1. **Portfolio**

Type of financing since inception:
- 31% Term Finance
- 24% Line of Finance
- 13% Corporate Finance
- 12% Institutional Equity
- 11% Fund
- 9% Corporate Equity

Mode of financing since inception:
- 36% Equity
- 31% Murabaha
- 22% Leasing
- 6% Instal. Sale
- 4% Istisna’a

2. **Approved Projects**

Map of approved projects since inception:
- Sub-Saharan Africa: 17%
- Middle East & North Africa: 40%
- Europe & Central Asia: 19%
- Asia: 13%
- Global and Regional: 11%

By sector:
- 46% Finance
- 24% Industry & Mining
- 10% Real Estate
- 5% Health & Other Social Services
- 4% Information & Communication
- 3% Transportation
- 3% Trade
- 3% Agriculture
- 1% Energy
- 1% Education
SINCE ITS INCEPTION
ICD CHANNELED ABOUT
$3.4 BILLION TO THE PRIVATE SECTOR

Project Highlights

**Rahimafrooz Globatt Limited**
*Bangladesh*
ICD provided financial support to set up an export-oriented state of the art automotive battery plant.

**The Jordanian Pharmaceutical Manufacturing (JPM) Co. (PLC)**
*Hashemite Kingdom of Jordan*
ICD is an equity partner in this project to meet the increasing demand for medicine in Jordan and the region.

**Islamic Bank of Senegal**
*Senegal*
ICD, through Tamweel Africa Holding, is one of the main shareholders of the Bank that supports Senegalese SME clients.

**Maldives Islamic Bank**
*Maldives*
ICD had provided technical and advisory support at the initial stage of the establishment of the bank intended to provide Islamic Banking services.

**The Afriland First Bank Project**
*Cameroon*
ICD through its Islamic Financial Institution Program provided advisory services to help launch an Islamic Banking Platform.

**The Islamic Finance Development Indicator (IFDI)**
*in collaboration with Thomson Reuters*
The IFDI is a numerical indicator measuring the overall status and growth of the Islamic finance industry worldwide.

Client Survey Results in 1434H

Results from 54% of ICD’s active portfolio.

- **Brought in**
  - $190 million net inflow of foreign exchange

- **$96 million** of additional investments were received as a result of the ICD’s involvement in the projects

- **40,000 persons** employed
  - **13,600** of whom are women

- **278 medium and small enterprises** supported

- **$100 million** generated in new government revenues for the member countries

- **$120 million** worth of domestic goods purchased
### Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ADER</td>
<td>Annual Development Effectiveness Report</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<tr>
<td>DIMS</td>
<td>Development Indicators Monitoring System</td>
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<tr>
<td>DFI</td>
<td>Development Finance Institution</td>
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<tr>
<td>ECA</td>
<td>Europe and Central Asia</td>
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<tr>
<td>GOED</td>
<td>Group Operations Evaluation Department</td>
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<td>HIC</td>
<td>High Income Country</td>
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<tr>
<td>IC</td>
<td>Investment Committee</td>
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<td>ICD</td>
<td>Islamic Corporation for the Development of the Private Sector</td>
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<tr>
<td>IsDB</td>
<td>Islamic Development Bank</td>
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<tr>
<td>IF</td>
<td>Islamic Finance</td>
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<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
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<tr>
<td>IFDI</td>
<td>Islamic Finance Development Indicator</td>
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<tr>
<td>IFI</td>
<td>International Financial Institution</td>
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<tr>
<td>IFTDP</td>
<td>Islamic Finance Talent Development Program</td>
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<tr>
<td>JPM</td>
<td>Jordanian Pharmaceutical Manufacturing</td>
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<tr>
<td>LIC</td>
<td>Low Income Country</td>
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<tr>
<td>LMIC</td>
<td>Lower Middle-income Country</td>
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<tr>
<td>LOF</td>
<td>Line of Finance</td>
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<tr>
<td>MDB-ECG</td>
<td>Multilateral Development Banks – Evaluation Cooperation Group</td>
</tr>
<tr>
<td>MDG</td>
<td>Millennium Development Goals</td>
</tr>
<tr>
<td>MENA</td>
<td>Middle East and North Africa</td>
</tr>
<tr>
<td>MIB</td>
<td>Maldives Islamic Bank</td>
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<tr>
<td>MOU</td>
<td>Memorandum of Understanding</td>
</tr>
<tr>
<td>PSD</td>
<td>Private Sector Development</td>
</tr>
<tr>
<td>RBL</td>
<td>Rahimafrooz Batteries Limited</td>
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<tr>
<td>RBM</td>
<td>Results-based Management</td>
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<tr>
<td>SSA</td>
<td>Sub-Saharan Africa</td>
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<td>SDG</td>
<td>Sustainable Development Goals</td>
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<tr>
<td>SHS</td>
<td>Senegal Handling Services</td>
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<tr>
<td>SME</td>
<td>Small and medium sized enterprises</td>
</tr>
<tr>
<td>UMIC</td>
<td>Upper Middle-income Country</td>
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<tr>
<td>XPSR</td>
<td>Expanded Project Supervision Report</td>
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Message from the CEO

IN THE NAME OF ALLAH, THE BENEFICIENT, THE MERCIFUL

I am very pleased to present the Islamic Corporation for the Development of the Private Sector’s (ICD) first Annual Development Effectiveness Report (ADER) for the year 1435H/2014G. The main purpose of the ADER is to inform member countries, partners and other stakeholders of ICD’s development achievements and the internal systems and processes that help in monitoring and evaluating achievements towards our targeted development goals. Our aim is that the ADER will now become an annual publication that will serve to enhance transparency, accountability and learning at the Corporation.

Achieving development effectiveness is fundamental to ICD’s work as a Development Finance Institution (DFI). Out of a total estimated population of 1.7 billion people in our member countries, about 600 million people are living under the poverty line. It is imperative that the development partnership comprising of the governments, the private sectors, civil society organizations, and the international financial institutions (IFIs) such as the ICD work together to get the best value for money in terms of poverty reduction. Clearly, this is what development effectiveness is all about – reducing poverty in the most efficient and cost-effective way possible.

Unemployment rates are also alarmingly high, especially among the youth in our member countries, and moving people over the poverty line will require accelerated economic growth and a fairer distribution of the benefits of the growth largely through the creation of sustainable jobs across all sections of the population. Private sector development will be crucial in this respect as it is the overwhelmingly dominant employer in any economy including our member countries. Nine out of ten jobs are created by private enterprises. No doubt, there is an urgent need for increasing private sector activity since a substantial number of member countries fall in the bottom quartile on most private sector development measures.

The last few years has seen an increase in political turmoil and armed conflicts across many member countries. This has wiped out years of development effort and has set those countries back decades in terms of private sector development. The concerted efforts of all stakeholders will be required to rebuild those societies once conflicts do come to an end. Despite the difficult and at times dangerous operating environment, ICD remains committed to its mandate for the development of the private sector in its member countries.

Achieving the Millennium Development Goals was about working in a cohesive and effective fashion to get us “Half Way”. The new Sustainable Development Goals are about achieving the unfinished business with a special emphasis on “inclusive growth”. ICD is committed to become a Results Based organisation and is determined to implement continuous improvements to become the most developmentally effective institution it can be.
The IsDB Group has explicitly recognized the role of the private sector in poverty reduction in its 1440 Vision statement. ICD is pursuing its mission to complement the IsDB through the development and promotion of the private sector and is actively partnering with IsDB to shape an enabling environment for Private Sector Development and Islamic Finance. The main objectives of ICD are to identify investment opportunities in the private sector in the member countries so as to accelerate economic growth, to provide a wide range of Shari’ah compatible financial products and services, and to expand access to Islamic capital markets by private companies. The Corporation is actively supporting the private sector in its member countries by providing Islamic financing through the establishment of Islamic banks, leasing and investment companies, targeted direct project financing, asset management, and advisory services.

Since its inception in 1420H, ICD has devoted itself to private sector development in its member countries to promote inclusive growth and poverty reduction. It has addressed some of the major constraints for the private enterprises including providing access to capital and advisory services to improve financial practices and channels to maximise development impact whilst being consistent with the Shari’ah. ICD has provided these services with high regard for the quality of its instruments and its ability to achieve development results. The international financial community through various awards has recognized its efforts. For example, ICD reached a key milestone in 1435H obtaining credit ratings of AA (very high long term credit quality) and F1+ (highest short-term credit quality) from Fitch Ratings. In April 2015, Moody’s Investors Service assigned ICD a first-time long-term issuer rating of Aa3 and a first-time short-term issuer rating of P-1. Moody considers the outlook for ICD’s rating to be stable, reflecting its expectation that ICD’s balance sheet expansion will be accompanied by continued capital increases and improving asset quality.

This report highlights some of the development achievements of ICD in the areas of private sector development and promotion of Islamic financing practices. It points out that the Corporation has been successful in providing much needed access to funds to the private sector in member countries and that this funding has resulted in development gains. ICD has also been a pioneer in many member countries in introducing and encouraging Islamic financing practices. At the same time, ICD is gradually implementing its development effectiveness policy and building the supporting framework in order to have a robust monitoring and evaluation function necessary for full integration of development in all aspects of its operations. In concert with other multilateral institutions with private sector development objectives, ICD has put in place a harmonized results framework to increase its development effectiveness.

ICD is committed to further enhancing its development effectiveness and plans to do so by:

- Strengthening its development effectiveness framework and systematic monitoring and evaluation procedures in line with Multilateral Development Banks – Evaluation Cooperation Group (MDB-ECG) Good Practice Standards for evaluation of Private Sector projects
- Broadening and deepening its cooperation with sister MDBs in the development agenda.
- Improving its transparency and accountability in alignment with international best practice standards.
- Promoting ethical and moral principles consistent with Islamic beliefs of equality and compassion towards the less fortunate.
- Continuing its pursuit of internalizing Islamic finance in the member countries and at the same time internationalizing Islamic finance by establishing global partnerships.

ICD’s ability to mainstream the success of its pioneering efforts to support private sector development through provision of Islamic financing will depend on its ability to scale up its efforts. This can happen only if the financial resources available to the Corporation increase in meaningful terms in relation to its international counterparts and to providers of alternative financing products in its member countries.

