2) support inclusive human capital development. It will use innovative Islamic Finance instruments to support investments, including green finance and climate finance. Where appropriate, the Bank will also promote private sector financing for blended financing of Public-Private Partnerships (PPP) especially in national and regional infrastructure projects.

Effective implementation of the strategy requires continuous alignment of Bank's contributions with the national development priorities of the MCs. The IsDB Group will also exploit its internal synergies and realign its structure to focus on effective delivery as well as maximize development impact.

This Strategy Document represents Phase I of the Strategy Update Exercise. In Phase II of the exercise, the Bank will operationalize the identified priorities by identifying results based and clear KPIs and targets for each of its entities. It will also conduct regular performance assessments that will be combined with appropriate incentive mechanisms and governance frameworks. A feedback loop will be created to identify and implement the most effective operational processes such as (i) setting more realistic targets recognizing the Bank's comparative advantages in delivering sustainable infrastructure and inclusive human development using Sharia compliant resources; (ii) identifying optimum financing practices using Ordinary Capital Resources (OCR) and concessional funds; (iii) scaling up capacity development programs; (iv) use of innovation and technology; and (viii) ensuring a "whole of Bank" delivery practice on the ground. Implementing the updated strategy during 2023-2025 will require addressing the financial capacity of the Bank to meet the diverse socio-economic needs of MCs. A people and results centered change management process will be put in place to resolve roadblocks and informed course-corrections as the strategy is implemented. Effective internal and external communication including the use of digital and social media platforms will be crucial to the success of the strategy.

1.4.2 The 2022-2024 ICD Business Plan

The 2022-2024 ICD business plan internalizes the objectives, goals and operational processes outlined in the IsDB Strategy 2025. It is based on ICD's 10-year strategy emphasising growing the business in financially sustainable way and serving countries based on their development needs. The Plan is built on a detailed review of the business unit inputs and project pipelines adjusted for expected COVID-19 impact, market benchmarking and historic performance.

The recovery of the ICD MCs will be contingent on the future direction of the COVID-19 pandemic as well as the availability of fiscal and monetary tools to offset any further spread. In addition to the pandemic-driven issues, private sector development challenges in many MCs include access to affordable finance, access to electricity and sustainable infrastructure, and inadequate institutional and regulatory frameworks.

ICD can play an important role in promoting the private sector, boosting COVID-19 recovery, driving green economic growth and contributing to inclusive human capital development. In line with the updated Development Effectiveness Policy (DEP) approved in September 2020, ICD will,



Maximize its contribution to improve the enabling factors and conditions that help MCs to achieve their development goals and SDG targets,



Directly target SDGs 7,8 and 9 through Line of Financing (LOF) (access to financing for SMEs) and term financing (green financing & infrastructure development) while partially supporting SDGs 13 and 17 and indirectly contributing to SDGs 1, 2, 3, 4 and 5; and,



Make its internal operations more effective and efficient through empowering and knowledge building of its employees.

ICD expects to support the creation of 147,633 new jobs, provide access to finance to 25,500 thousand MSMEs, and enable access to Islamic Finance to 268,423 persons in its MCs during 2022-24 (Table 1.4)

Table 1.4 : ICD’s Development Impact targets (2022-2024)

Targets	2022	2023	2024	Cumulative Target
New jobs	44,754	49,669	53,210	147,633
Reach to MSMEs	7,730	8,579	9,191	25,500
Access to Islamic Finance	81,370	90,307	96,746	268,423

Source: ICD 3-Year Business Plan (2022-2024), December 2021

Four factors will be critical in selecting new projects: (i) contribution to the MC’s development needs and the identified SDGs especially those with a high potential for creating jobs; (ii) ICD’s core competencies; (iii) contribution to the IsDB Group Presidential Priorities, and (iv) resource mobilization potential. In combatting the COVID-19 pandemic, ICD will focus more on access to finance (including financial sector development) and sustainable physical as well as social infrastructure with a focus on green financing. One of its strategic objectives will be to achieve an optimal regional allocation of investment through regional diversification.

1.4.3 ICD Strategic Initiatives 2022-2024

To enhance and facilitate its development effectiveness, ICD will implement a set of strategic initiatives during 2022-2024.



Operating Model Adjustments: Further enhancing corporate governance and operational efficiency through aligning policies with strategy and improving the effectiveness of internal business processes and committees; implementing an effective Scorecard and KPI Framework.



Portfolio Enhancement & Rebalancing: Ensuring more efficient capital deployment by re-allocating freed-up, non-income generating capital to profitable LOF and Term Finance business lines with a focus on green economic growth projects. Selective and high-quality brown-field equity investments and raise in return of the banking and non-banking financial institution equity portfolio; recalibration of the corporate equity portfolio with partial and full exits, and gradual wind down of non-performing fund assets.



Ensuring Cost Efficiency: Implementing cost management measures and increasing staff productivity.



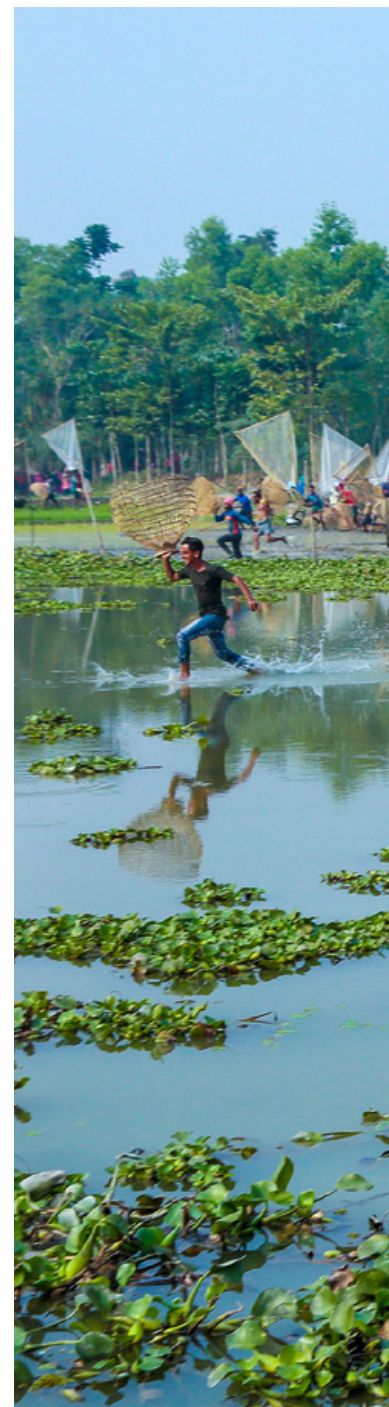
New Product Development: Increasing fee-income activities through Sukuk and other advisory services; expanding the Business Resilience Assistance for Value-Adding Enterprises (BRAVE) Women Program, Women Empowerment Program and Youth Entrepreneurship Program.



Utilizing Bridge Platform: Further strengthening digital solutions and initiatives such as the Bridge platform to reduce the digital divide in the MCs by utilizing transformational technology projects.



Internalizing the gains from synergies with other IsDBG Entities: Expanding the number of joint transactions with other IsDB Group entities with a target of at least one flagship co-financing/joint transaction with other Group entities each quarter through the Technical Coordination Committee (TCC) platform.





CHAPTER 02

Innovations in Improving ICD's Development Effectiveness

2.1 Overview

ICD's strategic priorities of promoting development of its MCs while remaining financially sustainable put emphasis on operational efficiency as a key success factor for the implementation of its 3-Year (2022-2024) Business Plan. In 2021, ICD took steps towards creating a high-quality investment portfolio concentrating on its core competencies. The Corporation enhanced its governance frameworks and information technology platforms and actively engaged in collaboration with other IsDB Group entities and development financing institutions.

2.2 Improvements in Development Effectiveness in 2021

ICD concentrated on improving its operations and structure in order to enhance the implementation of its ten-year strategy and its three-year (2022-2024) business plan in 2021. Four factors will be key in selecting projects: (i) MC development needs and priorities; (ii) ICD's core competencies; (iii) contribution to the IsDB Group 10-Year Strategy and the SDGs and (iv) resource mobilization potential. In particular, ICD is focusing on two areas - access to finance (including financial sector development) and sustainable physical and social infrastructure - that contribute most to addressing the key constraints affecting the development of the MCs including the COVID-19 pandemic. ICD will be active in all member country regions, while pursuing its strategic objective of regional diversification.

ICD has continued its efforts to enhance its fee-based revenue generation capabilities. This includes new Sukuk issuances and an increase in its advisory functions. The Bridge information technology platform has been established to

help reduce the digital divide in the MCs and to create a more innovative, efficient and financially sustainable organization with strong links to other development financing institutions for mobilizing additional resources.



 Masum Chowdhury

2.3 Role of the Development Effectiveness Department (DED)

The Development Effectiveness Department (DED) is responsible for “providing technical expertise, advice, coordination, knowledge, innovation, and quality at entry on all aspects related to measuring, assessing and reporting ICD’s Development Results” (*ICD Development Effectiveness Policy, September 2020*). The key activities of the DED are to, (i) design, plan, implement, and manage efficient and effective results reporting systems; (ii) report development results and lessons; (iii) plan, implement, and manage monitoring and evaluation activities for ICD; (iv) collaborate with partner Multilateral Development Banks (MDBs) on harmonization, benchmarking, and learning of results measurement methods and processes; and (v) dissemination and internalization of knowledge within ICD.

The DED helps facilitate,



Accountability by supporting ICD’s business units to integrate, measure and report developmental results;



Learning by identifying best practices using evidence gathered from monitoring and evaluation;



Innovation by introducing innovative and knowledge-based practices in particular for the benefit of the SMEs;



Collaborations on best practices in measuring results including harmonization and benchmarking.



Introduce an Internal Ideation and Innovation Program leading to a better cost-income ratio.



Organize a series of knowledge sharing events internally and externally to exchange knowledge and best practices in order to improve performance.



Strengthen the Financial Institutions Innovation platform by attracting more financial institutions and FinTech startups to the platform, through ICD’s Annual Innovation Awards, to exchange knowledge, identify credible business leads and sources of income for ICD.

