ANNUAL DEVELOPMENT EFFECTIVENESS REPORT 2018

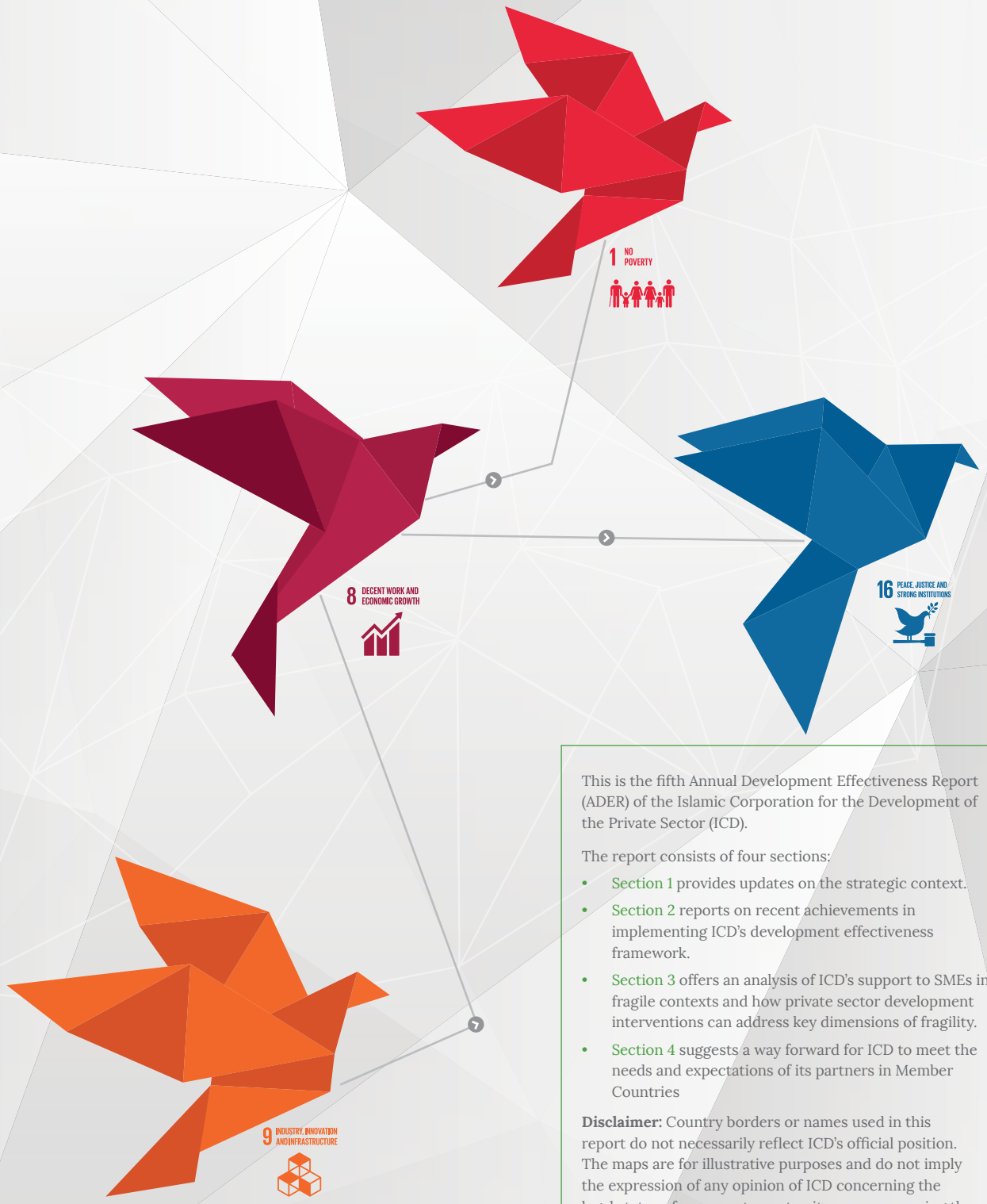
WITH A SPECIAL FOCUS ON ICD'S INNOVATION IN SUPPORTING SMES IN FRAGILE SETTINGS

Islamic Corporation for the Development of the Private Sector

Member of the Islamic Development Bank Group

APRIL 2019

ENABLING ENTERPRISE, BUILDING PROSPERITY



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

The report consists of four sections:

- Section 1 provides updates on the strategic context.
- Section 2 reports on recent achievements in implementing ICD's development effectiveness framework.
- Section 3 offers an analysis of ICD's support to SMEs in fragile contexts and how private sector development interventions can address key dimensions of fragility.
- Section 4 suggests a way forward for ICD to meet the needs and expectations of its partners in Member Countries

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

TABLE OF CONTENTS

ABBREVIATIONS

AAB	Al-Akhdar Bank
ADB	Asian Development Bank
ADER	Annual Development Effectiveness Report
ADOA	Additionality and the Development Outcome Assessment
AfDB	African Development Bank
BCP	Business Continuity Plan
BDS	Business Development Service
BRAVE	Business Resilience Assistance to Value- adding Enterprises
BRC	Business Recovery Support
CAR	Capital Adequacy Ratio
CIS	Commonwealth of Independent States
CRC	Consultancy Review Committee
CRM	Customer Relations Management
DAC	Development Assistance Committee
DEA	Development Effectiveness Agenda
DELTA	Development Effectiveness Learning Tracking Tool
DER	Development Effectiveness Rating
DFI	Development Finance Institution
DID	Difference in Differences
DIMS	Development Indicator Monitoring System
DISS	Development Impact Scoring System
DMF	Design and Monitoring Framework
DSCR	Debt Services Coverage Ratio
ECA	Europe and Central Asia
ERR	Economic Rate of Return
EMDEs	Emerging Markets and Developing Economies
ERC	Expenditures Review Committee
FCS	Fragile and Conflict-affected Situations
GIIN	Global Impact Investing Network
GNA	Government of National Accord
HIPSO	Harmonized Indicators for Private Sector Operations
IaDB	Inter-American Development Bank
IBES	Industry and Business Environment Support
ICD	Islamic Corporation for the Development of the Private Sector
IDP	Internally Displaced Person
IFC	International Finance Corporation
IsDB	Islamic Development Bank
IsDBG	Islamic Development Bank Group
IRR	Internal Rate of Return
J-PAL	The Abdul Latif Jameel Poverty Action Lab
LoF	Line of Finance
MDB	Multilateral Development Bank
M&E	Monitoring and Evaluation
MC	Member Country
MENA	Middle East and North Africa
MIT	Massachusetts Institute of Technology
MSME	Micro, Small and Medium Enterprises
ODI	Overseas Development Institute
OECD	Organization for Economic Cooperation and Development
PMU	Project Management Unit
RCT	Randomized Control Trial
SDG	Sustainable Development Goal
SEZ	Special Economic Zones
SME	Small and Medium Size Enterprises
SSA	Sub-Saharan Africa
STI	Science, Technology and Innovation
SWF	Sovereign Wealth Funds
TA	Technical Assistance
VC	Value Chain
We-Fi	Women Entrepreneurs Finance Initiative

HIGHLIGHTS OF ICD'S PORTFOLIO IN FRAGILE CONTEXTS

In the last four years (2015-2018), ICD continued investing in its Member Countries (MCs) in fragile and conflict-affected contexts.

Overall, ICD approvals increased from 2015 to 2017 before a slowdown in 2018.

In Fragile and Conflict-affected Situations (FCS), ICD approvals decreased from 2015 to 2017 before increasing in 2018.

In 2018, ICD approvals in FCS exceeded those in non-FCS (68% vs. 32%).

On average, in the last 4 years, 36% of ICD approvals went to MCs in FCS.

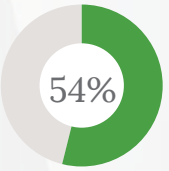
Line of Finance (LoF) was the most attractive investment product in FSC in 2018 (80%).

On average, in the last 4 years, 36% of ICD disbursements went to MCs in FCS.

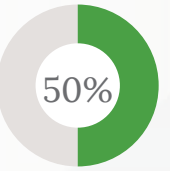
Since 2016, disbursements in FSC mainly done through LoF and Term Finance.