In all its efforts, ICD has been guided by the Chairman of the Board and the Board itself. ICD would like to take this opportunity to thank them as well as the ICD staff for their dedication and hard work. The efforts of our partners and clients have also been instrumental in ICD’s ability to generate development benefits in our member countries.

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

Khaled Al-Aboodi
Chief Executive Officer
Executive Summary

Of the 52 ICD member countries, 36 are now middle-income countries (MICs) and above. Of the remaining low-income countries (LICs), four will soon reach the MIC status as well (Bangladesh, Chad, Comoros, and Tajikistan). For these 40 countries, private sector development and accelerating integration within an increasingly globalized economic framework will be critical for further development.

As the private sector arm of the IsDB, ICD will play an increasingly important role in building enabling environments for the private sector in both middle-income and the remaining low-income countries. ICD will:

- Complement IsDB’s efforts through the development and promotion of the private sector, as a vehicle for economic growth and development in member countries. ICD has set ambitious targets to contribute to the achievement of IsDB’s 1440H strategy.
- Emphasize inclusive growth that leads to an expansion of opportunities that are accompanied by measures to ensure that the poor and disadvantaged are able to access these opportunities and are not left behind.

ICD’s Development Effectiveness Framework

All multilateral and bilateral development finance institutions (DFIs) have to work hard to find a balance between financial profitability and sustainability and achieving development results. ICD is no exception despite being a unique DFI given that it offers only Shari’ah compatible financing for the private sector in its member countries.

The good news is that ICD is well on its way to establishing a development effectiveness framework encompassing a strategic policy and implementation tools starting at the design stage and continuing throughout implementation and post-project evaluations. ICD’s focus includes sustainable and demonstrable development impact, sustainable financial returns, and leadership on private sector development and developing Islamic Finance channels. It is also participating in a broader multilateral effort in creating common harmonized indicators to measure the effectiveness of private sector development initiatives.

ICD project designers have started using the Development Indicators Monitoring System (DIMS) to define development outcomes at the initial stage in order to ensure quality at entry. It is expected this year that this practice will become integrated in the design and approval process. The current ICD results framework reflects best practices and will need to be reviewed periodically and revised to fit changes in the broader operating environment in member countries.

Development effectiveness policies and tools are most useful if they serve as management and learning tools in guiding investment strategies. Increasing and explicit use of the Expanded Project Supervision Reports and the Post-Project evaluations have the potential to improve future project designs.

ICD will continue to build and implement an effective development effectiveness measurement system. Some of the planned initiatives for the future are: deepening cooperation with similar Multilateral Development Banks in enhancing the harmonization of measurement systems, further refining operational effectiveness measurement with custom made elements for each ICD business line, and enhancing transparency and accountability with the continuous publication of Annual Development Effectiveness Reports.

ICD in action

Since its inception to the end of 1435H, ICD has approved 306 projects for a total value of approximately US$ 3.4 billion with a disbursement rate of about 68%. The provision of this funding is developmentally beneficial by itself as it increases private sector access to financing in its member countries.

ICD has been active in 42 countries with the highest number of project approvals in the Middle-east and North Africa (MENA) region. A noticeable change in 1435H was that 48% of project approvals were in the Sub-Saharan Africa region. This is an indication of ICD’s strategy to increase its presence in low-income member countries.
Since its inception, ICD has been active in eleven sectors with the financial sector accounting for the largest share (46%). Other important sectors were industry and mining (24%) and real estate (10%).

ICD reached a key milestone in November 2014 by obtaining credit ratings of AA (very high long term credit quality) and F1+ (highest short-term credit quality) from Fitch Ratings. Furthermore, in April 2015/ Rajab 1436H, Moody's Investors Service assigned ICD a first-time long-term issuer rating of Aa3 and a first-time short-term issuer rating of P-1. The Aa3 rating reflects Moody's assessment of the ICD's developing institutional framework and balanced growth prospects.

Contribution to Private Sector Development

ICD has been a pioneer in providing Shari'ah-compliant financing to the private sector in its member countries. The Islamic financing instruments include Musharaka (Equity Participation), Murabaha (cost plus mark-up), Mudharba (partnership), Ijara (Leasing), Istisna'a (deferred delivery), and Bai Salam (a type of contract).

The first effort to systematically measure development results was undertaken through the Annual Clients Survey of development effectiveness launched at the beginning of December 2014. Of the currently active projects, 54% of the clients responded to the survey. The results indicated that these projects:

- Provided 40,000 direct jobs
- Supported 278 small and medium sized enterprises (SMEs)
- Generated $100 million in additional government revenue, $190 million in net foreign exchange inflow, and $96 million in additional investments

Of the responding projects, 52% had a documented environmental management system.

The survey did not generate information about indirect jobs created as a result of ICD's support. However, evidence of such job creation from other DFIs such as the International Finance Corporation (IFC) of the World Bank suggests that they could have been substantial with a multiplier effect between direct and indirect jobs ranging from 3 (agribusiness) to 24 (cement).

A recent feature of ICD’s private sector operations has been the support provided to SMEs through instruments such as lines of finance, funds and advisory services. These enterprises are by far the biggest employers in member countries and often the primary route to promote economic well-being, a more equal distribution of wealth, and eventually poverty reduction.
The financing needs of the private sector in member countries is vast and will become even more so as they make further progress. While ICD has been successful in meeting some of this demand, its market share remains small relative to the market size. New and innovative means of leveraging will be useful to scale up ICD’s PSD interventions. For example, employing public-private partnership techniques such as impact investing and social businesses could be used to leverage ICD funds and support socially beneficial enterprises and initiatives.

**Promotion of Islamic Financing**

Availability of Shari'ah-compliant financing holds great appeal in ICD’s member countries. ICD uses three main mechanisms to promote this type of financing: providing Shari'ah-compliant financing directly through the establishment of Islamic Banks, Leasing companies and Investment companies or in conjunction with member country financial institutions, advising and encouraging conventional financial institutions to open ‘Islamic’ windows and/or convert to fully Shari'ah-compliant institutions, and encouraging the creation of Islamic capital markets.

In the Annual Client Development Survey, 60% of respondents indicated that they were introduced to Islamic finance through the involvement of ICD. In addition, frontier markets are being generally serviced through the provision of advisory services.

The prospects for Islamic financing markets are vast and can extend beyond the borders of member countries to non-Muslim countries where there is a significant Muslim population. Islamic Finance Channels can act as an important conduit to promote both private sector development and Islamic Finance.

ICD has often been a pioneer in providing Islamic financing instruments and mechanisms not only to the private sector but also to the general public through support and advice for the establishment of Islamic Banking Windows and direct establishment of Islamic financial institutions. In addition, it has launched the Islamic Finance Talent Development Program (IFTDP) with the objective to train future professionals in Islamic Finance.

ICD’s involvement and in particular its rigour in providing such financial services (through the certification of its Shari'ah Committees) has given it great credibility in this market. It is now in a position to build on its reputation and its Islamic Finance market leader status to scale up its operations in its member countries.

Finally, ICD’s ability to remain a relevant and important player will depend on its ability to scale up its efforts to translate its successful and pioneering efforts at promoting private sector development in member countries through the provision of Islamic financing. This can happen only if the financial resources available to the Corporation increase in meaningful terms in relation to its international counterparts, and to providers of mainstream financing products in its member countries.
INTRODUCTION: THE STRATEGIC CONTEXT

1.1 Overview

The 1435H Annual Development Effectiveness Report (ADER) chronicles the development achievements of Islamic Corporation for the Development of the Private Sector (ICD).

This first chapter outlines ICD’s contribution to achieving the strategic objectives of the Islamic Development Bank (IsDB) Group.

Chapter 2 describes ICD’s development effectiveness framework.

Chapter 3 profiles the operational context in which ICD operates.

Chapters 4 to 7 are about the results obtained during the period covered in the report starting with a brief portfolio analysis (Chapter 4), highlights of ICD’s contributions to private sector development (Chapter 5) and promotion of Islamic Finance (Chapter 6), and finally its contributions to the international development goals (Chapter 7).

Finally, Chapter 8 provides an analysis of the way forward for ICD in the areas of private sector development and promotion of Islamic finance.
Achievement of these thrusts will require sustainable economic growth across the Muslim world. The economies of more affluent member countries are based on abundant energy resources. These countries face mid- and long-term challenges stemming from resource depletion and poor diversification of economic activities. On the other hand, the middle-income member countries have not made sufficient progress in transforming themselves into knowledge or innovation-driven economies and improving their infrastructure essential to reaching a higher stage of economic growth and to remain competitive in a globalized world. The private sector has led the growth process in most of these countries but will now have to become more efficient and technology intensive. In the low-income member countries, poorly developed private sectors, inadequate infrastructure as well as conflicts are some of the factors inhibiting growth.

In many of the member countries the benefits of economic growth have not reached the poor and the disadvantaged. These countries often have a relatively young population who suffer from very high unemployment rates. This has posed challenges for the governments, not only in creating meaningful employment but also in reducing political and civil unrest. IsDB in line with its core Islamic principles follows a policy of inclusive growth to ensure that all peoples benefit from its efforts. Progress is needed on all fronts: high and sustainable growth to create and expand economic opportunities, including jobs; broader access to economic opportunities, especially for the poor and disadvantaged, to ensure that all members of society can participate in and benefit from growth; and finally, provision of adequate social protection to reduce poverty and vulnerability.

**1.2 The Islamic Development Bank 1440H Strategy**

ICD functions as the private sector arm of the Islamic Development Bank (IsDB) Group. As such, its mandate is integrally related to IsDB’s strategies.

IsDB’s central developmental vision is contained in its 1440H strategy. At the first IsDB 1440H Vision Commission Meeting held in Dubai in 2005, H.E. Tun Dr. Mahathir Mohammad, former prime minister of Malaysia, stated that “It [IsDB] is now well-positioned to be an effective agent of change to prepare its members in facing numerous challenges brought about by the forces of globalization and rapid technological change. The collective group of the IsDB Member Countries can be a formidable one, taking into account its multi-faceted resources. The greatest challenge in this group is to focus on common development issues facing us all.”

The IsDB’s Vision 1440H document reflects this opinion in its mission statement: “By the year 1440 Hijrah IsDB shall have become a world-class development bank, inspired by Islamic principles, that has helped significantly transform the landscape of comprehensive human development in the Muslim world and helped restore its dignity.”