The DED works closely with other ICD’s departments and clients to demonstrate the Corporation’s added value as a premier Islamic multilateral financial institution for the development of the private sector. For example, the Innovation and Knowledge Management (IKM) Unit of DED assists in implementing ICD’s business plan focusing on (1) the Lines of Finance (LoF), (2) the annual approvals process and (3) the cost-income ratio. The IKM’s main activities for the next three years will be to:



Align the Financial Intelligence Platform including the Financial Literacy (FinLit) Platform, Savings Initiatives and Crowdfunding Programs with the focus of ICD’s business model.



The DED works closely with other ICD’s departments and clients to demonstrate the Corporation’s added value as a premier Islamic multilateral financial institution for the development of the private sector



2.4 Key Development Effectiveness Initiatives

A number of key initiatives are being undertaken to successfully implement the three-Year Business Plan and the 10-year strategy. These initiatives reflect the priorities of the President of the IsDB Group and guidance from ICD's Board of Directors.

2.4.1 Portfolio Enhancement & Rebalancing

ICD aims to build a well-positioned high-quality investment portfolio. The Corporation will build on its business lines with a proven track record and reposition its investment activities in line with the long-term strategy. This includes a renewed focus on financial institutions to contribute to the post-COVID-19 recovery of its MCs.

In order to improve its overall return profile and enhance average portfolio quality, ICD continued its efforts to wind down some of its non-core and non-performing assets. The Corporation fully redeemed most of the assets from the Unit Investment Fund (UIF) to save costs in line with the UIF

winding up and termination Plan. In addition, ICD has reached the final stages for exiting from three additional equity projects and settling two large non-performing loan projects. The Corporation signed a memorandum of understanding (MOU) with its partners to reach a successful conclusion to one of its legacy portfolio assets.

In line with its Board-approved 10-Year Strategy, ICD is transitioning its Asset Management business (currently predominantly fund management) towards a development-focused intermediation model. The Corporation will act as a facilitator between (institutional) investors and local fund managers in its MCs. This may include, but is not limited to, sourcing of third-party institutional investors,



ICD plans to introduce innovative products and services and grow its fee business. It will pilot and introduce shared term finance as a co-financing product leveraging its expanded financial institutions network.

facilitation of asset flow to external fund managers and sourcing of investment opportunities for fund managers. The intermediation model will help ICD further mobilize assets for local SMEs and other businesses in its MCs.

ICD plans to introduce innovative products and services and grow its fee business. It will pilot and introduce shared term finance as a co-financing product leveraging its expanded financial institutions network. In addition, the Corporation will grow its fee business, namely the Sukuk Program, Asset Management Services, Islamic Financial Institutions (IFI) Advisory Program, Industry and Business Environment Support (IBES) Program as well as the Women Empowerment and Youth Entrepreneurship Program.

2.4.2 Operating Model Adjustments

ICD continued to enhance the productivity of its processes (including approval and disbursement processes) to meet business plan requirements and improving the service delivery capability of the internal committees as well as overall staff productivity. ICD plans to expand its fee-based business activities and donor-funded operations with a focus on the Business Resilience Assistance for Value-Adding Enterprises (BRAVE) project as well as syndication operations.

2.4.3 Corporate Governance, Cost Allocation & Key Performance Indicators (KPI) Framework

ICD seeks to enhance its governance framework including its policy framework. This includes (among others) strict adherence to its strategy and business plan policies, a robust and efficient set of internal processes, as well as alignment of policies to enable portfolio growth.

During 2021, ICD updated its delegation of authority matrix to further enhance its internal efficiencies and service delivery capabilities. It has developed the terms of reference (ToR) for two recently established Board sub-committees and updated the ToR for the Assets & Liabilities Management Committee (ALCO). The Corporation has set up departmental and individual KPIs to ensure proper accountability and responsibility at the business unit and individual levels. The KPIs are to be set at the beginning of each year to allow for proper monitoring and assessment.

2.4.4 Information Technology based Initiatives

ICD is upgrading its data management capabilities by creating a central and accurate management information system to be used consistently across the organization. It has undertaken an upgrading of iMAL (the current IT platform of ICD) to introduce a set of new capabilities for different business and control functions. An internal committee has been set up to identify the requirements of the different functions and to address them in the most effective manner.

The Bridge Platform

ICD aims to utilize its recently established Bridge Platform as one of the key enablers to implement its business plan. This innovative and digital channel will strengthen the financial institutions ecosystem by enabling increased collaboration and efficient use of the expertise of ICD's partners in its MCs. As a first step, ICD will provide the means for facilitated and structured communication among its partners (e.g., sharing deal info and intelligence). At the second stage, ICD will provide value-added services for its network of partners by facilitating access to Islamic finance product related information and contractual relationships. The ultimate purpose is to allow the identification and completion of business transactions through the Bridge platform using state-of-the-art technologies.


Smart Financial Transactions – the Financial Literacy (FinLit) Platform

ICD is developing a smart financial transactions Platform to raise awareness among the women, youth, and small business owners about the importance of financial education and money management. The FinLit Events initiative is part of a broader program under the financial intelligence platform where participants can access one-on-one financial consultancy and advisory services and innovative financial

arrangements. The FinLit Bootcamps equip its participants with skills to enhance their purchasing power. The Hackathon works on finding practical solutions by doing financial planning and reports including providing encouragement to save. In 2021, two successful FinLit events were held in Saudi Arabia and Nigeria.

FinLit Saudi Arabia	FinLit Nigeria
<ul style="list-style-type: none"> • Online event co-organized with Biz Growth Business Incubator, held in Jeddah, Saudi Arabia, September 11-27, 2021 • Target groups: Youth and Startup businesses. • 20 sponsors • 1053 Participants • 9 Workshops on Financial Literacy • 13 Trainers and mentors & 22 speakers • 129 ideas submitted by the participants. • 10 Winning Innovative Solutions. • 10 Winners incubated and provided further support. • Prizes included cash award, office space, incubation and attendance certificate (total prizes: Saudi Riyals 20,000) • 13 winners 	<ul style="list-style-type: none"> • In-person event, co-organized with Halfinance Business Consult Ltd, held in Lagos, Nigeria, December 18 - 22, 2021 • Target Groups: Youth and Startups • 5 sponsors • 110 Participants (52.8% female) • 11 Workshops on Financial Literacy • 23 Trainers and mentors & Entrepreneurial experts • 10 teams participated in the Hackathon. • 3 Winning Innovative Solutions. • Prizes included cash award and attendance certificate (total prizes: Saudi Riyals 20,000) • 3 winners



 Asker Ibne Firoz

Case Study

NIGERIA

The Business Resilience Assistance for Value-Adding Enterprises (BRAVE) Women Program



Nigeria is the largest economy in Africa with population of 212.57 million in 2021. The country is among the most fragile states in the world ranking 12th among 179 countries in the 2021 Fragile States Index. Nigeria's economy had just started slowly recovering after the 2015–2016 recession induced by the world oil market collapse when the COVID-19 pandemic disrupted its comeback. These events adversely affected the performance of the Nigerian private sector including the SMEs. The SMEs faced a reduction in sales revenue, loss of staff due to an inability to pay salaries, increasing debt, a disruption in both local and international supply chains and price uncertainty. These problems were especially acute for women entrepreneurs as they faced additional constraints due to prevailing cultural, legal and societal norms.

IsDB's three-year US\$32.7mn Business Resilience Assistance for Value-Adding Enterprises (BRAVE) Women Program aims to help women-owned/led businesses in Yemen, Nigeria and Burkina Faso to survive and continue their operations under adverse circumstances. The objectives are to strengthen financial performance and ability to innovate so that the businesses can create new jobs, improve working conditions and ultimately improve the quality of life of the local communities. The Program is in line with the IsDB's objective of fostering the economic development and social progress of its MCs.

US\$14.27mn of the BRAVE Women Program was earmarked for Nigeria. The Nigerian portion is financially supported by the global multi-donor fund for Women Entrepreneurs Finance Initiative (We-Fi) and builds on a previous IsDB funded BRAVE Women Yemen Program (2016 to 2020).

On April 1, 2020, the IsDB Group signed a Framework Agreement with Nigeria for the implementation of the BRAVE Women Nigeria Project. The Bank of Industry (BOI) of Nigeria is the local execution agency. The project will be implemented in three states: Edo, Kano and Gombe. It has



two major components - specialized business resilience training and matching grant assistance.

In 2021, the Project established a Project Management Unit and implemented a knowledge-exchange program between the BRAVE Woman Yemen Program and the Nigerian initiative to identify best practices. The ICD played a critical role by facilitating this 'South-South' technical knowledge exchange. ICD also conducted a rapid market assessment in order to gauge the preliminary degree of interest among women-led SMEs (WSMEs) to participate in the project and undertook an intense marketing and promotion campaign in the three targeted states.

To date, 1505 applications have been received from WSMEs through the project's web portal of which 600 have met the project's selection criteria and were ultimately retained in addition to 24 Lead Firms and 14 Business Associations. The training of the beneficiaries commenced in the second half of December 2021, following an initial 'Training of Trainers' activity.

Three local commercial banks - Jaiz Bank Plc., Suntrust Bank Ltd. and Wema Bank Plc. - were selected as Grant Administrators. ICD had played a lead role during the due diligence and assessment phase of the selection of these Banks.

In 2022, the three partner banks and BOI are expected to proceed with the vetting of the business continuity plans of the selected SMEs. The project will disburse matching-grants and monitor the utilization of these grants during the remainder of 2022 and early 2023.



2.5 ICD Synergies and Partnerships: Leveraging on Collaboration

ICD has been actively engaging with other Development Finance Institutions (DFIs) and global partners to simultaneously address the COVID-19 crisis and achieve the SDGs. It has established many strategic partnerships and collaborative initiatives with several partners with similar mandates and objectives in order to achieve private sector development in its MCs.

2.5.1 Internal Cohesion within IsDB: “One Bank, One Group, One Goal”

ICD’s 10-Year Strategy emphasizes enhanced collaboration with other IsDB Group entities.

In 2021, ICD was actively involved in the Group Executive Coordination (GEC) and the Group Synergy Facilitation Team (GSFT) to draft, review and implement the Group Synergy Enhancement Agenda of the IsDB Group.