2018 HIGHLIGHTS

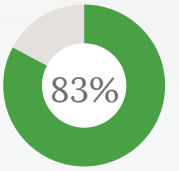
HIGHLIGHTS OF 2018 ICD'S DEVELOPMENT EFFECTIVENESS SURVEY



Twenty nine (29) ICD MCs are classified as being in fragile situation in 2018 (54% of the total).



ICD has an active portfolio in 50% of these countries.



The survey response rate is 83% (20 out 24 targeted projects from 13 MCs).

The oldest ICD local partners are in Yemen (13 years) and sub-Saharan Africa (10 years).

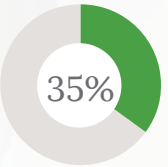
TYPES OF FINANCIAL INSTITUTIONS IN THE SAMPLE

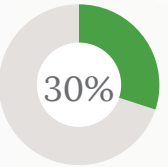
Islamic banks

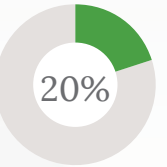
Conventional banks with an Islamic window

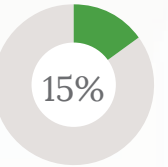
Conventional banks

Ijara companies









The total number of individual clients of the surveyed financial institutions is 8 million.

The total number of SME clients is estimated to be 377,159, without one outlier from Nigeria: Sterling Bank (with 1 million clients).

The share of SME financing in total banking portfolio in 2018 was 36%.

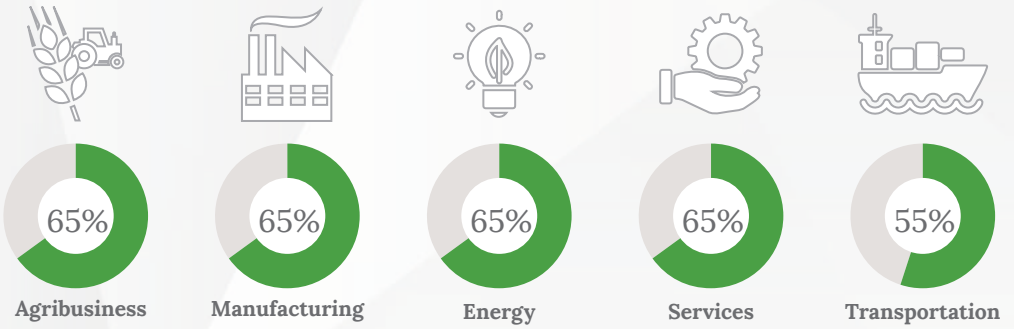
In 90% of institutions, SME financing targets are reflected in their Key Performance Indicators (KPIs) and performance management.

70% of institutions have an SME policy.

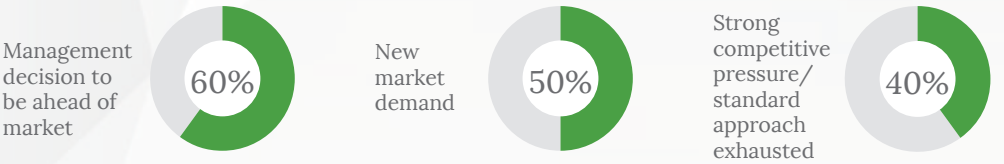
65% of institutions have a dedicated SME department.

70% of institutions have received support for SME financing.

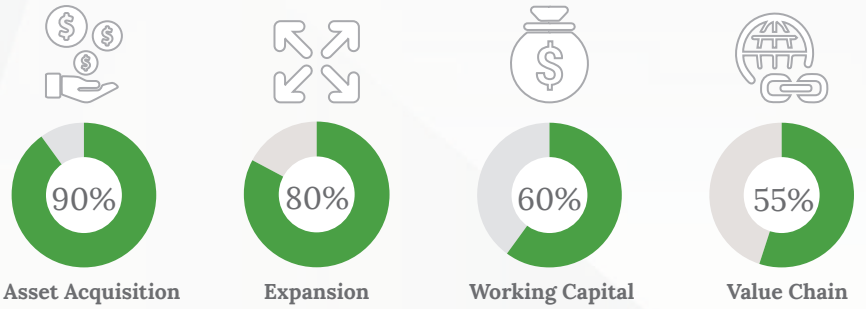
MAIN SECTORS TARGETED IN SME FINANCING BY THE SURVEYED INSTITUTIONS:



TOP THREE FINANCING STRATEGIES IN PARTNER INSTITUTIONS:



BANKS ARE WILLING TO PROVIDE FINANCE FOR:



Only 25% of banks want to provide finance for start-ups.