The Vision 1440H calls for addressing the challenge of achieving healthy human development, securing strong sustainable economic growth, promoting good supportive governance, strengthening peace and stability in the Islamic world and outside, and fostering a powerful sense of common identity and destiny. Several strategic thrusts, key to achieving development success, are identified as fundamental to the achievement of IsDB’s mission (Table 1.1).

**Table 1.1 Key Strategic Thrusts of IsDB**

<table>
<thead>
<tr>
<th>STRATEGIC THRUSTS</th>
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<tbody>
<tr>
<td>1. Reform IsDB</td>
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<tr>
<td>2. Alleviate poverty</td>
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<tr>
<td>3. Promote health</td>
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<tr>
<td>4. Universalize education</td>
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<tr>
<td>5. Prosper the people</td>
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<tr>
<td>6. Empower women in member countries</td>
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<tr>
<td>7. Expand the Islamic financial industry</td>
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<tr>
<td>8. Facilitate integration of IsDB member country economies</td>
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<td>9. Improve the image of the Muslim world</td>
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1.3 The Role of ICD

ICD was established in Rajab 1420H (November 1999) as an independent entity within the IsDB Group in acknowledgment of the importance of private sector development in economic growth and poverty reduction.

The mission of ICD is to complement IsDB through the development and promotion of the private sector, as a vehicle for economic growth and development in member countries. The main objectives of ICD are to identify investment opportunities in the private sector in the member countries so as to accelerate economic growth, provide a wide range of Shari'ah-compatible financial products and services (consistent with Islamic principles), and expand access to Islamic capital markets by private companies in member countries.

In essence, ICD is a Development Finance Institution (DFI), acting as the private sector arm of the Islamic Development Bank. It has an authorized capital of US$ 2.0 billion, of which US$ 1.0 billion is available for subscription. The current subscribed and paid-in capital is US$ 875 million and US$ 746 million respectively. Its shareholders include the IsDB, 52 member countries, and five public financial institutions. Annex I provides a full list of ICD shareholders.

The vision of ICD is to become a premier Islamic multilateral financial institution for the development of the private sector using Islamic financing channels. ICD does so by providing various types of financing, investment products, and asset management and advisory services.

Box 1 outlines how ICD proposes to contribute to the fulfillment of the goals of the IsDB’s 1440H strategy.

ICD follows a four-pillar strategy to help it achieve its goals:

- Focus on developing Islamic finance channels
- Pursue targeted direct financing of the Private Sector
- Partner with IsDB to shape an enabling environment for private sector and Islamic finance development
- Leverage external partners to consolidate its resources

A major emphasis going forward for ICD will be developing and strengthening Islamic financial channels in member countries in order to facilitate the access of finance to the small and medium enterprises (SMEs). In most countries, the SMEs are the most important employment providers. According to the International Finance Corporation (IFC), the private sector provides 9 out of 10 jobs in developing countries. According to ICD’s strategies, supporting the growth of these enterprises will allow for inclusive growth and reaching out to the poorer segments of the society.
1.4 ICD’s Operational and Organizational Management

ICD provides three global business products to its private sector clients in member countries as shown in Chart 1.2.

Chart 1.2  ICD Business Lines

The operational aspects of these business lines are managed by the CEO and General Manager with advice from his management team comprising the Directors of Corporate Support, Economic Policy and Transformation, Advisory and Assets Management, Financial Institutions Development, Direct Investment and Financing, Monitoring and Evaluation, Remedial Asset Management, Business Development and Partnership, Risk Management and Internal Audit.

ICD’s decision-making structure consists of:

- The General Assembly of the member countries
- The Board of Directors – 10 members elected for a period of three years consisting of the President of IsDB as the Chairman, the CEO and General Manager of ICD, and representatives from the various regions. The Board is responsible for the general supervision of ICD.
- An Executive Committee, an Advisory Board, and a Shari'ah Committee appointed by the Board.
- The Executive Committee has three permanent members – the Chairman of the Board of Directors, the CEO and General Manager, and the representative from Saudi Arabia – and three other members appointed from among the member countries and share-holding financial institutions. The Committee approves all financing and investment by the Corporation.
- The Advisory Board consists of five internationally renowned experts in the fields of ICD’s activities. They are responsible for exchanging views and submitting reports on issues identified by the General Assembly.
- IsDB group’s Shari’ah Committee also serves as the Shari’ah Committee for ICD. It is responsible for advising the IsDB group on Shari’ah compliance of its products and transactions.
- Finally, the CEO and General Manager conducts the day-to-day business of ICD under the general supervision of the Chairman of the Board.

ICD follows a seven-stage project investment cycle (Chart 1.3). The Investment Committee (IC) identified in Stage 2 and 3 is composed of the CEO, Directors of all Business Departments, the Strategic Policy Department, and the Risk Management Department as voting members, and the Heads of the Legal and Finance Divisions as non-voting members. The Risk Management Department provides a risk assessment of the project and acts as the Secretariat of the Investment Committee. Risk assessment primarily concentrates on credit risks including financial and market risks (e.g. currency, value of Sukuk and shares, etc.).

The role of the IC is to make recommendations to the CEO on all new financing, investments and advisory service transactions proposed by the various business departments. Upon IC’s endorsement, financing proposals not exceeding US$ 10 million are submitted for the CEO’s approval. Proposals exceeding US$ 10 million are submitted by the CEO to the Executive Committee of the Board for approval.
Identification of the expected development impacts is a requirement for all Concept Review Papers and Project Design documents. Prior to 1435H, the development indicators were used at the discretion of the project designers, but since the beginning of 1435H, the use of Development Performance Indicators is an explicit requirement. ICD's development effectiveness framework and the Development Indicators Monitoring System (DIMS) are described in greater detail in Chapter 2.

Chart 1.3  **ICD Seven-stage Investment Project Cycle**

**Origination and Preliminary Assessment**
- Projects are sourced either directly through ICD’s Business Development team or by the Client.
- Initial assessment is done to ascertain compliance with ICD’s investment guidelines and strategy, to ensure maximum developmental impact.

**Project Appraisal**
After initial project clearance by the relevant department and the ICD Investment Committee, ICD conducts a project appraisal to be sanctioned by a Due Diligence Report and the Financing Term Sheet.

**Investment Committee Approval**
The final Due Diligence report and the Indicative Term Sheet are presented to ICD’s Investment Committee for clearance and approval.

**Executive Committee Approval**
On completion, financing conditions and the project information memo are submitted to the Executive Committee for a final decision on behalf of the Board of Directors.

**Effectiveness & Disbursement**
- Project effectiveness is declared after satisfactory compliance is achieved for all legal requirements.
- Disbursement occurs upon declaration of effectiveness.

**Monitoring & Evaluation**
- The follow-up team, in close collaboration with the M&E Team, tracks the development results on an annual basis.
- The M&E team conducts XPSRs of operational projects. GOED conducts independent project post evaluation.

**Project Closing**
ICD closes the books on the project when the investments are repaid in full or when the Corporation exits by selling its equity stakes.
ICD’s Development Effectiveness Framework

2.1 Overview

ICD is a unique DFI; it offers only Sharī'ah-compatible financing for the private sector in its member countries. The promotion of Islamic financing practices and the deepening of Islamic financial intermediation in member countries add to ICD’s uniqueness.

The establishment of a development effectiveness framework at ICD is relatively recent. ICD adopted a Development Effectiveness Policy and established its Development Effectiveness Framework as well as the DIMS in 1434H. The goal of the Development Effectiveness Policy is to “improve the development impact of ICD via maximization of ICD’s contribution to enhancing the factors and conditions that enable member countries to achieve their development goals.”

Six core principles focusing on development effectiveness are identified as critical drivers in achieving ICD’s overall strategic vision:

- Have a sustainable and demonstrable development impact
- Deliver sustainable financial returns
- Deliver benefits to all member countries within a Group context
- Be complementary to IsDB group strategy
- Offer leadership on private sector development
- Be additive to the Private Sector.

The other important aspects of the Development Effectiveness Framework are:

- Reporting on Development Results, which is an important aspect of ICD’s accountability.
- Promoting learning: A good measurement system is a powerful tool for institutional knowledge building and learning. Knowing what works and what does not, and why, and using such lessons to influence the design of future projects, programs, or policies will improve development results and increase ICD’s development effectiveness.
## 2.2 ICD’s Results Framework

The developmental goals of ICD are encapsulated in its expected Results Framework (Chart 2.1). This framework is based on the Development Effectiveness Framework and builds on ICD’s strategic goals towards contributing to the overall IsDB 1440H Vision. It follows a classic results-based management (RBM) approach in identifying the causal chain from input to output to outcome and impact.

**Chart 2.1 Overview of ICD Results Framework**

<table>
<thead>
<tr>
<th>INPUTS</th>
<th>OUTPUTS</th>
<th>OUTCOMES</th>
<th>IMPACT</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Building Islamic finance channels (equity, LOF)</td>
<td>• Increase the financial sustainability of the clients</td>
<td>• Poverty reduction</td>
<td>• Increase the financial sustainability of the clients</td>
</tr>
<tr>
<td>• Selective direct investments (equity, term finance, corporate finance)</td>
<td>• Build and develop Islamic financial institutions</td>
<td>• Inclusive growth</td>
<td>• Build and develop Islamic financial institutions</td>
</tr>
<tr>
<td>• Advisory services to governments and private sector actors</td>
<td>• Increase the production capacity and the quality of the services of the clients</td>
<td>• Better living standards</td>
<td>• Advisory services to governments and private sector actors</td>
</tr>
<tr>
<td>• Developing business opportunities through partnerships</td>
<td>• Mobilize clients’ investment needs from the market</td>
<td>• Improved environment for Islamic finance business</td>
<td>• Developing business opportunities through partnerships</td>
</tr>
<tr>
<td>• Asset management programs</td>
<td></td>
<td></td>
<td>• Asset management programs</td>
</tr>
<tr>
<td>• Developing an enabling environment</td>
<td></td>
<td></td>
<td>• Developing an enabling environment</td>
</tr>
</tbody>
</table>

ICD has an ongoing collaboration with a number of IFIs (25 IFIs including the International Finance Corporation, the Asian Development Bank, the African Development Bank, European Bank for Reconstruction and Development and the Inter-American Development Bank) to construct harmonized indicators for private sector operations so that assessment of development results can be aggregated at the global MDB/IFI levels and for comparative purposes. There are four main categories of indicators: i) financial performance; ii) economic performance; iii) private sector development; and, iv) environmental, social, health and safety. ICD has an additional indicator for Islamic Finance. The main indicators and data collection methods are organized in three categories.