ICD will utilize the Technical Coordination Committee (TCC) of the Bank to foster increased collaboration across multiple dimensions (cross-selling, joint offerings, and shared operations etc.) as a key enabler to meet the 3-Year Business Plan targets. Over the next three years, ICD plans to continue to capture synergies and expand the number of joint transactions and co-financing projects with other IsDB Group entities with a target of one flagship co-financing/joint transaction with other Group entities each quarter. The Year 2021 was also a successful year for TCC in terms of engagements, shared deal pipeline and approvals – more than 35 deals were shared between the TCC members worth US\$1.8bn and there were co-investments in nine sukuk transactions with a total value of over US\$617mn. The CEO of ICD served as the Chair of the TCC in 2021.

Finally, the IsDB Group entities, namely the ICD, the International Islamic Trade Finance Corporation (ITFC) and Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) have agreed to create joint KPIs.

2.5.2 Synergy and Collaboration with External Partners

Coalition for a sustainable and inclusive recovery for the private sector – ICD has been part of this coalition since

November 2020 along with the African Development Bank, the West-African Development Bank, FinDev Canada, the U.S. Development Finance Corporation, and the Association of European Development Financial Institutions. By 2021, the Coalition had committed US\$1.27bn in financing towards micro, small and medium enterprises (MSMEs) in Africa, and US\$7mn in technical assistance towards an overall target of US\$4bn.

The Arab-Africa Trade Bridges Programme (AATB) – The AATB is a regional trade promotion program that addresses challenges in promoting trade between the two regions. It covers different dimensions including infrastructure financing, and advisory and technical assistance. ICD is the leader of the Investment Pillar in AATB. During 2021, ICD worked on LOF and Term Finance with an AATB component and co-financed three LOF facilities with the Arab Bank for Economic Development in Africa (BADEA) including lines of US\$25mn to First City Monument Bank, Nigeria, Euro 20mn to Afriland First Bank, Cameroon, and US\$20mn to Coronation Merchant Bank, Nigeria.

Saudi Development and Reconstruction Program for Yemen (SDRPY) – ICD has been assigned along with ITFC and ICIEC to represent the IsDB Group for Track 5 of SDRPY: Investing for sustainable development and empowering the private sector.

New Partnerships – The ICD initiated and signed multiple agreements with new partners in 2021. These included a LOF for Africa and Asia agreement with the CDC Group, UK, and an agreement with Malaysia EXIM Bank, Saudi EXIM Bank, and Trade Development Bank (TDB) on pipeline sharing and co-financing. ICD has also signed an agreement on communication and capacity building Services with the Islamic Markets Ltd and an agreement on Sukuk advisory with Infrastructure Guarantee Credit (InfraCredit) in Nigeria,

the Libyan Stock Market (LSM) and Azerbaijan Investment Holding (AIH). An MoU on joint communication has been signed with the Islamic Chamber of Commerce, Industry and Agriculture (ICCIA). Agreements under review in 2021 included those with U.S. Exim Bank, Africa Finance Corporation, and the Saudi Fund for Development.

Consultations and Workshops on opportunities for enhanced cooperation – In 2021, ICD's Partnership Unit successfully organized and participated in several workshops and consultations with a number of partners,

- o **Asian Infrastructure Investment Bank (AIIB)** (February 2021) - Workshop to highlight Sharia-compliant lines of finance, syndication structures and potential for collaboration in common MCs.
- o **International Financial Corporation (IFC) MENA** (February and April 2021) - Two workshops identifying partnership opportunities. Three potential partnerships tracks have emerged - Infrastructure & Corporate Finance, on-lending to Financial Institutions, and joint equity investments.
- o **International Financial Corporation (IFC) Central Asia** (November 2021) - Knowledge sharing session highlighting the importance of capitalizing on the increased demand for Islamic finance in the Central Asian region.
- o **United Nation Development Program (UNDP)** (September 2021) - Knowledge sharing session involving the UNDP Istanbul Office, the Deputy General Manager of United Gulf Financial Services, and UGFS (North Africa) to assist UNDP in collecting data for their study on "The Impact Investing Ecosystem in Tunisia". The purpose was to assess the general potential for the impact investing market in Tunisia and to identify the main stakeholders, opportunities and challenges in the development of an Impact Investing ecosystem in Tunisia.
- o **Libyan Stock Market** (September 2021) - Virtual workshop to promote ICD's Sukuk advisory services on local currency denominated Sukuks attended by many Libyan commercial and Islamic banks.
- o **National Development Fund (NDF), Kingdom of Saudi Arabia** (February and November 2021) - Consultation

sessions with the NDF, attended by the Leadership teams of NDF and ICD. The November 2021 session between the NDF team and ICD's Development Effectiveness Department (DED) discussed the establishment of impact assessment frameworks and the methodologies used in MDBs for development impact assessment.

- o **Public Investment Fund (PIF), Kingdom of Saudi Arabia** (May 2021) - Workshop to explore avenues for potential cooperation.

Participation in International Fora

- o **SME Finance Forum (SMEFF)** – ICD joined the SMEFF global membership network in 2020. The SMEFF brings together a global network of more than 200 banks, non-bank financial institutions, financial technology companies (FinTech), and development banks from around the world to support SMEs through knowledge exchange, policy changes, and impactful partnerships. The ICD is also a member of the recently launched SME Finance Virtual Marketplace which promotes partnership with leading FinTech, financial institutions, and investors. A presentation by the Chief Executive Officer of ICD about the importance of SME Green Finance was showcased at the Global SME Finance Forum 2021.
- o **Africa Investment Forum (AIF)** – ICD represents the IsDB Group in the AIF platform and has actively engaged in co-financing deals originated by the AIF deal development platform. In 2021, ICD and other AIF partners established the Deal Development Network (DDN) - a platform established under the auspices of the AIF to advance projects from concept stage to bankability.
- o **The SDG Finance Advisory Board for the Global Councils on SDGs** – The Council is a unique interdisciplinary network of decision makers from governments, international organizations, academia, and the private sector coming together to share innovative practices and discuss the creative implementation of the SDGs at national and global levels. ICD is a member of the SDG Finance Advisory Board which assists other SDG Councils to design, implement and, scale up initiatives.

CHAPTER 03

ICD in Action

3.1 Overview

Since its inception in 1999, ICD has delivered more than US\$7.08bn in cumulative approvals and more than US\$3.76bn in disbursements for private sector development. ICD projects have supported a wide array of industries including finance, infrastructure, agriculture, manufacturing and energy in 50 MCs. Financing has been the dominant line of business accounting for 77.6 percent of total approvals since inception. The regional distribution of the approvals has been more even with 29.4 percent going to MENA, 21.4 percent to ECA, 18.1 percent to SSA. Asia had 14.9 percent of total approvals with the remaining 16.2 percent approved for regional and global interventions.

The 2021 Annual Development Effectiveness Survey found that ICD achieved relatively impressive results in sustaining and creating employment for men and women, promoting Islamic finance, and contributing to the financial well-being of its partners, and in sectors such as finance and health. The survey also suggested that there is work to be done in increasing the alignment of ICD's partners with the SDGs and in accelerating their rate of digital transformation.

The continuation of the pandemic and its economic impacts in 2021 influenced ICD's ability to conduct its operations. Nevertheless, ICD approved the disbursement of about 75 percent of its US\$250mn pledge to help its MCs to combat COVID-19. SMEs were the major recipient of ICD financing especially in its MCs in SSA and ECA. Overall, approvals slowed down in 2021 while disbursements increased with the financial instruments being the major delivery vehicles.

3.2 Portfolio and Investment Analysis of ICD's Activities in 2021

3.2.1 COVID-19 Response

In 2020, ICD pledged US\$250mn to help MCs deal with the impact of COVID-19. Of this pledge, US\$200mn was allocated to the LOF mechanism for financial institutions and private sector actors affected by the COVID-19 pandemic and US\$50mn was earmarked for equity investments in Islamic Financial Institutions (IFIs) and selective industries related to healthcare and food.

In 2021, ICD received 25 formal financing requests worth more than US\$300mn from over 20 MCs for COVID-19 related assistance. A total of 12 LOF transactions amounting to US\$171mn have been approved with actual disbursements of US\$71.4mn to four lines. LOFs were approved for four African MCs (Burkina Faso, Cameroon, Nigeria, Senegal), three ECA MCs (Uzbekistan, Turkmenistan and Azerbaijan) and one Asian MC (Maldives). Two equity transactions, in Senegal and Malaysia respectively, have also been approved totaling US\$14.2mn.

Disbursements in 2021 under this pledge amounted to US\$76.3mn including US\$72.9mn through the LOFs in Burkina Faso, Nigeria, Senegal and Uzbekistan and US\$3.4mn through equity investments in Senegal.

The main beneficiaries of the ICD COVID-19 stimulus package were the SMEs and the private sector in the respective MCs. ICD contributions helped extend support to the needy, shore up demand, and protect people's livelihoods.

ICD remains committed to delivering crucial support to its MCs to adapt to and mitigate the impact of the pandemic to the most vulnerable of their populations.



3.2.2 Approvals and disbursements in 2021

Total approvals for 2021 were US\$243.6mn reflecting a slowdown from 2020 due to difficulties in planning and designing new projects in pandemic situation in 2020 (Table 3.1). The focus remained on private sector development particularly the SMEs and critical industries. However, disbursements were up significantly to US\$208.7mn as economic activities picked up speed in the MCs in 2021 relative to 2020.