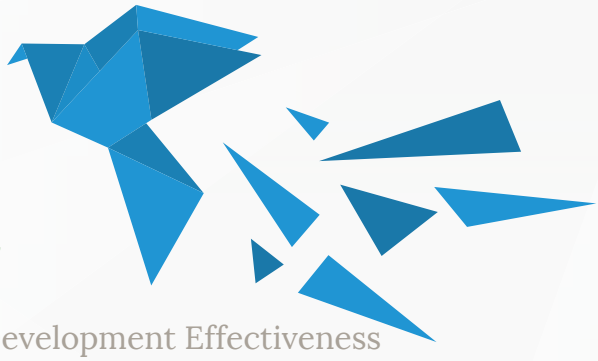
The share of SME financing in total banking portfolio in 2018 was 36%.

In 2018, banks could finance only 23% of all financing requests (4,929 financing facilities provided in 2018).

Conventional banks rated their partnership with ICD highest (4 out of 5), but Islamic banks – lowest (2.9 out of 5).

80% of financial institutions reported having at least some benefit from the partnership with ICD.

MESSAGE FROM THE CEO



"IN THE NAME OF ALLAH, THE BENEFICENT, THE MERCIFUL"

ICD is pleased to present the 2018 Annual Development Effectiveness Report (ADER) of the Islamic Corporation for the Development of the Private Sector (ICD). Innovative ways of supporting small-and medium-size enterprises (SMEs) particularly in fragile and conflict affected states(FCS) is a primary focus of this 5th edition of ADER.

Since its inception in 1999, ICD's committed investment exceeded USD 3.1 billion to address SMEs' funding requirements through local and regional financial intermediaries or so-called 'channels' approach. Due to this record size of operations in the past 19 years, we found SMEs quite agile and dynamic in adapting to unstable environments and tough situations. Therefore, SMEs in FCS remain beneficiaries of ICD's support that bring not only economic development, but also social cohesion, less inequality and higher resilience to their communities.

The focus on fragile contexts is becoming especially important for the IsDB Group due to projected changes in the global economy and Member Countries (MCs) circumstances. In 2018, our MCs experienced 3.4% economic growth compared to 3.7% globally. Furthermore, 29 of 57 IsDBG MCs are currently in fragile contexts according to the Organization for Economic Cooperation and Development (OECD). In particular, more than 80% of the world's poorest will be living in fragile contexts by 2030.

The IsDB Group President's 5-Year Program (P5P) and the ICD's strategy based on the IsDB Group's 10-Year Strategy are well positioned to help address the issue of SMEs in fragile contexts in MCs. The P5P entails improvements across four focus areas including the global value chain; innovations in Islamic finance; science, technology and innovation (STI); and partnerships and resource mobilization. At the same time, the 10-Year Strategy is set to improve ICD operations and foster broad based growth and job creation. In line with these goals, the ICD has taken additional strides to upgrade its Monitoring and Evaluation (M&E) framework with advanced Development Impact Scoring System (DISS) and the creation of Dashboard Tracking Systems. The former computes the development impact generated at the time of approval and latter supports the project teams to track project outcomes and to allow for course corrections during implementation.

The Business Resilience Assistance for Value-adding Enterprises (BRAVE) Project, currently under implementation in Yemen, designed by the ICD-IBES Program, to be expanded to Mali and Nigeria, in collaboration with IsDB, demonstrates some of the innovations which ICD has implemented in fragile contexts, has created a demonstrable impact. This project helped 266 enterprises stay in business, creating hundreds of jobs along with tangible economic and social benefits for their communities.