- **Client-level Indicators:** These indicators are harmonized and are to be applied to project-level results tracking. The clients are expected to provide the primary inputs to collecting the data to measure the indicator.

- **Market-level indicators:** These are to be researched and reported by the IFIs themselves when IFIs are interested in tracking such performance.

- **Conversion methodologies:** Many access indicators, such as those that estimate households benefitting from a given intervention, rely on assumptions and estimations that could differ among different IFIs. The harmonization group agreed on conversion methodologies to calculate the number of project beneficiaries, when these cannot be collected directly from clients. There may be other private sector development indicators that some IFIs are interested in measuring but have not yet reached consensus on a harmonized approach. It was agreed that further collaborative research would be required to arrive at a consensus on these indicators.

Detailed notes on harmonization, including the actual indicators for each of the four categories can be found in the document “Harmonization of Qualitative Indicators and Conversion Methodologies for Private Sector Development: Final Report”, submitted to Inter-American Development Bank by International Financial Consultants, 2015.
In an assessment conducted in 1436H, the Monitoring and Evaluation Department of ICD found that in comparison to best practices among multilateral institutions, the identification of development indicators can be improved at ICD in all phases of a project – design, monitoring and evaluation - in addition to reporting on financial performance. Active steps are being taken to embed development aspects at all levels in ICD's projects cycle. Internal information and training sessions are taking place on a regular basis to raise awareness of development impact and evaluation issues at all levels.

2.3 Development Effectiveness Measurement System

ICD’s Monitoring and Evaluation Department is responsible for providing technical expertise, advice, coordination, and quality at entry on all aspects relating to measuring, assessing and reporting on ICD's development results. After a two-year piloting phase, the Monitoring and Evaluation function has now entered a new phase of scaling up and deepening its activities both in terms of its products offerings and actively promoting a results-based culture in ICD. The strategic objectives of the department are:

- Internal reporting: provide regular and timely monitoring reports to ICD Management in order to maximize the effectiveness of ICD’s interventions;
- External reporting to various stakeholders: measure and report on ICD's Development Results on an annual basis;
- Build the capacity of all ICD professional staff to promote a knowledge-based and results-led culture.

Chart 2.2 summarizes the process for achieving these objectives. This includes activities being done at the operational level and various reviews. These processes and products feed into the reporting and dissemination of development effectiveness findings and eventually into improving ICD’s strategies and operations and fostering a knowledge culture at the Corporation. Annex II provides further details on the measurement system.

Chart 2.2  M&E Products and Achievements
Over the last few years, ICD has taken a number of steps to improve its development effectiveness system. For example:

- The M&E system assessment (readiness) was conducted during the last month of 1435H.
- The IT DIMS system for data collection and project monitoring, based on the harmonized IFI development indicators, is now integrated into the decision-making process.
- The first Client Development Survey was conducted during early 1436H.
- Three new Expanded Project Supervision Reports (XPSRs) based on self assessments were prepared in 1435H and eight reports are planned for 1436H based on the ICD XPSR guidelines.
- A monthly bulletin to raise awareness of M&E issues is now in its 5th edition.

ICD’s own efforts are supplemented by the ex post-project evaluations undertaken by IsDB Group Operations Evaluation Department. These evaluations are useful sources of development results of the initiative under review and are great learning tools in offering recommendations to improve project designs with similar objectives.

ICD’s Monitoring and Evaluation Department’s plans for the future (starting in 1436H) are:

- All new projects will have clear development indicators with baseline and target data prior to the project obtaining approval from the Investment Committee;
- Development Effectiveness Reporting will be part of the Client Reporting Requirements in the Legal Agreements;
- A Management Response Tool will be developed to promote the use of the evaluation findings;
- The M&E IT System for data collection and project monitoring will be upgraded to integrate the new harmonized indicators and a new Management Dashboard;
- A toolkit will be developed to assist the Business Units in their tasks for development impact assessment;
- New guidelines for monitoring and evaluation of specific products such as lines of financing and advisory services will be developed;
- Development of internal capacity to conduct social and environmental impact assessment.
ICD’S OPERATIONAL ENVIRONMENT

3.1 Overview

The measurement of development results requires an understanding of the development status of the countries where ICD is active. This, in effect, can be considered as the baseline for measurement purposes. It also identifies the major development needs of these countries.
3.2 Development Status of Member Countries

Table 3.1 **IsDB Member Country Classification by (per capita) income status (current USD)**

<table>
<thead>
<tr>
<th>CLASSIFICATION</th>
<th>AFRICA</th>
<th>ASIA</th>
<th>AMERICA</th>
<th>EUROPE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low-income countries (LIC): 14</td>
<td>Benin, Burkina Faso, Chad, Comoros, Gambia, Guinea, Guinea-Bissau, Mali, Mozambique, Niger, Sierra Leone, Uganda</td>
<td>Bangladesh, Tajikistan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lower middle income countries (LMIC): 14</td>
<td>Cameroon, Cote d'Ivoire, Djibouti, Egypt, Mauritania, Morocco, Nigeria, Senegal, Sudan</td>
<td>Indonesia, Kyrgyzstan, Pakistan, Uzbekistan, Yemen</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Upper middle income countries (UMIC): 16</td>
<td>Algeria, Gabon, Libya, Tunisia</td>
<td>Azerbaijan, Iran, Iraq, Jordan, Kazakhstan, Lebanon, Maldives, Malaysia, Turkey, Turkmenistan</td>
<td>Suriname</td>
<td>Albania</td>
</tr>
<tr>
<td>High income countries (HIC): 6</td>
<td></td>
<td>Bahrain, Brunei, Kuwait, Qatar, Saudi Arabia, UAE</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: World Bank Classifications, July 2014*

No per capita income numbers were available for the state of Palestine and Syria from the World Bank sources.
The per capita income figures used to compute country status are for 2013 except for Kuwait and the UAE. For these two countries, figures for 2012 were the latest available.

International trade and investment liberalization since the Second World War, combined with technological evolutions in transportation and communications, have integrated global markets and brought countries closer together than ever before. Some developing countries, including many ICD member countries, have taken advantage of this open international environment and have achieved rates of economic growth much greater than those of more developed economies. The result has been a dramatic reduction in poverty in these countries and the creation of a more affluent consumer class. These countries are called “emerging markets”, a term often used interchangeably with “emerging economies”.

As these countries move forward in their development path, the role of the private sector will increase in importance and become critical engines of inclusive growth, employment and poverty reduction. These considerations are critical because most ICD member countries are emerging economies and have relatively young populations with very high rates of youth unemployment. This environment creates a restless and unstable environment and often results in civil and political unrest. This detracts from the ability of the member countries to attract domestic and international investment or to generate the economic growth required to reduce unemployment. This problem is often exacerbated by unequal distribution of the benefits of growth.

The private sector is a primary employment creator in an economy. It is essential that the private sector is enabled and empowered to generate economic growth and provide increasing employment. Development experience also suggests that for the private sector to flourish, it is essential that countries also develop their infrastructure.

A number of surveys of private firms conducted by the World Bank have found that one of the major gaps in achieving private sector and infrastructure development is access to financing. This means that ICD, as the major private sector development entity of the IsDB, will become an increasingly important driver and facilitator for the private sector in its member countries and will experience an increasing demand for its services.
3.3 Regional Development Needs

In 1435H, ICD worked mainly in four regions: the Middle East and North Africa (MENA), Europe and Central Asia (ECA), Asia, and Sub-Saharan Africa (SSA). ICD is putting special emphasis on balancing its geographical allocation of investment commitments, taking into consideration the development needs and priorities of member countries.

**MENA:** Some of the countries are in political transition and the region is marked by intensifying conflicts. Needs identified in the region are linked to support in basic sectors such as health and education and employment for the young. Nevertheless, many countries have shown private sector growth potential (e.g., Morocco and Egypt).

**SSA:** Many fragile, conflict-affected and low-income member countries are located in this region, which shows signs of regeneration, recording average GDP growth of about 6.4% in 1435H. Countries also saw improvements in the enabling environment for private sector development. Critical development needs include the promotion of employment and social and physical infrastructure development.

**Asia:** In South and South-East Asia, member countries continued to enjoy rapid growth due to lower energy prices. In countries such as Bangladesh, the growth is expected to accelerate. Private sector and infrastructure development continue to be major development needs.

**ECA:** Member countries are in the process of transitioning towards more market-oriented economies although countries such as Kyrgyzstan and Tajikistan faced impediments from the state of the Russian economy.

ICD’s ability to deliver its programs and services effectively in member countries is a function of the working environment in each country. For example, its efforts will be constrained in conflict situations such as those currently evident in Syria, Yemen, Iraq, Afghanistan and Libya. In addition, many of the fragile and conflict-affected states supported by ICD are located in Sub-Saharan Africa, where climate change, fluctuations in commodity prices, and basic development issues such as health and education remain critical challenges. Nevertheless, ICD’s strategy is to remain committed and active, even in these difficult and sometimes dangerous environments.

Given the diversity of the development paths of its member countries, it is also important that ICD has the capability to develop various financial products, especially Islamic financing instruments, to meet the demand. For example, some member countries such as Gabon do not have any Islamic financial activities. Others, like Bangladesh, Algeria, Indonesia and Lebanon, have some Islamic financing activity and yet others, like Saudi Arabia, Iran, Malaysia, Turkey and the United Arab Emirates, have significant activities.

ICD’s performance suggests that with appropriate access to capital and capacity development, it can provide efficient and quality services to all types of clients, and in doing so, address the development goals of IsDB and its member countries and contribute to poverty reduction. An Overseas Development Institute (2011) study on the Impact of Multilateral Development Finance Institutions on Economic Growth showed that a 10% increase in DFI investment commitments may lead to growth of 1.3% in low-income countries and 0.9% in higher-income countries. The same study also indicated that the additional investment generated by a DFI ranges from US$ 1 to US$ 5 for each US$ 1 of its own investments.
4 ICD IN ACTION

4.1 Overview

Since its inception to the end of 1435H, ICD has approved 306 projects for a total value of approximately US$ 3.4 billion. This is a significant increase over the findings of the 1427-1431H Portfolio Review which showed that up to 1431H, ICD had approved about 218 projects for a total value of US$ 2.17 billion. In 1435H, ICD approved US$ 525.7 million and disbursed a total of US$ 360.4 million. In doing so, it has maintained its average historical disbursement rate of about 68%.