Table 3.1 Approvals, Disbursements (US\$ millions)

Year	Approval	Disbursement
Since Inception (total)	7083.7	3758.9
2020	306.6	135.5
2021	243.6	208.7

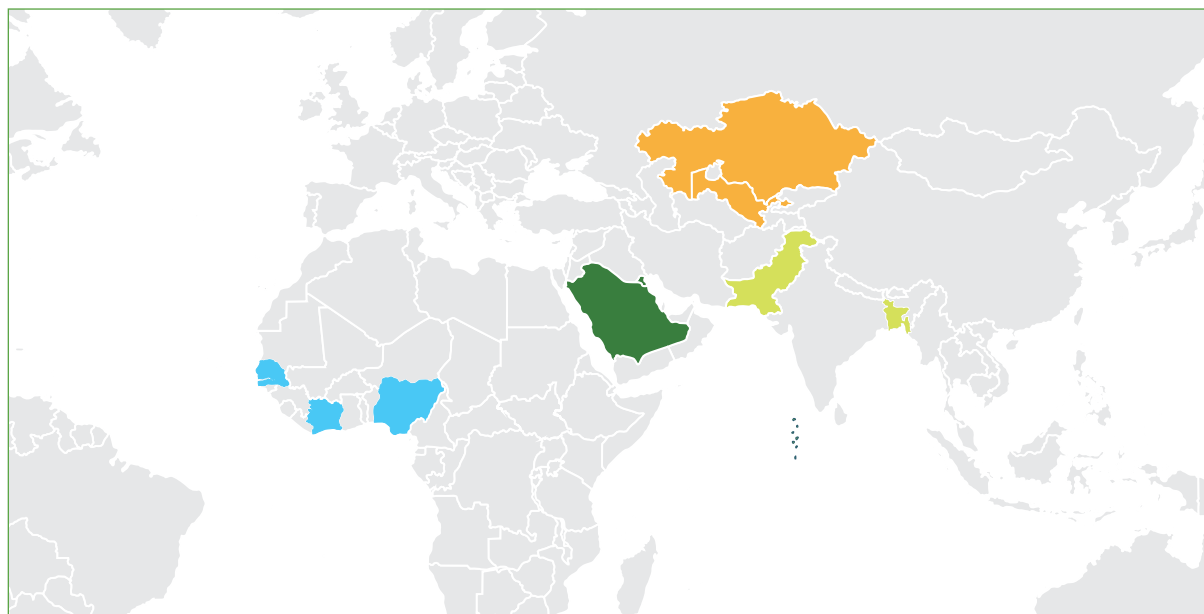
The approvals were mainly in MENA (31.6 percent), Asia (30.8 percent) and Sub-Saharan Africa (29.4 percent) with the ECA region accounting for a minor portion (6.2 percent) along with global projects (2.1 percent) (Table 3.2).



 Mahatur Rahman Mikash

Table 3.2 Detailed 2021 Approvals and Disbursements by Region/Country (in US\$ Millions)

Region/Country	Approvals	Disbursements
Sub-Saharan Africa (SSA)	71.6	95.2
Regional SSA	36.0	
Nigeria	25.0	35.8
Senegal	10.6	49.9
Ivory Coast		9.5
Asia	75.0	48.8
Bangladesh	55.0	10.0
Pakistan	20.0	28.8
Maldives		10.0
Europe & Central Asia (ECA)	15.0	24.8
Kazakhstan	5.0	
Uzbekistan	10.0	24.8
Middle East and North Africa (MENA)	77.0	40.0
Kuwait	50.0	40.0
Saudi Arabia	27.0	
Global	5.0	
Total	243.6	208.7



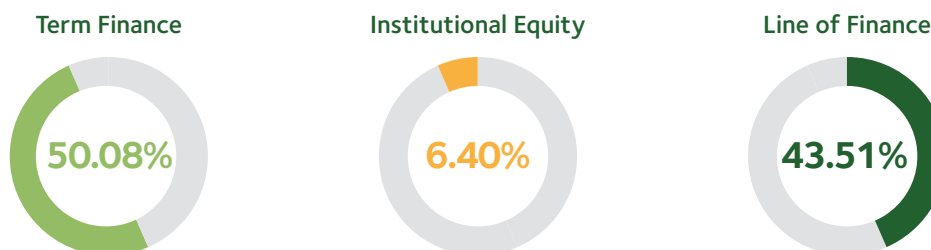
As in previous years, in 2021, ICD’s sectoral approval and disbursement portfolios were dominated by the finance sector which accounted for about 50 percent of total approvals and 62.3 percent of total disbursements (Table 3.3). Other new sectoral project approvals were in transportation (20.5 percent), industry and mining (18.5 percent) and in health and other social services (11.1 percent). The Finance sector dominated the 2021 disbursements as well with 62.3 percent of the total followed by transportation (19.2 percent), energy (13.8 percent) and industry and mining (4.8 percent).

Table 3.3 2021 Approvals and Disbursements by Sector (in US \$ millions)

Sector	Approvals	Disbursements
Energy	-	28.8
Finance	121.6	129.9
Industry and Mining	45.0	10.0
Health and Other Social Services	27.0	-
Transportation	50.0	40.0
Total	243.6	208.7

Within the finance portfolio, the dominant approval mechanism was the LOF (Figure 3.1).

Figure 3.1: 2021 Approvals in the Finance Sector



Overall, 11 projects were approved in 2021 (Finance -7, Transportation -1, Industry and Mining -2, Health -1). The seven finance projects included LOF agreements with 4 Uzbekistan banks (US\$40mn).

Sukuks are becoming important funding mechanisms for ICD as it strives to expand Islamic finance markets by introducing a debt instrument and ensuring financial sustainability of the Corporation. The latter has highlighted the importance of fee-based revenue generation activities such as those of the Sukuk and Capital Markets (SCM) Program and other advisory services. Chapter 4 provides a special report on Sukuks as a mean to provide Islamic development financing.



Iqro Rinaldi

3.3 2021 Annual Development Effectiveness Survey Results

ICD continued to gather evidence on the contribution of ICD's partners in achieving the agreed upon development impacts and SDGs in its 2021 Annual Development Effectiveness Survey. These surveys are helping ICD to build up a comprehensive set of data about its development impact.


















The 2021 survey covered ICD's operations in banking equity, non-banking equity, Ijara (Leasing), corporate equity, LOF, direct finance, funds and advisory services. The survey response rate reached 76.5 percent.

3.3.1 Aggregate Survey Findings

Overall, the 2021 survey showed that, despite the prevalence of the pandemic, ICD continue to help its partners in achieving notable successes. Table 3.4 provides aggregate

results of the survey results based on 76% response rate. Thus, it does not represent the aggregate magnitude of ICD's impact which would be much greater. Nevertheless, it suggests that ICD continued to contribute substantially to promoting Islamic financing practices, create employment as well as helping its partners to sustain their operations and opportunities in decidedly adverse circumstances. The focus on SMEs highlights ICD's commitment to poverty reduction. One encouraging aspect was the continuing alignment of ICD's activities with the achievement of the SDGs. Close

Table 3.4 Aggregate Survey Findings

 New clients who gained access to Islamic finance	400,193	 Government Revenues Generated	US\$ 72,832,889
 People opening new Islamic finance accounts in 2021	69,101	 Community Development (grants, scholarships etc.)	US\$ 2,310,992
 Number of new clients who are Women	26,450	 Total Energy Produced	2,390,726 MW
 SMEs supported through ICD financing	4,742	 Total Patients Served	1,883,923
 Women led/managed SMEs funded	628	 Total Students Enrolled	50,311
 Jobs Sustained (of which women)	66,810 (24,376)	 Total Farmers Reached	21,631
 New Jobs Created (of which women)	7,830 (2,684)	 Total Housing Units	5,920
 Women in senior management positions	585	 Number of people trained in 2021	635
 Export Sales Generated	US\$74,491,021		

Case Study

BURKINA FASO SOFIB HUILERIE (OIL MILL)



The demand for vegetable oils is experiencing a significant increase because of growing populations in the countries of the Economic Community of West African States (ECOWAS). In Burkina Faso, the requirement for vegetable oils was estimated at 99,668 tons in 2020. The local vegetable oils consumed extensively by the populations include cottonseeds oil and peanut oil. Several private sector companies in Ouagadougou and Bobo Dioulasso produce vegetable oils and triturate (grind to a fine powder) cottonseeds for producing edible oil. The production of raw materials like cottonseeds and peanuts are also a source of income for the local population.





 Ashraful islam shimul

SOFIB HUILERIE is a Company located in Bobo Dioulasso. It is involved in the crushing of cottonseed and is considered a major player in the industry. The Company has benefited in the past from the support of the Islamic finance branch of Coris Bank International (CBI Baraka) for funding the purchase of its raw materials.

In 2020-2021, SOFIB-HUILERIE obtained funding through an ICD led Murabaha of 1.5 billion Central Africa CFA Franc (FCFA) (roughly \$2.53mn) for the acquisition of cotton seed. ICD funding will increase to 2 billion FCFA in 2021-2022 (roughly \$3.37mn). The cotton seed was acquired from local cotton companies (SOFITEX and FASO COTTON).

SOFIB HUILERIE employs sixty people and sells its products in Burkina Faso, Mali and Senegal. The output resulting from the trituration of the cottonseed are,

- Edible oil which is widely consumed by the population because it is cheaper than the imported oil.
- Cakes that are used in livestock feed.
- Brach water used in the manufacture of the household soaps.

to 79 percent of the respondents claimed that they were already or are planning to target SDGs 7,8 and 9 – the SDGs identified as ICD’s priority goals. For individual SDGs, 55 percent preferred to target SDG 9, 50 percent opted for SDG 8 and 42 percent claimed that they were or are planning to target SDG 7. Moreover, 52 percent of the respondents stated that they had Environmental, Social and Governance (ESG) policies in place. Of the 48 percent that did not, 19 percent were considering it in the short term (1-2 years) and 2 percent in the mid-term (3-5 years). However, 60 percent of the respondents reported that they did not track greenhouse gas (GHG) emissions.

The survey indicated the responding ICD’s clients were in relatively early stages of their digital transformation process.



8% were at the most advanced Stage 3 phase - Strategic positioning in the digital environment with a clear digital strategy including proper metrics which quantify the effect of digital investments in terms of winning customers, building loyalty and marketing products; simplified structures and operational models to make gains in accelerating the decision-making process, applying rapid software development approaches and having a lead role in providing financial services suited to the customer-base.



31% were at Stage 2 - Adaptation of the technological infrastructure with new technology integration and architecture redesign (cloud computing technology, outsourcing services in the cloud) and automation of processes (automated front-office processes to bring in, and build up loyalty among, customers, i.e., artificial intelligence to improve scoring, make automated and customized product proposals or provide personalized advisory services). Possible customer relationship management or client centric software.



37% of respondents were at Stage 1 – New channels (internet banking and apps for mobile devices) and products (digital wallets, near-field (NFC) technology payment solutions, applications are developed as a stand-alone project as are some digital platforms for corporate purposes.

24% did not have a single digital initiative.