ICD's developmental accomplishments in 2018 would not have been possible without the help and guidance of the Chairman of the Board, the Board Members and the hard-work of the ICD staff. Special thanks are also due to all our partners in MCs for their hard work and support. Finding ways to work towards economic growth, equality and improvement in difficult contexts is an important and worthwhile initiative. We at ICD are determined to deliver even better on the vote of confidence we receive from our shareholders. Moving forward, ICD will enhance its capabilities and broaden its partner reach to make use of the FinTech solutions and innovative technologies to increase the scale and become more effective as well as efficient. We look forward to walking this path together with all of you.

I pray to Allah the Almighty to continue to guide us in our efforts to address and overcome whatever challenges lie ahead as we work towards a better future, Amin.

Ayman Amin Sejiny
CEO & General Manager

EXECUTIVE SUMMARY

This is the fifth Annual Development Effectiveness Report (ADER) of the Islamic Corporation for the Private Sector Development (ICD). It describes the global strategic context with its economic challenges to the ICD Member Countries (MCs) that ICD is committed to address; the advancement of development effectiveness framework, including new ICD's approaches to measuring impact and additionality framework; ICD's role in fragile settings; and the way forward.

GLOBAL CONTEXT

Numerous economic indicators point towards a downturn in the global economy, largely due to heightened risk and diminishing activity. The impact of this downturn will not be evenly felt or evenly distributed across regions and nations. Some states are projected to experience increased economic difficulties. Specifically, many Islamic Development Bank's (IsDB) MCs run the risk of failing to achieve Sustainable Development Goal 1 (SDG1), addressing extreme poverty, defined as living on less than USD 1.90 per day. This potential development is especially worrisome as extreme poverty is projected to decrease worldwide yet increase in MCs. Currently, thirty-six countries will not meet SDG1, seventeen, over a half of which are MCs. In fact, four MCs are regressing in terms of achieving SDG1, getting further away from the desired goal.

Fortunately, the President's Five-Year Program (P5P, 2016-2021) is well positioned to help address this issue. Part of the goal of the program is to transition the IsDB from a funding provider to a development enabler, market creator and investment facilitator. In other words, from a purely funding role to a development and capacity building role. The program contains four main components, focusing on: (i) the global value chain, (ii) science, technology and innovation, (iii) innovative Islamic finance and (iv) partnerships and resource mobilization. Achieving improvements in these areas means improving operations. As such, the private sector arm of IsDB, the Islamic Corporation for the Development of the Private Sector (ICD), has created four strategic priorities for improving its operational efficiency and effectiveness. These priorities include: (i) revisiting the operating model,

(ii) introducing innovative products, (iii) improving ICD internal process and (iv) ensuring robust financial performances. These components and priorities comprise the overarching attempts to improve and realign the IsDB and ICD operations.

DEVELOPMENT EFFECTIVENESS FRAMEWORK

In order to track the progress of its initiatives, ICD has continued to improve its Development Effectiveness Agenda (DEA) on both the global and local level. At the global level, this improvement involves taking a more focused approach to measuring development impact and identifying attribution achieved through using new methods and utilizing an SDG dashboard which accurately tracks progress. A great example of this is the Business Resilience Assistance for Value-adding Enterprises (BRAVE) Project in Yemen, which employed a pre-test/post-test design to isolate and measure the impact of the matching grant component of the program using a Difference-In-Differences identification strategy.

At the local level, this improvement involves supporting local financial institutions as they build and develop their own monitoring and evaluation systems. Al-Akhdar Bank of Morocco demonstrates what this approach can provide, as it was one of the first local banks to receive Technical Assistance support in development effectiveness system. As part of the partnership, it created a clear roadmap for implementing a monitoring and evaluation system and a dashboard to track its progress.

In order to maximize its impact, ICD will begin using its new grading system, Development Impact Scoring System (DISS), which was developed using benchmarks and metrics from numerous Development Finance Institutions. This new scoring system allows ICD to maximize its impact by supporting institutions which (i) align with ICD's mandate, (ii) take into account the fragility context of the country, (iii) use the Harmonized Indicators for Private Sector Operations (HIPSO) that allow ICD to target specific SDGs, (iv) provide specific financial and economic performance results and (v) allows for Additionality – providing financial and non-financial support beyond what is currently available.