Nafis Tex Group, Uzbekistan
4.2 Portfolio Analysis

Until 1435H, approximately 65% of funding flowed through ICD’s two main instruments: term financing and equity. However, in 1435H, another instrument – line of financing – accounted for the bulk of ICD’s financing, representing 52% of the total.

During the period from 1420H to 1435H, ICD was active in 42 countries with the highest proportion of project approvals in the MENA region (40%) followed by SSA, ECA and Asia (Chart 4.2).
ICD is currently active in 32 countries, of which 22 are LMICs and above. This funding distribution is consistent with the development status of these countries where private sector development is becoming a major if not the key development driver as they evolve towards and beyond middle-income status.

ICD’s current operations are highly concentrated in five countries: Saudi Arabia, Mauritania, Uzbekistan, Turkey, and Azerbaijan. The 1427-1431H Portfolio Review also found a similar concentration albeit in a different set of five countries: Saudi Arabia, Yemen, Azerbaijan, Syria, and Uzbekistan.

Nevertheless, the most recent geographical distribution of operations is also indicative of ICD’s continuing interest in promoting development in low-income countries in Sub-Saharan Africa. One of the most noticeable changes in ICD’s approvals in 1435H was that about 48% of approvals were in SSA with the rest in ECA (21%), MENA (18%) and Asia (13%). This represents a quadrupling of the share of Sub-Saharan Africa investments and is an indication of the implementation of the ICD strategy to increase its presence in low-income countries with greater development needs.

Since its inception in 1420H, ICD has approved projects in 10 sectors, with the finance sector accounting for the largest share (46%). Other important sectors were industry and mining (24%), real estate (10%) and health and other social services (5%). The remaining 15% of approvals have been in sectors such as information and communication, transportation, trade, agriculture, energy and education. This financing pattern is also generally consistent with ICD’s principal function as a development finance institution supporting private sector development. A similar distribution among sectors was also evident in the 1427-1431H Portfolio Review.
Investment Performance

ICD total Operating Income was US$ 110.67 million in 1435H, as compared to US$ 87.06 million in 1434H – an increase of 27%. The Net Income was US$ 26.26 million in 1435H and US$ 24.25 million in 1434H.

ICD’s sound financial performance has been recognized by Fitch Ratings who assigned ratings of AA/F1+ in November 2014. Fitch Ratings defines AA as very high long-term credit quality and F1+ as the highest short-term credit quality. These positive ratings will have a positive effect on ICD’s ability to leverage its own funds to finance development activities.

In April 2015/Rajab 1436H, Moody’s Investors Service assigned ICD a first-time long-term issuer rating of Aa3. It also assigned a first-time short-term issuer rating of P-1. The key factors underlying the ICD’s Aa3 rating were:

- A ‘medium’ assessment of the ICD’s capital adequacy
- A ‘high’ assessment of the corporation’s liquidity
- A ‘medium’ assessment of member support

The Aa3 rating also reflects Moody’s assessment of the ICD’s developing institutional framework and balanced growth prospects. Moody’s considers the outlook for ICD’s rating to be stable, reflecting its expectation that the balance sheet expansion will be accompanied by continued capital increases and improving asset quality.
CONTRIBUTION TO PRIVATE SECTOR DEVELOPMENT

5.1 Overview

One of the major constraints to private sector development is access to capital and financing. ICD has contributed to addressing this critical developmental roadblock in member countries by providing access to funding. However, demand for investment funding from member countries is great and one needs to be circumspect about the ability of a single institution such as ICD to fill all of this demand. For example, a study by the Asian Development Bank in 2009 suggested that developing countries in Asia require financing of US$ 776 billion per year for infrastructure during 2010-2020 to meet the growing demand. Nevertheless, the funding provided by ICD did represent an increase in funds for the private sector in member countries.

Almerro Biscuits Manufacturing Company, Uzbekistan
5.2 Private Sector Development Results

The first effort to systematically measure outcome level development results as outlined in the ICD Results Framework (see Chart 2.1) was undertaken through the Annual Client Survey of ICD development effectiveness launched at the beginning of 1436H. A total of 44 respondents participated in the survey, representing 54% of active ICD projects and 81% (US$ 758 million) of current ICD commitments. This can be considered a reasonably representative sample. Approximately 50% of the projects were in Asia, 30% in the MENA region, and 14% in SSA. In terms of sectoral distribution, 60% of the respondents were in the banking and finance sector, 16% were in industries and services, and 9% in the real estate sector, generally mirroring the overall distribution of ICD projects by sector.

The aggregated results of the survey are provided in Box 5. These results suggest that for 1434H, there was some realization of the outcome level goals of the results framework among the respondent firms. (The outcome level indicators identified in the framework included creation of jobs, increased access to financing by SMEs, increased government revenue, and improved access to products and services.) ICD has been successful in playing a catalytic role in attracting new investments and promoting cross border investments among its member countries.

In addition, the results of the survey indicated that:

- 20% of the respondent entities had introduced a new production of business process (technology transfer);
- 18% introduced a new product (innovation);
- 43% had a Corporate Social Responsibility policy, and,
- 52% of the projects involving ICD had a documented environmental management system and implementation procedures.

The survey did not yield any aggregate information about the indirect job gains as a result of ICD's efforts. However, preliminary information is available for the Coffor Misr project in Egypt. Coffor Misr is a private company and the purpose of this project was to build concrete construction material. ICD provided Lease Finance for US$ 2.7 million in 1425-26H for the establishment of the Coffor plant and US$ 0.87 million in 1428-1429H to finance the working capital requirement. Preliminary assessment indicates that the company has generated 65 direct jobs of which almost 50% are high-skill employees and around 500 indirect jobs in the construction projects implemented by the company.

The International Finance Corporation (IFC), the private sector arm of the World Bank, has attempted to measure the indirect job gains resulting from its efforts. It used a sample of five projects in Africa (1), South and East Asia (3) and Eastern Europe (1). These companies were in businesses ranging from agribusiness to cement and chemicals. The calculation of indirect jobs included the main suppliers and distributors to the IFC client companies. It found that the incremental job creation in these companies during the period of IFC's engagement amounted to
Box 3

RAHIMAFROOZ GLOBATT LIMITED
BANGLADESH

Rahimafrooz Batteries Limited (RBL) is the flagship company of the Rahimafrooz group and the largest lead-acid battery manufacturer in Bangladesh.

In 2008, RBL approached ICD to be the financing partner in a project to set up a fully export-oriented automotive battery plant in Ishwardi Export Processing Zone. It was to be a joint venture between Globatt Holdings Limited – USA and RBL under the name of Rahimafrooz Globatt Limited. The total project cost was estimated to be US$16.39 million.

ICD approved the Project in 2009 under a Leasing (Purchase and Lease Back) arrangement for US$5.3 million with the rest of the financing to come from the Rahimafrooz and the HSBC Bank.

The Company started production in 2009, and has so far produced 2.7 million N-50 batteries and had cumulative total sales of US$ 85 million. However the Company is yet to make a profit due to serious lack of working capital, low capacity utilization of the plant due to overestimation of the market demand from India, time and expense for penetrating other markets, the high cost of lead and finally the political instability of Bangladesh.

The development benefits include,

- Establishing the brand name in 58 countries
- Creation of 548 new jobs (250 were planned)
- Accredited with environment management ISO 14001:2017 including installation of effluent treatment plant and solid waste management system
- Use of an upgraded technology to reduce lead consumption

However, the expected leveraging of Islamic financing did not take place. There is a possibility that the Rahimafrooz group may move towards using only Shari’ah based lending. The sustainability of the operation will depend critically on the urgent availability of working capital.

Source: GOED Project Post-evaluation exercise, 1435H/2014

5,719 direct jobs and 20,390 indirect jobs. The multiplier between the direct and indirect jobs ranged from 3 (agribusiness) to 24 (cement). Such estimates provide a notion of the potential for indirect job creation through the development of the private sector.

The ICD Development Effectiveness Survey was not designed to yield information about indirect jobs or impact level results, but it may be reasonable to assume that the generation of employment and the growth of SMEs could lead to better living standards and poverty reduction.
THE JORDANIAN PHARMACEUTICAL MANUFACTURING (JPM) CO.
HASHEMITE KINGDOM OF JORDAN

JPM is a group comprising of JPM (producing rebranded generics), Aragen (diagnostic kits), Delas (natural products), Suwagh (excipients, new drug delivery technologies) and AJM (Algeria).

The purpose of this project was to meet the increasing demand for medicine in Jordan and regionally by:
- Building a facility capable of meeting Good Manufacturing Practice, Food and Drug Administration standards and European standards requirement.
- Increasing production capacity in order to meet growing demand in the domestic and export market;
- Reducing cost to improve competitiveness.

ICD is an equity partner in this venture having first acquired 33% of JPM in 2001. It subsequently injected additional capital into the Company when it merged with the Al Razi Co. in 2003. ICD now holds 28.3% of the new capital of the company. The other major investor of note is the Jordan Islamic Bank (JIB) (26%).

The development benefits of this project include:
- Development of expertise on research and development and becoming a successful incubator for Aragen, Delas and Suwagh. JPM has supported scientific research of 13 Ph.D. students and 29 M Sc. students, some of whom have joined JPM.
- Success in developing regional trade through a strategy of acquisitions in Egypt, Tunisia, Eritrea, Mozambique, Algeria and Belarus.
- Employment of about 500 staff.
- Building a local supply chain through support to local suppliers including those providing engineering services, plastic goods, and printing services.

JPM is a project that is fully Islamic financing leveraged. This had its good and unfortunate aspects especially since it employs only the services of JIB, which is a commercial Islamic Bank. This dependence has led to a limit on availability of finance, as JIB has to abide by the Central Bank of Jordan’s prudential regulations, which limits the amount of financing to any single entity.