3.3.2 Contributions by ICD’s Business Lines in 2021

Financial Sector Operations

Line of Finance (LOF)

As in the past, ICD’s portfolio was dominated by the LOFs in 2021. LOFs remain particularly relevant for economies with limited access to Islamic and/or affordable financing. Notable results (based on reports from 21 responding ICD clients financed through an LOF) in 2021 were,

▪ Employment



1,652 new full-time employees (of which 449 were women) in the funded SMEs



23,770 jobs (10,305 women) sustained



3,083 (1,165 women) new direct hires by the ICD partner network



488 women in senior leadership positions



95 percent have an approved policy to fairly compensate its employees

▪ Financial Output



427 SMEs funded directly



94 women led/managed SMEs funded through Islamic finance facilities



US\$298.1mn of new funding to SMEs



US\$58.7mn of goods and services purchased locally



US\$11.9mn of export sales



US\$18.3mn raised in government revenues



US\$1.6mn spent in community development

▪ Health: 1,009,400 patients served

- **Education:** 1,713 total students enrolled
- **Agriculture:** 1,123 farmers supported
- **Housing:** 115 new housing units either mortgaged or financed
- **Digital Transformation:** 57 percent at Stage 1 of digital transformation.
- **SDG Alignment:** 38 percent at the beginning of or in basic alignment with the SDG

Direct Financing

ICD has prioritized high value-added sectors where its contribution can achieve the objectives of achieving a developmental impact in the member countries, promoting Islamic finance and at the same time creating conditions for ICD to become self-sustainable.

11 partners receiving direct financing responded to the Survey. Results reported by them for 2021 were,

▪ **Employment**



6,355 jobs sustained (of which 401 were women)



285 (33 women) new direct hires



19 new opportunities for women to hold senior management positions



91 percent have an approved policy to fairly compensate its employees

▪ **Financial Output**



US\$167mn of goods and services purchased locally



US\$56.7mn of export sales



US\$22.8mn accrued in government revenues



US\$368,000 spent in community development

▪ **Digital Transformation:** 27 percent of the responding clients at Stage 1 of the digital transformation; 36% at Stage 2

▪ **SDG Alignment:** 45% at the beginning of or in basic alignment with the SDGs



Asker Ibne Firoz



Max Murtaza

Banking Equity

Provision of equity financing 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. Development results in 2021 reported by 8 responding clients in this sector included,

▪ Employment



1,800 jobs (of which 515 were held by women) sustained



175 (85 women) new direct hires



40 opportunities for women for senior lead positions



88 percent have an approved policy to fairly compensate its employees

▪ Financial Output



US\$107.1mn of goods and services purchased locally



US\$3.3mn export sales



US\$12.9mn government revenue generation


▪ *Digital Transformation:* 38 percent at Stage 1 of the digital transformation; 25 percent have reached stage 2


▪ *SDG Alignment:* 50 percent at the beginning of or in basic alignment with the SDGs.

Non-Banking Financial Institutions (NBFI)

ICD's equity investment projects provide capital to set up or strengthen NBFIs, such as Ijara (leasing), mortgage and other financial entities. The development results in 2021 reported by the 14 respondents in this sector are,


- **Employment**


 17,697 (of which 8,665 were women) full-time employees in the funded SMEs

 1,812 (665 women) new full-time employees in the funded SMEs


 356 (129 women) jobs sustained


 80 (34 women) new direct hires


 16 opportunities for women for senior lead positions


 79 percent have an approved policy to fairly compensate its employees.


- **Financial Output**


 11,074 persons gained access to Islamic Finance

 1,409 (281 women) people opened new Islamic Finance Accounts


 621 SMEs funded

 267 women led/managed SMEs funded with Islamic finance facilities

 US\$47.9mn of new funding amount provided to SMEs

 US\$25.5mn of goods and services purchased locally

 US\$531k of export sales

 US\$3.0mn accrued in government revenues



US\$163,555 spent in community development


- **Health:** 368,260 patients served
- **Digital Transformation:** 7 percent at Stage 1 of the digital transformation; 29 percent at Stage 2
- **SDG Alignment:** 36 percent at the beginning of or in basic alignment with the SDGs


Industry and Business Environmental Support (IBES) Advisory Services

IBES 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 advice to the governments of its MCs and private sector entities to help them improve their development potential and raise capital. IBES is one of four ICD advisory services. Development results in 2021 reported by the responding IBES clients include,

- **Employment**


 908 full-time employees (of which 597 were women) in the funded SMEs

 45,298 total students enrolled in education centers financed by ICD IBES partners

 635 people trained

- **Financial Output**

 250 SMEs funded

 US\$8.4mn of new funding provided to SMEs

Case Study

PAKISTAN

Power Cement Limited (PCL)



The economic activity in Pakistan has seen substantial growth that is poised to continue. The Cement industry provides a critical infrastructural input to this growth. Cement production increased by 16% to 28.6 million tons from 24.8 million tons in the past two years. The demand has come from both domestic (23.6 million tons) sources as well as exports. The industry is now operating at an 80 percent capacity utilization rate.

The Power Cement Limited (PCL) of Pakistan, a publicly trade company, is setting up an additional cement production line to expand its production capacity by 7,700 tons per day to meet the expected increase in demand. The new plant will employ European technology and will be built in collaboration with one of the leading suppliers of equipment and services to the global cement and minerals industries.

ICD is currently financing around 9% (around US\$15.1mn) of the overall cost of the PCL's expansion through a Diminishing Musharaka facility. The fund finances part of the procurement and installment of the additional production line at the existing plant site. ICD has signed a commitment of a total of US\$20mn for the project.

The new production line started commercial operations in 2020 making PCL the second largest cement producer in the Southern part of Pakistan. It is one of the most cost-

efficient plants in the industry producing very high-quality Grade 53 cement.

The PCL management has reduced emissions from the plant. The current emissions are not only lower than the standards set by Sindh Environmental Quality Standards (SEQS) but also lower than IFC (World Bank) standards. ICD and other lenders have assessed that the environmental impacts of the project activities at the pre-construction, construction and operation stages have been adequately addressed and mitigation measures have been implemented where needed.

The project will contribute to the SDG 9 - "Build resilient infrastructure, promote inclusive and sustainable industrialization". Direct employment of PCL is expected to increase from 680 to 830 in the next three years in line with SDG 8 (Decent Work & Economic Growth). The company management has also committed to increase its contribution to activities that benefit local communities, by 38.3% in the next five years.



CHAPTER 04

Sukuk – Raising Islamic Finance for Development

1.1 Overview

Sukuks are becoming increasingly important vehicles for providing Islamic financing for development. It provides a Sharia compliant alternative for conventional bonds suitable for sovereign as well as private sector borrowers (issuers) and a safe vehicle for investors. ICD is the IsDB Group Sukuk focal point providing a one-stop solution for its clients. ICD has pioneered several sukuk issuances in several MCs.

4.2 Definition

Sukuk is a Sharia compliant financial instrument. The word Sukuk is derived from the Arabic word “sakk” (singular of sukuk) which means a legal instrument such as a check or a deed. Sakk was used to reduce the risk of having to carry money during trading trips. The word cheque is said to have originated from the word Sakk.

Box 4.1: What are Sukuks?

AAOIFI (Accounting and Auditing Organization for Islamic Financing Institutions): Sukuks are

“Securities of equal denomination representing individual ownership interests in a portfolio of eligible existing or future assets or certificates of equal value representing undivided shares in the ownership of tangible assets, usufructs and services or (in the ownership of) the assets of particular projects or special investment activity.”

The Islamic Financial Services Board: Sukuks are “certificates with each sakk representing a proportional undivided ownership right in tangible assets, or a pool of predominantly tangible assets, or a business venture. These assets may be in a specific project or investment activity in accordance with Sharia rules and principles.”

The Securities Commission of Malaysia: A Sukuk is a document or certificate, which represents the value of an asset

Investment and Finance, the Financial Encyclopedia: Sukuk refers to an Islamic financial certificate representing partial ownership in a debt, property, project, business or investment.










 Azad Fahim

4.3 Rationale for Sukuks

Islamic Sharia law prohibits the practice of *riba* (charging or receiving interest). This means that traditional, interest-bearing debt instruments such as bonds are not permissible and cannot be used as investment vehicles or to raise capital for a business. However, a debt instrument is necessary in order to provide countries or businesses an alternative access to funds other than equities and to balance investment portfolios.

Sukuks provide an answer to this problem. The returns and cash flows of debt financing in Sukuk are linked to a specific tangible and identifiable asset. The issuer of a Sukuk generally sells investors a certificate, and then uses the proceeds to purchase an asset(s) in which the investor has direct ownership interest. In contrast, bonds are indirect interest-bearing debt obligations. Sukuk holders (investors) are entitled to share in the revenues generated by the Sukuk assets and to share in the proceeds of the realization of the Sukuk assets. One similarity between the two instruments is that Sukuk and bonds are intended to provide investment vehicles with less risk than equities and are often used to balance a portfolio of investment instruments (Table 4.1).

Table 4.1: Bonds and Sukuks

	Bonds	Sukuks
 Nature	Debt of issuer	Not a debt of issuer but undivided ownership share in specific assets / projects / services
 Underlying Assets	Generally, not required	A minimum percentage of tangible assets (or their contracts are required to support receivable payments)
 Claims	Creditors, claims on the borrowing entity, and in some cases liens on assets	Ownership claims on the specific underlying assets/projects/services
 Security	Generally unsecured debentures except in cases such as first mortgage bonds, equipment trust certificates	Investors have ownership rights in the underlying assets or projects in addition to any additional collateral enhancements structured
 Principal and Return	Fixed income	Fixed income
 Purpose	Can be issued for any purpose	Must be issued only for Islamically permissible (halal) purposes
 Trading of Security	Sale of a debt instrument	Sale of an ownership interest in a specific assets/projects/services

Sukuks can be based on the different forms of Islamic contracts depending on the project or the entity being financed. The AAOIFI identifies 14 different types of sukuk ranging from Sukuk Murabaha (based on debt), Sukuk Al-Ijara (assets), Sukuk Al-Salam (asset at a future date) to Sukuk Al-Istisna (project). The most commonly used structures by the IsDB Group are the Sukuk al-Ijara. Sukuk Al-Ijara is generally a rental or lease contract, where the borrower's tangible asset is 'sold' to the investor and then 'leased' back to the borrowers. The borrowers then make regular payments back to the investors from the income stream generated by the asset.