ICD'S ROLE IN FRAGILE SETTINGS

All this progress, however, must take into account local and national circumstances where fragility acts as a major obstacle to the realization of the SDGs. Many MCs are classified as fragile states, including many of those with high populations of extreme poverty. As of 2018, 54% of MCs are considered at risk (29 out of 54 countries). Based on a definition provided by the OECD, fragility involves a state's exposure to risk and its ability to cope or mitigate those risks across economic, environmental, political, societal and security dimensions. The fragility context is important for ICD for several reasons. First, as established by the OECD and Overseas Development Institute (ODI), it has significant impact on poverty and economic growth, affecting the most vulnerable segments of the population. Second, it acts as a roadblock for MCs in their attempts to achieve the SDGs.

One potential way of continuing to work towards the SDGs in fragile states is by focusing on Small and Medium-sized Enterprises (SMEs). SMEs play a disproportionately large role in economic, social and political growth in developing countries. The International Finance Corporation (IFC) noted that 70-95% of newly created jobs in these countries can be attributed to SMEs. These jobs provide not only economic benefits, but also many additional benefits which the national governments cannot produce. ICD has the potential to play an important role in supporting SMEs in fragile MCs by creating partnerships with local banks and private sector actors and helping them meet SME needs.

The BRAVE project in Yemen offers a worthwhile case study for how ICD can support SMEs in fragile states. The ongoing conflict in Yemen has produced a humanitarian and economic crisis. Over a quarter of all enterprises have closed, with women owned enterprises accounting for nearly half (42%). These closures, the result of the destruction of infrastructure and inability to access financing and numerous other factors, have severely impacted the entire Yemeni economy. The aim of

the BRAVE project was to address this crisis by offering training and matching grants to SMEs in the health care, fishery, food, clothing and agri-business sectors in Sana'a, Aden and Hadramout. In total, over 500 enterprises received training that helped them develop risk management and business continuity plans. Of these enterprises, roughly 300 were randomly selected to receive grants with 50% matching contribution from their own funds. Local banks played an important role as partners facilitating the transfer of funds to the SMEs.

The success of BRAVE can be demonstrated with the survey results. 97% of surveyed entrepreneurs confirmed that the intervention was right and occurred at the right time. Many felt that the grants helped owners keep their businesses open, and sometimes expand operations despite the ongoing conflict. Furthermore, the intervention provided benefits to the community by creating new jobs and improving access to services, especially in the health care sector. According to the BRAVE dashboard, over 800 new jobs were created as a direct result of the intervention. Individual cases, such as Al Ameer in the textile sector, demonstrate the success of the project. At one point, the owner had considered closing the business, but, as a result of support from BRAVE, the owner developed a business continuity plan which helped him mitigate risks. As a result, Al Ameer added 10 new production lines, including the high-quality Al Shemage line which is now exported abroad. The enterprise has also opened 8 new retail stores and hired over 500 seasonal workers during busy periods. Clearly, BRAVE has provided a tangible benefit to Al Ameer, its employees and the community.

WAY FORWARD

Moving forward, ICD will take into consideration the concerns and expectations of its partner financial institutions as they are striving to improve the services to their client SMEs in fragile settings. In the ICD 2018 Development Effectiveness Survey, financial institutions shared their observations of reasons that prevent SMEs from getting financing, for example, high cost of borrowing, high business risk, poor business accounting systems and weak cash flow. Institutions also expected ICD to help them with increasing their knowledge and skills of financing mechanisms, especially Islamic banking practices; proving technical assistance; building capacity and accessing financial markets among other things.

To strengthen its services, ICD intends to make use of the technological solutions enabled by the advance of digital economy. One such technology is an Ethereum-based blockchain with its smart contracts. It requires trust among all participants using it and has a potential to simplify and accelerate financial transactions.

Section 1

INTRODUCTION: THE STRATEGIC CONTEXT

1.1 OVERVIEW

This section describes the new direction of the Islamic Development Bank (IsDB) and how its private sector arm, Islamic Corporation for the Development of the Private Sector (ICD), is adapting to the changes and challenges in the emerging global development sector.