Source: GOED Project Post-Evaluation, 1434H/2013G
As a part of ICD US$ 50 million Global LOF to Uzbekistan, Asaka Bank received US$ 9 million in terms of Murabahah in 2009. That amount was increased to US$ 21 million in 2011. The aim was to strengthen the long-term financial resources and capacity of the Asaka bank to finance SMEs. In effect, ICD acted as the “funder of the funder.”

The funding process was fully Shari'ah-compliant and introduced Murabahah financing in Uzbekistan. In addition to providing financing, ICD also provided training on this type of financing to Asaka Bank officials. The project was therefore expected to increase the awareness and penetration of Islamic financing in Uzbekistan.

Asaka Bank fully utilized the LOF to finance 17 SMEs in Uzbekistan with financing amounts ranging from US$ 220,800 to US$ 3.8 million per project.

The development benefits of this project include:

- Building local supply chains as the financed SMEs purchased raw materials from domestic producers. For instance, “Fayz Dekor Biznes” procures all its raw materials like nuts and milk powder from local manufacturers.

- Creation of synergies as the different LOF beneficiaries sometimes acted as suppliers and dealers for each other (for example the raw materials of Hydro Life Bottlers come from Tash-Pet, both beneficiaries of ICD LOF).

- Increase in foreign exchange earnings. For example, Urg-Antep-Yashem, a SME supported by the project, exported 58 percent of its production of carpets to Kazakhstan.

The lesson learnt from this project was that the introduction of Islamic financing instruments requires regulatory and unambiguous government support. This means that the first priority is to build the enabling environment.

Source: GOED Project Post-Evaluation, 1436H/2014G
The main mission of the Islamic Bank of Senegal is to contribute to the economic and social development of Senegal through the provision of a range of innovative financial products and services, in conformity with Shari'ah principles.

ICD, through Tamweel Africa Holding, has held 60% of the shares in the Islamic Bank of Senegal since 1431H. The Bank has been profitable for the past four years. The loan quality has also been improving dramatically.

The development benefits of this project include:

- Successful financing of SME clients like the Senegal Handling Services (SHS), a company specialized in providing assistance to passengers and aircrafts in Senegal, which has demonstrated a track record of profitability. The Bank provided around US$ 2 million to SHS to renew its equipment and be more competitive. Consequently, the financial situation of the company has been improving and it is now the lead provider of assistance to aircrafts and passengers in Senegal with a portfolio of 25 airlines. In 2014, SHS served around 800,000 passengers in Dakar International Airport.

- Financing provided to key sectors driving the economy such as construction and civil engineering, transportation, industry and services, energy, agribusiness and trade.

- Initiatives to benefit disadvantaged populations, including donation of medical equipment to hospitals, construction of clinics in rural areas, refection of girls' schools, grants to Koranic schools, etc.

In addition, the Bank is one of the biggest bank funding the public sector.

The Islamic Bank of Senegal could further develop its Islamic finance modalities by developing Sukuk (bonds) for infrastructure financing based on recent successes with the Government of Senegal.

*Source: ICD XPSR Islamic Bank of Senegal, 1436H*
5.4 Advisory and Arrangement Services

ICD provides advisory services to governments, public and private companies on economic, financial, institutional and legal aspects relating to creating an enabling environment for private sector development, project financing, restructuring/rehabilitation of companies, privatization, securitization, Islamic finance and development of Islamic markets, particularly Sukuk. The strategic goal of the Advisory Services is to continue to grow its programs across its member countries. The Advisory Services are provided through a number of programs as follows:

- The Islamic Financial Institutions Development Program advises financial institutions to adopt or to create Islamic banking practices, sometimes focused exclusively on SMEs.
- Sukuk and Capital Markets Programs help develop Islamic capital markets and works with private enterprises to structure tradable Islamic financial instruments.
- Infrastructure and Privatization Advisory Program advises on finding the right capital instrument for small and medium scale infrastructure projects (private or PPPs) and on increasing the abilities of governments to formulate privatization strategies.
- Industry and Business Environment Support Program helps to design and implement reform initiatives to increase industrial growth with a focus on SEZs.

Box 7

NOUADHIBOU FREE ZONE
MAURITANIA

Nouadhibou is Mauritania’s second largest city. It was considered to be an ideal site for setting up a special economic zone consisting of an industrial zone, a commercial seaport and airport services.

In 2011, the Industry and Business Environment Support (IBES) Program of ICD, coordinated the creation of the legal and institutional framework for the zone and supervised the feasibility studies for the industrial zone. A Ministerial Committee endorsed and adopted the project as a development priority for the national economy. In 2012, the Mauritanian Parliament declared the Nouadhibu Bay as a free zone. The Nouadhibou Free Zone Authority (NFZA) was subsequently inaugurated in 2013.

Since 2014, IBES has been supporting the NFZA with a US$ 400,000 capacity building program. The objective is to help the NFZA in planning, developing and administering a world class free zone. The program is being implemented as a form of a technical exchange and knowledge transfer program between the NFZA and the Aqabah Special Economic Zone Authority (ASEZ) in Jordan. Moreover, IBES will be supporting project preparation activities for a large cold storage project in the port of Nouadhibou based on a public private partnership structure. This project will address the weakest link in the fishery value chain (storage) and allow the industry to target export markets.

The NFZA, once completed in 2017, will create a better business environment for local and foreign investments and enable the acceleration of regional development by focusing public and private investment into priority sectors.
6.1 Overview

Promoting and developing Islamic financial institutions is one of the key elements of the IsDB’s 1440H vision and ICD can be considered a pioneer in promoting Islamic finance as a tool for private sector development. The Corporation promotes Islamic financing through:

- Providing Shari’ah-compliant financing directly through establishment of Islamic Banks, Leasing companies and Investment companies or in cooperation with host-country financial institutions;
- Advising and encouraging conventional financial institutions in member countries to open Islamic windows and/or convert into fully Shari’ah-compliant institutions;
- Encouraging the creation of Islamic capital markets.

ICD winner of the Islamic Economy Award 2014 in the Money and Finance Category, Dubai
6.2 Types of Islamic Financing

The specific types of financing provided by ICD to encourage private sector development have been institutional equity, corporate equity, fund, line of finance, term finance and corporate finance. ICD instruments to provide financing to the private sector include:

**Musharaka**: (Equity Participation): This is considered the purest form of Islamic financing, where the investors share both risks and benefits of the project, as in the case of the Jordanian Pharmaceutical Manufacturing (JPM) Project example below.

**Murabaha**: A contract between ICD and the buyer (beneficiary) for the sale of goods at cost, plus an agreed profit margin for ICD. Payment of the sale price is usually by instalments (see Asaka Bank Project example below).

**Ijara** (Leasing): A mode of financing involving purchasing and subsequently transferring the title or right of use of capital goods to the beneficiary (the enterprise) for an agreed rental fee and duration (see the Rahimafrooz Globatt Limited Project example below).

**Istisna’a** (deferred delivery): A contract under which ICD agrees to manufacture/acquire an asset based on an order and specifications of a buyer (beneficiary) and then sells the asset for an agreed price and method of payment (lump sum or through instalments) to the buyer.

**Mudharba**: A form of partnership where one party (the rab‑al maal, in this case ICD) provides the funds, while the other (the private enterprise) provides the expertise and management. Any profits accrued are shared between the two parties on a pre-agreed basis, while capital loss is borne by the rab‑al maal.

**Bai Salam**: A contract in which the buyer pays for the goods in advance. The delivery of the goods is to be made in the future.

These types of financing are provided to private enterprises, commercial banks in member countries and through global partnerships. It also provides a training program on Islamic financing techniques for member country private sector personnel.

In addition, ICD provides advisory services to the governments and state-owned and private enterprises, including on the creation of an enabling environment for the private sector, specific project financing and Islamic financing instruments. A more detailed list is provided in Annex III.

In a 2015 study published by the Fondation pour les Etudes et Recherches sur le Développement International, entitled “Is Islamic Banking Good for Growth?”, the authors Imam and Kpodar concluded that, “notwithstanding its relatively small size compared to the economy and the overall size of the financial system, Islamic banking is positively associated with economic growth even after controlling for various determinants, including the level of financial depth. The results are robust across different specifications, sample composition and time periods.” The paper investigates the relationship between Islamic banking development and economic growth in a sample of low and middle-income countries, using data over the period 1990-2010. The paper suggests that Islamic banking responds to the specific needs of households and firms, which would have been otherwise unmet. This paper also provides evidence that Islamic banking does not appear to crowd out traditional finance –it complements, rather than substitutes for conventional banking. However, the study does not suggest that access to Shari'ah-compliant financing offers any specific benefits other than to offer an additional source of financing.
6.3 Development Results

The results of ICD’s first Annual Development Effectiveness Survey indicate that 60% of the respondents were introduced, for the first time, to Islamic finance through the involvement of ICD. The introduction of Shari’ah-compliant financing practices by ICD has led to the creation and use of improved Islamic financing instruments in member countries, as shown by the examples in the boxes below.

Box 8

MALDIVES ISLAMIC BANK
MALDIVES

The Maldives Islamic Bank (MIB) is the first Islamic bank in the Maldives. It was established by ICD in collaboration with the Government of Maldives in April 2010 and commenced operations in March 2011. ICD currently holds 85% of shares in the Bank while the Government of Maldives holds the remaining 15%. The Islamic assets constitute 100% of MIB total assets.

MIB offers the full range of banking products and services in accordance with Sharia principles to corporate, commercial, SME, retail and government clients. It currently has two branches – one in the capital city Male and the other in Addu City, the second largest city in the Maldives. MIB plans to open branches in three more islands in 2015.

ICD provided technical and advisory support at the initial stage of the establishment of the bank. Through its representatives on the Board of Directors, it has been providing continuous guidance to management in the formulation of the Bank’s direction and strategies, and development of new products. ICD has also arranged training on Islamic finance through IRTI for the MIB staff.

In 1435 H, the Maldives Islamic Bank turned profitable, recording a positive return on equity of 3.53% at the end of 2013. The Bank now has more than 35,000 depositors and more than 2,300 financing clients, including the Government of Maldives.

Source: ICD Annual Report 1435 H
ICD, through its Islamic Financial Institution Program, provided advisory services to the Afriland First Bank of Cameroon to help launch an Islamic Banking Platform.