The most common uses of Sukuk are,



Project-specific sukuk – funds are raised for a specific project




Asset-specific projects – resources are mobilized by selling the beneficiary right of the assets to the investors



Balance Sheet-specific Sukuk – funds raised by a n institution to finance various projects in the MCs.

The most common Sukuk transaction form is that of a trust certificate. The organization raising funds issuer) first creates a Special Purpose Vehicle (SPV). The SPV then issues trust certificates to investors in return for their investments. The investment proceeds are provided to the issuer based on a funding agreement. The investors earn a portion of the profits linked to the asset. Trust certificates based Sukuks are valid if only the SPV is created in a jurisdiction that allows such trusts. If an SPV and trust certificates can't be created, a Sukuk can be structured as an alternative civil-law structure. In this scenario, an asset-leasing company is created in the country of origin, effectively purchasing the asset and leasing it back to the organization in need of financing.




 Badal Chandra Sarker

4.4 The Developmental Benefits of Sukuks

Sukuks are capable of achieving human well-being and sustainable development by helping to achieve the goals and objectives of the Sharia (Maqasid Al-Sharia) regarding the preservation of wealth (Hifz al-Mal). In Sharia jurisprudence opinions, the concept of preservation of wealth can go beyond its literal meaning to encompass the generation, accumulation, preservation and distribution of wealth in a just and fair manner. This can include promoting social justice and social well-being with the distribution of wealth through appropriate investment vehicles like Sukuks.

A Sukuk assures the generation of income for the savings of investors. This gives an opportunity to the Muslim investors, in particular, to participate in projects without taking excessive equity risks. It also provides the issuers (of Sukuks) a mechanism for raising capital directly from the capital markets giving them opportunities to benefit from access to Sharia compliant financial and investment channels to promote economic and social development.

Sukuks can serve sustainable development goals. It can provide Islamic financing for the issuers (of the Sukuk), including governments, corporations, SMEs, and international development financing organizations. For example, governments can use these funds for development projects such as building roads, hospitals, and critical infrastructural facilities. These projects can result in large job creation opportunities and other benefits leading to direct poverty alleviation and an improvement in delivery of social services.

 *A Sukuk assures the generation of income for the savings of investors. This gives an opportunity to the Muslim investors, in particular, to participate in projects without taking excessive equity risks.*

Sukuk can provide some specific development benefits,



Financing large projects: Sukuks are ideally suited to financing large public goods projects such as infrastructure and social services (education and health). These projects are normally undertaken by governments. Sukuks can provide access to funding for these entities without incurring interest-bearing debt.



Secondary markets: There is a secondary market for Sukuks where investors can sell their securities and obtain the cost of their certificates.



Management of risk: The value and risk of sukuk is generally related to real assets with provable, tangible value. This makes them a valuable part an investor's risk management profile.

Empirical studies have concluded that Sukuk market development is conducive to economic growth, even after controlling for various measures of financial market development, institutional quality, and other determinants of economic growth. This is because the development of Sukuk markets can promote financial inclusion by offering a Sharia compliant investment vehicle that can raise funds for investment and economic growth. This means that developing Muslim countries can benefit from the sukuk market development in the long term.

Finally, the SDGs are consistent with the spirit of Maqasid Al-Sharia. The achievement of the SDGs will require the raising the significant amount of funds well beyond the capacity of the official international development community (including national governments in developing countries and bilateral

and multilateral international donors). It will need active solicitation of and participation from the private sector investors. Sukuks offer the possibility of raising funds from a relatively untapped Islamic financing source and can be useful in meeting the SDG funding gap. The prohibition of investments into non-Sharia compliant industries allow, in theory, much of the proceeds from Sukuk to be allocated to prominent SDG themes like education, health and infrastructure development. Similarly, Sustainability and Green Sukuks have become popular investment platforms. Projects funded by Green Sukuks include clean energy, mass transit, water conservation, forestry and low-carbon technologies. In principle, Green Sukuks can be used for the same purposes as a green bond for the purpose of the SDGs. As Islamic finance evolves, innovative products such as Green Sukuks represent a new class of products with a positive impact on the achievement of the SDGs. The United Kingdom Islamic Finance Council estimates that an additional US\$30-50bn of capital towards the SDGs can be raised by 2025 through Green and Sustainability Sukuks.

4.5 The Global Market for Sukuks

Sukuk can play an important part in the development of an Islamic market and banking system. It is a way to channel the growing global pool of Sharia-compliant capital to promote sustainable and equitable economic development.

The first Sukuk transaction is said to have taken place in the Great Mosque in Damascus in the 7th century AD. Muslim traders are known to have used the cheque or *Sakk* system since the time of Harun al-Rashid (9th century) of the Abbasid Caliphate. In modern times, the Fiqh academy of the OIC allowed the use of sukuk in February 1988. One of the first contemporary sukuk, worth RM125 million, was placed in 1990 by a Malaysian company – Shell MDS Sdn Bhd. Bahrain followed suit in 2001.

The global sukuk market has grown rapidly with the value of issuances reaching approximately US\$77.1 billion in 2016. *The State of the Global Islamic Economy Report 2020/21* estimates that the value of Islamic finance assets in 2019 was US\$2.88 trillion and is expected to reach US\$3.69 trillion by 2024. It is anticipated that the Sukuk market will play a major role in this growth.

According to Fitch Ratings, Sukuk volumes in 2022 are expected to grow and remain a key financing source in core Islamic finance markets. The growth will be triggered by strong Islamic investor appetite, funding diversification goals of both Islamic and non-Islamic investors, and Islamic-finance development agendas in a number of MCs. Potential downside risk elements include AAOIFI-compliance complexities, and traditional risks such as interest-rate rise, lower global investor appetite for emerging-market debt, and political risk.

Fitch Ratings also report that total Sukuk issued grew to US\$252.3bn in 2021. Central banks, governments and multilateral institutions dominated issuance with local-currency denominated Sukuks accounting for 80% of the issuances. The Gulf Cooperation Council (GCC), Malaysia, Indonesia, Turkey and Pakistan issued US\$230.2bn of Sukuks in 2021. Non-core market sovereigns such as the UK, Maldives and Nigeria also issued Sukuks. Global outstanding Sukuks reached US\$711.3bn in 2021, 12.7% higher than a year ago. Green and Sustainability Sukuk volumes expanded to US\$15bn. The Securities Commission of Malaysia has established a responsible investment Sukuk framework that regulates the use of the Sukuk proceeds. In 2015, Khazanah Nasional, the strategic investment fund of the Government of Malaysia, offered Malaysia's first responsible investment Sukuk valued at RM100 million (US\$25.39mn).

The liquidity in the Islamic financial markets, particularly in the Middle East and Asia, will likely be a key driver of global Sukuk issuances. In addition, Sukuk offerings are being increasingly viewed by some European and US institutional investors as an alternative way to diversify their portfolios and achieve higher returns through investment in the fast-growing emerging markets of Southeast Asia, the Middle East and North Africa. The increasing breadth and depth of the global sukuk market is also demonstrated by its ability to provide longer term financing. In terms of structures,

the market has seen a shift towards hybrid models to provide more flexibility with respect to the types of assets that can be used. These structures, for example, often offer the additional advantage of allowing a commodity Murabaha transaction to form part of the underlying asset base, up to a predetermined maximum percentage of the total asset value, rather than requiring the market value of unencumbered tangible assets to equal or exceed, the principal amount of the sukuk being issued.

Historically, sovereigns or government-related entities have issued a high percentage of international sukuk issuances with an explicit or implicit sovereign guarantee. However, as the sukuk market continues to mature and become more sophisticated, commercial enterprises are also accessing the sukuk market. As early as October 2013, Majid al Futtaim, the owner and operator of several of Dubai’s largest and most successful shopping malls, issued a US\$400mn Sukuk. It is likely that there will be more sukuk issuances from multinational corporations, especially those with significant operations in the Muslim world.

The sukuk market is now a significant source of capital for many companies and sovereign issuers in Southeast Asia and the Middle East – regions with fast growing Muslim populations. Sukuk issuances have also been gaining momentum in Africa, as African nations have turned to Sukuk issuances as a means of sustaining economic growth and increasing liquidity. The Ivory Coast issued a five year 150 billion CFA Francs (US\$2.63bn) Sukuk in 2015. Togo issued a ten-year debut Sukuk worth CFA 150 billion (US\$2.63bn) in 2016.

Governments, especially in OIC countries, have been keen to strengthen Islamic financing, and this past year has seen many initiatives and measures to drive the sector forward, from issuing Islamic banking licenses to amending regulations. Islamic banks in MCs can potentially use Sukuks as a development financing instrument. More recently, the Government of Indonesia issued Wakalah (agency) global Sukuks at a total value of US\$2.5bnto fund economic and social development of the country – one of them is a five-year green Sukuk worth US\$750mn.



4.6 ICD and Sukuks

Two of the major priorities of the IsDB Group are to contribute to the development of its MCs and to promote the growth of Islamic financial markets and practices. Sukuks serve both of these purposes. The IsDB Group issues Sukuks to mobilize resources to finance specific projects in sectors such as infrastructure and agriculture that will help reduce poverty in its MCs. For example, funds from a Sukuk issuance can help the rebuild badly needed infrastructure, such as power plants, highways, roads, hospitals, schools, and educational institutions. The Sukuks mobilize surplus funds from individuals or institutions to invest for the benefit of all (Hifz Al-Mal). Global investors are now looking at Sukuk as a tool for diversifying their portfolio that would allow them fixed returns with capital guarantees.

4.6.1. The ICD Sukuk and Capital Markets (SCM) Program

The SCM at ICD is the IsDB Group Sukuk focal point providing a one-stop solution for group wide offerings including Sukuk advisory services, structuring and placement, forming consortium of insurers and contributing to capacity building and capital market development in the MCs. The Corporation is also the major Sukuk platform for the IsDB Group primary issuances. ICD was chosen for this role because of its past experience in debut Sukuk issuances in seven MCs underwriting and arranging high grade corporate Sukuk issuances. ICD has strong relationships with governmental and regulatory bodies in the MCs as well as with Sovereign Wealth Funds and multinational investment management agencies and corporations. ICD has developed its internal Sukuk advisory capabilities in order to respond to increasing demand from the MCs planning to fund their infrastructure through debt instruments.