1.2 THE GLOBAL LANDSCAPE

During 2018, the global economic prospects remained under stress despite strong momentum in the previous year. Globally, international trade and investment have softened, trade tensions have elevated, and some large Emerging Markets and Developing Economies (EMDEs) experienced substantial financial market pressures. Diminishing activity and heightened risks are the major contributory factors[1].

It is estimated that the gap in economic growth between EMDEs and IsDB MCs is set to shrink over the next several years. Overall, global growth is projected to decrease by 2.9% in 2019 and 2.8% in 2020-21. However, this reduction is not equally distributed. Projections for the next five years pegs EMDE growth at around 4.8%, largely driven by recovering commodity prices and strong growth in India and China. During this same period, inflation rates are set to increase in the MCs, with 12% in the IsDB Middle East and North Africa (MENA) region and 4.3% in the IsDB Asia region. This inflation will largely be driven by rising oil prices and reactionary fiscal measures.[2]

Despite the shrinking development gap, many IsDB MCs run the risk of failing to address extreme poverty and reach SDG1. Currently, just under 600 million people (8% of the world population) live in extreme poverty, living on less than USD 1.90 per day. African nations account for most of these people, with 422 million (71%). While extreme poverty is set to decrease by 178 million people by 2030, it is expected that African nations' percentage of this figure will rise to 90%. Nigeria in particular has already overtaken India in terms of the largest number of citizens living in extreme poverty, and it is expected to retain this position by 2030. In terms of addressing this issue, twelve countries are on track to end extreme poverty and meet SDG1, including six IsDB MCs. However, thirty-six countries are not projected to meet this goal, with seventeen of them being IsDB MCs. In fact, thirteen countries are getting further away from achieving the goal, including four IsDB MCs.[3] In short, many IsDB MCs are projected to maintain or increase extreme poverty levels despite an estimated decrease worldwide.

Extreme poverty is aggravated by a fragile, conflict-affected and violent environment these countries live in. In 2016, 24% of the world's population lived in a fragile context, a proportion that is expected to increase to 28% and 34% of the total population in 2030 and 2050, respectively. [4] It is estimated that approximately 50% of the worlds poor will be living in fragile and conflict zones by 2030.[5] In the 2016 State of Fragility Report, the OECD defined fragility "as the combination of exposure to risk and insufficient coping capacity of the state, system, and communities to manage, absorb or mitigate those risks. Fragility can lead to negative outcomes, including violence, the breakdown of institutions, displacement, humanitarian crises or other emergencies."[6] Concerning the ICD MCs, 54% of them (29 out of 54) are classified as fragile in 2018.

The best ways for MCs to address the issue of poverty and fragility and narrow the development gap is through reducing inequalities; fostering industry, innovation and

1 The World Bank Group. 2019. "Global Economic Prospects, Darkening Skies". The World Bank
2 The Islamic Development Bank. 2018. "Member Country Macro-Perspectives". IsDB/ERIL
3 Cheikh Diop. IsDB SDGs Digest, 2019. "IsDB Member Countries Likely to Miss the Target on SDG1: Special Focus on Nigeria". IsDB/ERIL
4 https://www.oecd.org/dac/conflict-fragility-resilience/docs/OECD%20Highlights%20documents_web.pdf
5 World Bank. (2018). Overview of Fragility, Conflict, and Violence. Retrieved from: https://www.worldbank.org/en/topic/fragilityconflictviolence/overview
6 OCED. (2016). States of Fragility 2016: Understanding Violence: the OECD fragility framework. Retrieved from: https://read.oecd-ilibrary.org/development/states-of-fragility-2016/the-oecd-fragility-framework_9789264267213-7-en#page

infrastructure; and inculcating responsible consumption and production practices. Achieving these goals, which are part of the 17 SDGs, requires significant focus and investment in the developing world. Governments as well as multilateral and international organizations have realized that meeting SDGs will take more than the resources currently available. Policy makers have begun to rework their strategies, ramping up investment from billions to trillions for the 2030 global agenda. Globally, countries and international finance institutions are endeavoring to address these issues by acting as catalysts, encouraging and attracting private capital to help generate funds for development. The private sector comprised of private equity, venture capital and impact investing funds have begun to create products, raise capital and make new investments directly targeting the SDGs.