As a result of this project, the Afriland First Bank launched the first dedicated and truly separate Islamic banking window in Cameroon and the Central Africa Region providing comprehensive coverage of Shari'ah, accounting, information technology, human resources and legal aspects. ICD helped provide extensive theoretical and practical, including on-the-job, training.

A total of 21% of the population of Cameroon, who are Muslims, can now have access to a customized banking service based on Islamic principles.

ICD was presented with the “Best Islamic Financial Initiative” award in 2013 by the Tatweej Academy Committee for this project. In addition, the African Banker Awards shortlisted the Afriland Islamic Window as one of the top Islamic banking deals in 2013 in Africa.

6.4 Global Partnerships

In 1435H, ICD set up and/or participated in a number of global partnerships to promote Islamic financing practices as part of its Partnering for Development Strategy:

- It was one of the participants in the US$ 120 million facility arranged by Bank of America Merrill Lynch for Kiler Retail in Turkey. ICD was instrumental in setting up the Shari’ah tranche.
- It has partnered with Pelaburan MARA BERHAD (PMB) of Malaysia, a wholly owned Strategic and Asset Management Company of the Majlis Amanah Rakyat, a statutory agency of the Government of Malaysia, to venture into Shari’ah leasing business under the brand name of PMB Tijari Berhad.
- Within an MOU, ICD and the Japan International Cooperation Agency will cooperate to support the development of the Islamic Money Market in countries of common interest. The MOU includes the establishment of a platform for international dialogue on Islamic finance as a potential tool for sustainable and inclusive growth.

The Islamic Bank of Mauritania was created in 2009. The Bank’s vision is to become a leader in the promotion and development of Islamic Finance in Mauritania. The Bank’s activities are 100% Shari’ah-compliant.

The Bank has been profitable since its first full year of operations.

The development benefits include provision of $34.5 million of financing to more than 100 SMEs in Mauritania in key economic sectors such as fishing, construction, telecoms, education and industries. The Bank offers financial management know-how to SME clients as well as advice on negotiations when dealing with foreign suppliers.

To sustain its positive performance, the Bank needs to increase its own financial base. It is now incapable of satisfying all the financing demands of its clients.

The Bank needs to secure affordable medium to long-term sources of Islamic financing since it cannot finance its activity through the Central Bank as it not Shari’ah-compliant nor can it rely on clients deposits due to their short term nature.

Source: ICD XPSR Islamic Bank of Mauritania, 1436H

THE ISLAMIC BANK OF MAURITANIA
MAURITANIA

The Islamic Bank of Mauritania was created in 2009. The Bank’s vision is to become a leader in the promotion and development of Islamic Finance in Mauritania. The Bank’s activities are 100% Shari’ah-compliant.

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The development benefits include provision of $34.5 million of financing to more than 100 SMEs in Mauritania in key economic sectors such as fishing, construction, telecoms, education and industries. The Bank offers financial management know-how to SME clients as well as advice on negotiations when dealing with foreign suppliers.
ICD, in collaboration with Thomson Reuters, launched the Islamic Finance Development Indicator (IFDI) at the Global Islamic Economy Summit in November 2013, in Dubai.

The IFDI is a numerical indicator measuring the overall status and growth of the Islamic finance industry worldwide. It will provide simple quantitative and comparable information on five key components – quantitative development, governance, social responsibility, knowledge and awareness at global and country levels.

This indicator, the first of its kind in the context of Islamic Finance, will provide companies with much needed unbiased and reliable analysis of the status of the Islamic Finance industry and the institutions within it.

In 2014, the IFDI covered 92 countries with the global average indicator value at 10 (on a scale of 0 to 100) – 24 countries scored higher than the global average. Malaysia was the highest at 93. Countries from the MENA, GCC and Southeast Asia ranked high as well. The other 68 countries scored below the global average.

This suggests that the Islamic Finance industry is at a nascent stage and has not yet penetrated most markets.


6.5 Islamic Finance Talent Development Program

In 2011, ICD launched the Islamic Finance Talent Development Program (IFTDP). The purpose of this program is to build a pool of trained young Islamic Finance executives who will be capable of leading the Islamic Finance Industry in the future. Twelve professionals from various member countries take part in a two-year training program in each cohort. The training involves on-the-job rotational assignments, in-class training, coaching and mentoring, assignment and individual development plans. The program has stringent eligibility requirements including an MBA (or equivalent in a related field), 2-3 years of experience in finance and investment, and excellent information technology skills.

There is significant interest in the IFTDP. The number of applicants has risen from 600 in 1433H to 1884 in 1436H. Three cohorts have entered the program since its inception with participants from 23 countries (MENA -19; SSA -6; Asi -9; ECA -1); two cohorts will graduate in 1436H. The participants have rated the program relatively highly and feel that the knowledge gained from the program will be useful.
In 1421H, world leaders endorsed eight Millennium Development Goals (MDGs) to eradicate extreme poverty by 1436H/2015. The achievement of the MDGs has been monitored periodically through a set of indicators in country reports. In 2015, Sustainable Development Goals (SDGs), which build upon the MDGs and are meant to replace them as the new global development goals, are in the process of being finalized.
Between 2000 and 2015, ICD member countries faced many challenges in achieving MDGs, including: slow growth prospects, resource constraints, lack of institutional reform, inadequate capacity development, uneven income distribution, global economic downturns, lack of political will, and lack of enabling environment to attract investment and encourage private sector development.

MDGs AT A GLANCE

1. Eradicate extreme poverty and hunger
2. Achieve universal primary education
3. Promote gender equality and empower women
4. Reduce child mortality
5. Improve maternal health
6. Combat HIV/AIDS, malaria and other preventable diseases
7. Ensure environmental sustainability
8. Develop a global partnership for development

As of 2011 (1431H), the latest report produced by IsDB on the MDGs showed that member countries were off-track on 29 indicators (including poverty, income distribution, job creation, hunger and nutrition, gender parity in education, etc.). Member countries were on-track on 16 indicators related to access to information technology, tuberculosis, and birth-related health. The report also noted the need for the IsDB Group to increase its project approval in the health and education sectors.

However, there are similarities between the indicators in the IsDB Vision 1440H and those of the MDGs. Possible contributions of ICD to the achievement of international development goals have not been assessed, but could include for example:

- **MDG 1**: A path out of poverty requires a strong economy that can provide jobs. ICD has contributed to this objective through its investments worth about US$ 3.4 billion since its inception and its emphasis on private sector development. This support has included direct financing of the private sector as well as advisory services to build capacity in private sector development.
- **MDG 2, 4, 5 and 6**: Improvements in health and education status require increases in the ability of member country governments and other represent roughly 6% of its allocations since inception. ICD will enhance its focus on development impact and effectiveness and will work towards contributing to the achievement of the SDGs as part of the international development community and in partnership with other IFIs. The current trend of increased funding for the SMEs particularly through lines of finance will contribute towards fulfilling many of the SDG goals including promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work. The emphasis of many of the SMEs in the provision of health and education service delivery will also add to ICD's contribution. In addition, ICD's traditional concentration of helping its member countries of building their infrastructures and sustainable agricultural practices will help meet the SDGs.

ICD's development effectiveness framework including a strengthened monitoring evaluation function aided by the use of DIMS will allow it to better report on its contributions to international development goals in the future.
Box 13

**SDGs AT A GLANCE**

1. End poverty in all its forms everywhere
2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture
3. Ensure healthy lives and promote well-being for all at all ages
4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
5. Achieve gender equality and empower all women and girls
6. Ensure availability and sustainable management of water and sanitation for all
7. Ensure access to affordable, reliable, sustainable and modern energy for all
8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
10. Reduce inequality within and among countries
11. Make cities and human settlements inclusive, safe, resilient and sustainable
12. Ensure sustainable consumption and production patterns
13. Take urgent action to combat climate change and its impacts
14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development
15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
17. Strengthen the means of implementation and revitalize the global partnership for sustainable development
Most ICD member countries have now reached middle-income status or above. For these countries, continuing growth of the private sector and accelerating integration within an increasingly globalized economic framework will be critical for further development. ICD, as the private sector promotion agency of the IsDB, will play an increasingly important role in these countries not only in terms of funding private sector development but also in building enabling environments for the private sector in these and the remaining low-income countries.

ICD will:

- Complement IsDB’s efforts through the development and promotion of the private sector, as a vehicle for economic growth and development in member countries, and,
- Become a premier multilateral Islamic financial institution.
Achieving Development Objectives

To achieve the first objective, ICD will further emphasize inclusive growth – growth that leads to an expansion of opportunities and is accompanied by measures to ensure that the poor and disadvantaged are able to access these opportunities and are not left behind. ICD’s recent emphasis on expanding its funding and capacity building for small and medium-sized enterprises is encouraging in this regard. These enterprises are by far the biggest employers in member countries and often the primary route to promote economic well-being, a more equal distribution of wealth, and eventually poverty reduction.

In addition, ICD has set ambitious development targets, not only in terms of its contribution to achieving the ISDB’s 1440H strategy, but also in achieving its own business strategy for 1435-1437H. This means that increasing and greater attention will now be paid to development objectives.

All multilateral and bilateral Development Finance institutions (DFI) work hard to find a balance between financial profitability and sustainability and achieving development results. ICD is no exception.

ICD is well on its way to establishing a well-designed development effectiveness framework encompassing a strategic policy and tools for implementation of this policy starting at the design stage and continuing through implementation and monitoring and post-project evaluations. These policies and tools such as the DIMS and XPSR will be most useful as they serve as explicit management and learning tools. There is evidence that ICD project designers are now using the DIMS appropriately to define development outcomes. It is expected that this practice will become completely integrated and a natural part of the design and approval process. ICD will continue to build and implement an effective development effectiveness measurement system to monitor its progress towards these objectives and to ascertain the development efficacy of its projects at all stages. The M&E System is being improved with the upgrading of the DIMS to integrate the new harmonized indicators and a new Management Dashboard.

The current ICD results framework reflects best practices in stating development results and will need to be reviewed periodically and revised to fit changes in the broader operating environment in the member countries.