ICD's Sukuk Advisory Division, established in 2014, facilitates the development of Islamic capital and debt money markets by assisting in the issuance of Sukuk in the international Islamic capital markets and in supplementing conventional

treasury bills with short-term Sukuks to allow Islamic banks access to liquidity instruments. Building upon the group's accumulated experience in Islamic debt issuance, the Division assists MCs to tap the international Islamic capital market through the issuance of governmental and corporate Sukuks. This process also helps expand the reach and scope of the Islamic financial markets. Sukuks have allowed Central Banks in the MCs to access excess liquidity typically found in newly established Islamic Banks and Islamic Banking Windows.

Specific services provided by the Sukuk Advisory Team includes business modelling, designing and implementing Sharia-compliant public-private partnerships. The Advisory team works in many sectors including infrastructure, banking, capital markets, regulatory and government matters. In doing so, it leverages the services of other IsDB Group entities to reach out to potential partnerships in the MCs. The Team has been involved in high-profile corporate transactions and has played a major advisory role in helping establish sukuk laws and regulations in the MCs. It has helped raise US\$21bn in funds for both corporates and sovereign issuers, demonstrating its strong placement and distribution capabilities. In 2020, ICD made its debut on the Bloomberg's international Sukuk issuance league table (in the eighth position).

4.6.2 Development Benefits

The development benefits of the ICD issued Sukuks derive from the ways the proceeds are utilized.

Sukuks under the Sustainable Finance Framework (SFF) of the IsDB

All of the IsDB sukuks have so far been issued under the Bank Group's 2019 Sustainable Finance Framework (SFF). The Bank is committed to achieving the UN SDGs consistent with the specific development needs of its MCs. The Bank Group regards Sukuks as a potentially important avenue to finance sustainable investments.

The SFF was created to guide Islamic finance products for sustainable development. The operations of the SFF are in accordance with Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines. The issuance of Sukuk under the SFF enables the Bank to diversify its sources of funding, while enhancing IsDB's sustainability profile as well as helping the Bank to continue to deliver environmentally sustainable growth in a socially responsible and transparent manner. An added benefit was that the issuance of the Sukuks will help promote the growth of the Islamic financial markets. The target investor group for the SFF are the socially responsible and the environmentally conscious investors across the globe interested in financing the achievement of the SDGs in the MCs.

IsDB Group can issue two types of Sukuk under the SFF,

1. **Green Sukuk** – Funds raised are exclusively allocated to Green Projects including renewable energy, clean transportation, energy efficiency, pollution prevention and control, environmentally sustainable management of natural living resources and land use, sustainable water and wastewater management
2. **Sustainability Sukuk** – Funds raised are allocated to Green Projects Categories and to Social Projects Categories. Social project sectors include employment generation/SME financing, affordable housing, affordable basic infrastructure, access to essential services, socioeconomic advancement and empowerment. Sukuks, whose proceeds will be targeted to social projects only, will be classified as Sustainability Sukuks given the integration of climate risk in the project selection process under the SFF.



An added benefit was that the issuance of the Sukuks will help promote the growth of the Islamic financial markets. The target investor group for the SFF are the socially responsible and the environmentally conscious investors across the globe interested in financing the achievement of the SDGs in the MCs.

Table 4.2 provides a summary description of the Sukuks issued under the SFF to date.

- In November 2019, IsDB issued its debut Sukuk under the SFF in the form of a Eur 1 billion Green Sukuk. The Joint Lead Managers and Joint Bookrunners for this issuance were Citi, First Abu Dhabi Bank, HSBC, Landesbank Baden-Württemberg, Natixis, Société Générale, Warba Bank, and Standard Chartered Bank.
- In 2020, IsDB raised US\$1.5bn with its first-ever Sustainability Sukuk to help its MCs to adapt to and mitigate the impacts of the COVID-19 pandemic in its MCs. The Bank successfully priced the 5-year Trust Certificates under its US\$25bn Trust Certificate Issuance Program. The Joint Lead Managers and Joint Bookrunners for this issuance are Citi, Credit Agricole CIB, Emirates NBD, GIB Capital, HSBC, ICD, NATIXIS, Société Générale CIB and Standard Chartered Bank. Kuwait International Bank was the co-manager.
- In 2021, the Bank issued a US\$2.5bn sustainability sukuk – its largest Sukuk issuance to date. Citi, HSBC, Goldman Sachs, Natixis, Societe Generale, Standard Chartered Bank and Warba Bank were mandated as joint lead managers and bookrunners.

Column 3 in Table 4.2 describes the expected development benefits from these Sukuks. They are a blend of social development and the promotion of a green economy. IsDB is helping to fund critically needed resources at low cost for its MCs in order to finance a green and resilient recovery from the pandemic. So far, the Bank Sukuks have received a warm reception from the global investor community reaffirming its credibility as an international development institution.



 Apu Das

Table 4.2 IsDB Sukuks

Issuer	Date	Nature and Amount	Expected Use of Proceeds
Islamic Development Bank	28 November 2019	Debut Green Sukuk Eur 1bn in 5-year Trust Certificates under its US\$25bn Trust Certificate Issuance Programme.	Fund a range of climate-change and green projects under the SFF. These include projects for renewable energy, clean transportation, energy efficiency, pollution prevention and control, environmentally sustainable management of natural living resources and land use and sustainable water and wastewater management.
Islamic Development Bank	19 June 2020	Debut Sustainability Sukuk. US\$1.5bn	One of many initiatives in IsDB's wide-ranging response to COVID-19 concentrating on the 3Rs – Respond, Restore and Restart – framework in its MCs. Proceeds will be used to fund social projects under the SFF, with a focus on access to essential services and SME financing and employment generation consistent with achieving SDG3 (Good Health and Well-Being) and SDG8 (Decent Work and Economic Growth) in order to adapt to and mitigate the impacts of the COVID-19 pandemic.
Islamic Development Bank	24 March 2021	Sustainability Sukuk US\$2.5bn under IsDB's US\$25bn Trust Certificate Issuance Programme	90% of the proceeds will finance or refinance social development projects that are eligible under the SFF. The remaining 10% will be allocated towards financing or refinancing green projects.






Pioneering Sukuk issuances in Africa

ICD’s Sukuk Advisory Division successfully advised Senegal on its debut Islamic Sakk in 2014. It was a landmark transaction, being the first ever African Sovereign Sukuk (table 4.3). Since then, ICD has participated in the issuance of 10 sukus in its African MCs. For six countries, these Sukuks marked the “debut” of this type of financial instrument and allowed them to tap into previously unutilized or underutilized investor bases. These Sukuks amounting to USD1.3 billion were also listed in the Regional Stock Exchange (BRVM) of the West African Economic and Monetary Union (WAEMU). ICD had played a significant role in assisting the development of the legal framework in the WAEMU, which made the above

transactions possible. Most of the Sukuks were Ijara based with those in the Maldives being the only exception (using the Wakala model).

The Jordan sukuk in 2016 represented the first time a domestic medium-term Sukuk was issued for liquidity management of the local Islamic banks. This Sukuk was issued in partnership with Japan International Cooperation Agency (JICA). ICD and JICA provided a comprehensive joint technical assistance (TA) package including capacity-building training for government employees involved in the Sukuk issuance. This sovereign issuance was of great significance to Jordan’s four Islamic banks as it gave them a badly needed tool to manage their excess liquidity.

Table 4.3: ICD Sukuk Transactions in Africa

Country	Date	Nature and Amount	Use of Proceeds	ICD’s Role
 Republic of Senegal	2014	Sovereign, Ijara CFA100bn	Development Projects	Co-Lead Advisor, Lead broker
 Ivory Coast	2015	Sovereign, Amortized Ijara CFA150bn	Economic and Social Development Projects	Lead Manager
 Republic of Togo	2016	Sovereign, Amortized Ijara CFA156bn.	Development Projects	Lead Arranger
 Republic of Senegal	2016	Sovereign, Amortized Ijara CFA200bn.	Development Projects	Lead Arranger
 Ivory Coast	2016	Sovereign, Amortized Ijara CFA160bn	Development Projects	Lead Arranger
 Jordan	2016	Sovereign, Amortized Ijara JOD34mn	Development Projects	Advisor to the Issuer
 Mali	2018	Sovereign, Amortized Ijara US\$86.6mn	Development Projects	Lead Arranger
 Republic of the Maldives	2021	Sovereign, Wakala US\$200mn.	Refinancing	Global Co-Ordinator, Lead Arranger, and Bookrunner
 Republic of the Maldives	2021	Sovereign, Wakala US\$100mn.	Addressing budget deficits and for developmental purposes.	Global Co-Ordinator, Lead Arranger, and Bookrunner
 Republic of the Maldives	2021	Sovereign, Wakala US\$200mn.	Addressing budget deficit and for developmental purposes.	Global Co-Ordinator, Lead Arranger, and Bookrunner

The prospectuses from most of these Sukuks indicate that the proceeds would be used for funding development projects by the sovereign issuer (the government) leaving to their discretion as to which specific projects were to be financed. The 2016 Government of Senegal Sukuk indicated that the projects would include the establishment of the Diamniadio Economic Zone, and the Government of Mali was to use part of their proceeds for construction of approximately 4915 social housing units including 1,250 new units. The other use of the Sukuk funds were for refinancing to reduce debt stress in the Maldives in order to create financial space for the country to address its immediate pandemic related priorities.

The ICD SCM Program has received numerous accolades for its Sukuk advisory services. These include,

- IFN Africa’s Deal of the year in 2014 for the Senegal Sukuk
- IFN Africa’s Deal of the year in 2015 for the Ivory Coast Sukuk
- IFN Sovereign Deal of the year 2016 for the Hashemite Kingdom of Jordan domestic medium-term debut Sukuk
- JICA’s President Award in 2017 for the work done in the Kingdom of Jordan Sukuk.



 Ar Ehfaz

Case Study

LIBYA

Libya - Workshop on Local Currency Denominated Sukuk in partnership with the Libyan Stock Market



The Libyan Stock Market (LSM) was established as a joint stock company in June 3, 2006, to grow the domestic financial market by expanding investment opportunities and the investor base. The initial focus of the LSM was on setting financial definitions and rules. LSM has collaborative agreements with the Amman Stock Exchange, the Alexandria Stock Exchange and the Egyptian Company for Clearance and deposit. A cooperation agreement was also signed between the LSM and the London Stock Exchange to provide training to the LSM staff to enable them to manage the stock market.