The financing needs of the private sector in member countries is vast and will become even more so as they advance down their development path. While ICD has been successful in meeting some of this demand, its market share remains small relative to the market size. New and innovative means of leveraging will be useful to scale up ICD’s PSD interventions. For example, employing public-private partnership techniques such as impact investing and social businesses could be used to leverage ICD funds and support socially beneficial enterprises and initiatives.

Promotion of Islamic Financing

Availability of Shari’ah-compliant Islamic financing holds great appeal in ICD’s member countries. The prospects for Islamic financing markets are vast and can extend beyond the borders of member countries to non-Muslim countries where there is a significant Muslim population. Islamic Finance Channels can act as an important conduit to promote both private sector development impact and Islamic Finance impact.

ICD has often been a pioneer in providing Islamic financing instruments and mechanisms not only to the private sector but also to the general public through support and advice for the establishment of Islamic Banking Windows and direct establishment of Islamic financial institutions. In addition, it has trained future finance professionals in this mode of financing.

ICD’s involvement and in particular its rigour in providing such financial services (through the certification of its Shari’ah Committees) has given it great credibility on the market. It is now in a position to build on its reputation and its Islamic Finance market leader status to scale up its operations in its member countries. Despite ICD’s efforts and those of the institutions it supports, Islamic financing is a relatively small portion of the overall financial markets in the member countries and a minuscule part of the international markets.

The question is how Islamic financing can move beyond being a niche and often novelty mechanism to become part of national and international mainstream financial markets. In some countries, the enabling environment encouraging the use of Islamic banking windows is not yet established. In addition, they have to compete (in terms of offering competitive financial returns and/or lending and borrowing terms) with long-standing banking and financing traditions and a much larger provision of financial instruments by mainstream institutions. Evidence suggests that even when there are supportive enabling environments and a push by the governments to promote Islamic financing practices, as in the case of Indonesia, the proportion of the use of Islamic banking institutions or practices relative to the overall financial market remains small.
Mainstreaming Islamic financing in member countries and beyond will require highlighting the distinctions between conventional and Islamic financing so that the appeal of Shari'ah-compliant financing is broadened within the Muslim population. The establishment of global partnerships holds great promise for advancing Islamic financing. Building a supportive enabling environment and the active participation of member country governments will provide further impetus.

Finally, active marketing of Islamic financing and its advantages should become an integral part of any ICD package to promote such practices. The communications should not only be in terms of the “purity” of the instruments but also in terms of the competitiveness and efficient provision of such financing.

Development Effectiveness Framework

ICD has so far made good progress in developing a rigorous development effectiveness framework starting with the project design and approval processes to systematic monitoring of project implementation and finally post-project evaluation. Some of the initiatives planned for the future are:

- Deepening cooperation with similar Multilateral Development Banks in enhancing the harmonization of development effectiveness measurement systems
- Designing and implementing a tracking system to assess ICD’s contribution to the Sustainable Development Goals
- Further refining operational effectiveness measurement with custom made elements for each business line
- Enhancing transparency and accountability with the publication of Annual Development Effectiveness Reports.

Finally, ICD’s ability to remain a relevant and important player will depend on its ability to scale up its efforts to translate its successful and pioneering efforts at promoting private sector development in member countries through the provision of Islamic financing. This can happen only if the financial resources available to the Corporation increase in meaningful terms in relation to its international counterparts and to providers of mainstream financing products in its member countries.
ANNEX I

ICD Member Countries and Institutions as of 29 Dhul Hijjah, 1435H

Islamic Development Bank

Countries
1. Democratic and Popular Republic of Algeria
2. Azerbaijan Republic
3. Republic of Albania
4. Republic of Chad
5. Republic of Cote D’Ivoire
6. Kingdom of Bahrain
7. People’s Republic of Bangladesh
8. Republic of Benin
9. Brunei Darussalam
10. Burkina Faso
11. Republic of Cameroon
12. Union of Comoros
13. Republic of Djibouti
14. Arab Republic of Egypt
15. Republic of Gabon
16. Republic of the Gambia
17. Republic of Guinea
18. Republic of Guinea Bissau
19. Republic of Indonesia
20. Islamic Republic of Iran
21. Republic of Iraq
22. Hashemite Kingdom of Jordan
23. Republic of Kazakhstan
24. State of Kuwait
25. Kyrgyz Republic
26. Republic of Lebanon
27. Libya
28. Malaysia
29. Republic of Maldives
30. Republic of Mali
31. Islamic Republic of Mauritania
32. Kingdom of Morocco
33. Republic of Mozambique
34. Republic of Niger
35. Federal Republic of Nigeria
36. Islamic Republic of Pakistan
37. State of Palestine
38. State of Qatar
39. Kingdom of Saudi Arabia
40. Republic of Senegal
41. Republic of Sierra Leone
42. Republic of Sudan
43. Republic of Suriname
44. Syrian Arab Republic
45. Republic of Tajikistan
46. Republic of Tunisia
47. Republic of Turkey
48. Republic of Turkmenistan
49. Republic of Uganda
50. United Arab Emirates
51. Republic of Uzbekistan
52. Republic of Yemen

Public Financial Institutions
53. Iran Foreign Investment Company
54. Bank Kersharvazi (Iran)
55. Bank Melli (Iran)
56. Saudi Public Investment Fund
57. National Bank of Algeria

Countries that Have Signed the Articles of Agreement and are in the Process of Ratification
58. Afghanistan
59. Sultanate of Oman
60. Republic of Togo
61. Republic of Somalia
To measure development results, harmonize with other IFIs and promote learning across all business units, ICD has adapted an RBM approach used by the World Bank to its own needs. The approach was developed by the World Bank to design, build and sustain a results-based monitoring and evaluation system. ICD’s M&E Department uses the “Ten Steps” approach to Results Based Monitoring and Evaluation System in implementing its development effectiveness measurement process. A description of the first nine steps and how they are implemented in ICD are presented in the figure below. The tenth step is about sustaining and integrating the monitoring and evaluation function at ICD.

The implementation status of ICD’s monitoring and evaluation system as of the end of 1435H, is described below:

- The M&E system assessment was conducted during the last month of 1435H;
- The ICD XPSR guidelines define clearly the 5 dimensions of ICD Development Outcomes;
- ICD’s participation in the IFIs Indicators Harmonization Working Group provides ICD with the opportunity to select key development indicators;
- The M&E System is being improved with the upgrading of the DIMS to integrate the new harmonized indicators and a new Management Dashboard.
- In 1436H, all new projects will have clear Development Indicators with Baseline and Target prior to obtaining approval from the Investment Committee;
- In 1436H, Development Effectiveness Reporting will be part of the Client Reporting Requirements in the Legal Agreements;
- The M&E Department has started developing XPSRs and two ex-post evaluations were conducted in 1435H by IsDB’ Group Operations Evaluation Department;
- A Management Response Tool will be developed to promote the use of the evaluation findings;
- The M&E system will be continuously improved with the state-of-the-art development effectiveness practices among IFIs and the outcomes of the harmonizing working group.
ICD offers three sets of Shari'ah-compliant business products and services to its private sector clients in member countries. These global business products are mutually reinforcing and interrelated, and are composed of Financing products, Advisory services and Asset management.

**Long- and Short-term Financing**

ICD’s mandates to serve the private sector of member countries are carried out through a number of products offered to clients. The Corporation finances private sector entities, Greenfield and expansion projects directly through equity participation, purchase of assignable bonds and term financing. ICD also extends short-term finance to cover working capital or raw materials requirements of private sector entities through Murabaha or Purchase and Leaseback for up to 24 months.

Furthermore, ICD extends lines of financing to commercial banks and national development financing institutions in member countries to indirectly finance their small and medium enterprises (SMEs). ICD’s financing and investment products include:

- **Musharaka** (Equity Participation): This is considered the purest form of Islamic Financing, where the investors share both risks and benefits of the project. In this mode of financing, all parties contribute towards the financing of a venture and they agree to share profits on a pre-agreed ratio, while losses are shared according to each party’s contribution. All, some or just one party carries out management of the venture.

- **Diminishing Musharaka**: This mode of financing allows equity participation and sharing of profit on a pro rata basis. It also provides a method through which ICD keeps on reducing its equity in the project and ultimately transfers the ownership of the asset to one of the participants.

- **Mudharba**: This is a form of partnership where one party provides the funds, while the other provides the expertise and management. The former (Capitalist) is known as the rab-al-maal, while the latter is referred to as the Mudarib. Any profits accrued are shared between the two parties on a pre-agreed basis, while capital loss is borne by the rab-al-maal.

- **Leasing (Ijara)**: It is a mode of financing, which involves purchasing and subsequently transferring the title or right of use of capital goods to the beneficiary for an agreed rental fee and duration. During the lease period, ICD retains legal or beneficial ownership of the asset as the case maybe.

- **Instalment Sale (Bai Ajel)**: It is a mode of financing under which, ICD purchases capital goods from a third party and resells them to the beneficiary at a price agreed by the two parties. The ownership of the asset is transferred to the purchaser on actual delivery or constructive possession and payment of the sale price is made through consecutive instalments.

- **Manufacturing Contract Finance (Istisna’a)**: It is a contract under which ICD agrees to manufacture/acquire an asset based on an order and specifications of a buyer (beneficiary) and then sells the asset for an agreed price and method of payment (lump sum or through instalments) to the buyer.

- **Murabaha**: It is a contract between ICD and the buyer (beneficiary) for the sale of goods at cost, plus an agreed profit margin for ICD. Payment of the sale price is usually by instalments.

- **Bai Salam**: It is a contract, where the buyer pays for the goods in advance. The delivery of the goods is to be made in the future. This type of financing is most often used when a farmer needs capital to cultivate and harvest his crops.

**Advisory Services**

ICD also provides a wide variety of advisory services to governments, public and private entities of member countries. The range of services includes such issues as assessing the business environment of member countries along with the required reform actions. It also provides advisory services for project financing, restructuring/rehabilitation of companies, privatization, securitization, Islamic finance and development of Islamic capital markets.

**Asset Management**

ICD sponsors, manages (as Mudarib) and participates in mutual funds and other special purpose investment vehicles designed to invest or finance projects in accordance with its mandate. At the same time, it structures, arranges, and underwrites syndications. Furthermore, it manages shares and securities issues, makes private placements and carries out securitizations for its clients.
For any further information on this report please write to the Monitoring & Evaluation Department at ICD@ISDB.ORG