The LSM has the potential to become an important financial institution for Libya given its fragile economic condition and the recent deterioration of its fiscal and current account balance caused by the COVID-19 pandemic and the volatile oil market. It has become vitally important for Libya at this time to increase its liquidity by accessing alternative financing sources.

In July 2021, ICD signed a Memorandum of Understanding (MoU) with the LSM to explore the possibility of setting up a local Sukuk program to increase access to Islamic financing in Libya. The first step was a virtual workshop on local currency denominated Sukuk in September 2021. The objective of the workshop was to support and assist the LSM to find an Islamic alternative to treasury bills to manage market liquidity and to expand the knowledge of Islamic financial instruments in Libya. The workshop provided a comprehensive view of the Islamic financial industry and money markets. The ICD

Sukuk team presented an overview of Islamic financing, Islamic money and capital markets, and an introduction to IsDB & ICD Sukuk advisory services. The Team highlighted ICD solutions for developing local sukuk markets, sukuk structures (such as Ijara, Wakala, Murabaha), criteria for selection of Sukuk assets, pricing, local auctions, and steps for issuance. A detailed case study on the ICD led Jordan Sukuk was showcased.

The expected result of the workshop is to encourage the LSM to develop alternative Shariah compliant Islamic financing tools that extend its reach to an untapped client base. Sukuk can play an important role in the development of an Islamic market and banking system in Libya. In particular, the workshop will help financial institutions explore alternative financing facilities for large projects and new avenues for expanding its investor base.

4.7 The Future of Sukuks


While COVID-19 had decreased Sukuk issuances, improved industry regulations, the emergence of new investors and the growing popularity of Sharia compliant development investments are promising signs that the issuances will rebound. Section 4.5 suggests the value of Islamic assets are set to grow significantly in the near future and Sukuks are likely to be one of the major instruments within it. Strong Islamic investor appetite, funding diversification goals of both Islamic and non-Islamic investors, and Islamic-finance development agendas in a number of MCs are major reasons for this positive outlook.

The use of financial technology (fintech) in Sukuks has been increasing, including digitalization and issuance of fintech related Sukuks. Increasing cross-border collaboration among key players including development finance institutions and the private sector are leading to diverse types and increased size of investments.

ICD plans to continue the growth momentum for its fixed income products like Sukuk. It has seen an increasing demand from sovereign and corporate borrowers who were willing to explore Islamic financing methods such as Sukuk. ICD has also introduced Sukuks in emerging and frontier markets in Africa and Central Asia. It hopes to attract private companies to the market as well. It is in the process of setting up a tracking mechanism to gather data on the developmental impacts of its Sukuks.

Nevertheless, there are challenges. These include low levels of awareness and understanding of Islamic finance products and services and the need for increased regulatory clarity and harmonization regarding Islamic financing products among national and international, and Islamic and conventional financial markets. ICD could play a very important leadership role using its network of MCs and multilateral development banks in collaboratively increasing awareness and arriving at a common regulatory framework for the Sukuk markets.



 Utsab ahamed

Case Study

MALDIVES

Easing Liquidity Pressures for the Maldives



The Maldives' economy has been hit hard in the past year, as the pandemic badly hurt the tourism industry, which accounts for more than 28% of its GDP. Fitch downgraded the country's rating to CCC in November 2020, saying at the time that the Maldives was under external liquidity pressure. The final downgrade came in August 2021 when Moody's gave the sovereign a rating of Caa1.

In 2021, ICD advised the Maldives to set up a US\$1.0bn Sukuk Program as a way of raising funds from the Islamic financing markets to alleviate the liquidity pressure.

In April 2021, Maldives issued a US\$200mn, 9.875% coupon five-year sukuk to fund a tender offer for its outstanding US\$250mn 7% July 2022 bonds. ICD acted as Global Co-Ordinator, Lead Arranger, and Bookrunner. The Sukuk received orders over US\$370mn with the Middle Eastern and African buyers taking up almost 49% of the offer. The proceeds were used to fund a tender offer for the US\$250mn conventional bonds by the government. Eventually, the government accepted to purchase bonds worth US\$191.9mn (76.79% of the outstanding amount). This reduced the liquidity pressure.

In late April 2021, ICD successfully closed a US\$100mn tap sale ("1st tap") for Maldives. The Country also managed to raise another \$200mn from sukuk tap. Deal statistics show the issue was oversubscribed three times over, with investors from pension funds, banks, hedge funds, and asset managers from America, Europe, Nordic countries, Asia, and the GCC. The investor buy-in was a vote of confidence for the Maldives and its efforts to manage the effects of the pandemic. ICD was Global Co-Ordinator, Lead Arranger, and Bookrunner for these Sukuks as well.

The funds obtained from the Sukuk issuances led to an upgrade in the Maldives credit ratings from CCC to a B- in October 2021.



CHAPTER 05

The Post-Pandemic Phase – Regaining the Development Momentum

5.1 Overview

The major development challenges in the post-Covid phase will center around the continuing pandemic and addressing corresponding emerging issues like inflationary pressures and financial sustainability. The adjustment paths for the ICD MCs will be different depending on their ability to access vaccinations, deal with the socio-economic impacts and manage debt stresses. ICD is well positioned to work with its partners to contribute to their recovery process. In particular, its renewed emphasis on Sukuk issuances will help alleviate the debt stress of its MCs and provide the ICD access to Sharia compliant Islamic financing.

5.2 The Post-Pandemic Phase – Challenges Facing ICD MCs

Forecasts suggest that the global economic recovery will continue in 2022 but at a slower pace than in 2021 amid high uncertainty about the Covid variants and persistent supply chain disruptions. Increases in inflation have been higher than expected in the developed economies and financial markets remain volatile amidst heightened geopolitical tensions.

For the developing World including the ICD MCs, three general priorities have emerged.

- 1. Adapting to and mitigating the effects of the pandemic** – The best defence is to ensure that countries have equitable access to a comprehensive COVID-19 toolkit with vaccines, tests and treatments. This will require more investments in vaccines, health systems, and disease surveillance. Many MCs will need external assistance to achieve these objectives.

The MCs will also need to address the adverse socio-economic impacts of the pandemic. For example, school closures have been especially acute threatening to compound the inequality in and among countries with the World Economic Forum suggesting that 1.6 billion children were out of school. Scaling up social spending, reinvigorating the educational systems will help economies to get back on track and build resilience for future health and economic challenges.

- 2. Dealing with inflation** – Inflationary pressure have been building in many countries caused by fiscal expenditures to offset the impacts of COVID-19 and supply chain issues. Some advanced economies and EMDEs have already been forced to raise interest rates in an attempt to curb inflation. As financial conditions tighten, especially in advanced economies, the MCs must be ready for potential capital flow reversals. To prepare for this, MC borrowers should extend debt maturities where possible now and limit increases in foreign currency debts.

- 3. Focus on Financial Sustainability** – Extraordinarily expansionary fiscal policies during the pandemic helped prevent an economic meltdown, but they also pushed up debt levels. The largest one-year debt surge since the second world war occurred in 2020 with global public and private debt rising to a combined level of US\$226 trillion. These debt levels will have to be rationalized. For the developed countries this means ensuring continued support for health systems and the most vulnerable while reducing deficits and debt levels. However, many MCs will face far more difficult trade-offs given weaker economic recoveries during 2021. These economies will need to mobilize more domestic resources, get greater access to external grants and concessional financing, and immediate help to deal with debt.


The outlooks vary between regions. Access to vaccination is a common priority. However, the ability to invest in health systems and in renewing socio-economic development will be different. Asian MCs in EAP and SAR will likely fare better given faster projected growth rates. The resurgence of oil prices has brightened the prospects for the MENA countries although the fragility in region will hamper recovery. The ECA MCs will experience a slower economic growth and hence will require assistance to address their challenges. For SSA, the expected economic growth rate will not be sufficient to reverse increases in poverty and losses in per capita income experienced during the pandemic. The key risks for all regions are slow pace of vaccination leading to an anemic recovery of domestic demand, heightened debt-stress, vulnerabilities to climate change, poverty, food insecurity, and violence.

5.3 ICD's Role – Helping Regain the Growth Momentum

ICD MCs will experience uneven recovery paths based on their ability to adapt to and mitigate the impacts of COVID-19. Resolving private sector development challenges in many MCs including access to affordable finance, sustainable infrastructure, and inadequate institutional and regulatory frameworks will be critical to their recovery process. ICD and other external partners can support national efforts by strengthening global cooperation to provide rapid and equitable vaccine distribution, enhancing debt sustainability abilities in the poorest countries and supporting growth-enhancing policy interventions to promote green, resilient, and inclusive development.

ICD's 2022-2024 business plan will continue to concentrate its activities in core competency areas of contributing to inclusive human capital development, enhancing green economic growth and building sustainable infrastructure consistent with the IsDB's Strategy 2025, and its own ten-year strategy.

ICD can play an important role in addressing the debt stress challenges by providing advisory services including sovereign and private sector debt sustainability analyses as well as helping the MCs strategize on debt sustainability approaches including supporting capacity development in public debt management to mitigate debt vulnerabilities, provide suitable tools to analyze debt developments and risks and promote efficient resolution of debt crises.



ICD plans to continue the growth momentum for its fixed income products like Sukuk. There are challenges like low levels of awareness about Islamic finance products and services and the need for increased regulatory clarity and harmonization. ICD could play a very important leadership role using its network of MCs and multilateral development banks in collaboratively addressing these challenges.

Sukuks can become, and actually is, an important Islamic financing vehicle for alleviating debt pressures in the debt-stressed MCs. It provides a Shariah-compliant alternative for conventional bonds suitable for sovereign as well as private sector borrowers (issuers) and a safe vehicle for investors. Sukuks can also contribute to sustainable development by helping to achieve the goals and objectives of the Sharia and promoting social justice and social well-being.

ICD is the focal point for IsDB for Sukuks Advisory Services and has pioneered their issuance at IsDB and in several African MCs. ICD plans to continue the growth momentum for its fixed income products like Sukuk. There are challenges like low levels of awareness about Islamic finance products and services and the need for increased regulatory clarity and harmonization. ICD could play a very important leadership role using its network of MCs and multilateral development banks in collaboratively addressing these challenges.



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