As the global economy continues to come to grips with the fourth industrial revolution, private sector can play an important role in social welfare and equitable development. The fourth industrial revolution involves technological innovation, specifically the expected long-term gains in efficiency and productivity resulting from disruptive phenomena like artificial intelligence, big data analytics, and virtual and augmented reality. In this type of economy, it is up to international organizations to deliver on the trickle-down promise to accrue universal benefits to all. At the same time, greater participation from non-government actors, especially the private sector, can help deliver on the guarantees of equitable development. In other words, both international organizations and private sector actors have a role to play in helping society adjust to the fourth industrial revolution and equitably distributing its benefits.

1.3 UPDATES ON THE ISDB PRESIDENT'S FIVE-YEAR PROGRAM (P5P)

In 2018, the President's Five-year Program (P5P, 2016-2021) has continued its journey to transform IsDB from a funding provider to a development enabler, market creator, and investment facilitator.

The P5P aims to prepare people for the future economy, focusing on:

(i) Global value chain

(ii) Science, technology and innovation

(iii) Innovative Islamic finance

(iv) Partnerships and resource mobilization

Value Chain – Making Markets Work for Development

The value chain-based approach builds on a country's inherent competitive advantages to accelerate growth, improve productivity, and foster decent work. The focus on value chain allows IsDB to prioritize its projects in areas where impact is expected to be the highest. This approach focuses on building relationships with development partners. This relationship helps to mobilize financing for specific industries and transferring technologies from advanced nations to developing ones.

H.E. the President illustrated IsDB's approach at the lecture given at the Oxford Center for Islamic Studies in November 2018. The core concept involves making markets work for development, using the competitive advantages of industries that are connected to the global market value chain. To maximize the benefits from global value chains, MCs should transition from a raw material export focus toward exporting manufactured products. An increased focus on manufactured products helps create added value and jobs in the home countries. Transforming raw materials into manufactured goods requires a range of technological, managerial and institutional abilities, and industrial capabilities that help countries create markets and increase local content for export. In short, transitioning to a manufactured export focus creates added economic and social benefits because of the inherent infrastructural requirements.

MCs, therefore, are urged to prepare long-term policies and plans based on this approach. These plans should be designed to promote labor-intensive, high added-value, industrialization and improve the quality of education to create a new generation of skilled and semi-skilled workers. Emerging markets and developing economies (EMDEs) should also create incentives to attract companies and investors from industrialized countries. This incentivization should allow for the transfer of sophisticated technological know-how and industrial capabilities. The expected outcome would be the creation of decent and high paying jobs in EMDEs and the reduction of illegal immigrants to the Western countries, creating a win-win scenario for all parties.

Science, Technology and Innovation

IsDB continues to invest in the promotion of science, technology and innovation (STI), driven by the commitment to support investments in human capital. IsDB considers STI as a key component of sustainable socio-economic development. As part of the new strategy, IsDB integrates STI into all programs, projects and businesses. In this regard, the flagship STI Programme (Engage) was launched in 2018 with a USD 500 million Transform Fund.

Another part of these initiatives was the Transformers Summit, hosted in Cambridge, UK in December 2018. It connected a coalition of entrepreneurs, innovators and global leaders to discuss the role of STI in achieving SDG11: Make cities and human settlements inclusive, safe, resilient and sustainable. With these initiatives, IsDB aspires to reduce the brain drain of young innovators and entrepreneurs migrating to developed countries in the West.

Innovative Islamic Finance

In line with the UN's SDGs, Islamic finance has a strong track record in promoting financial, social and economic stability, along with financial inclusion and shared prosperity. IsDB has been practicing Islamic finance

for over 44 years and is seeking to promote economic development through its operations. IsDB is a regular issuer of Sukuk, financial certificates complying with Sharia law. Over USD 19 billion Sukuk have been invested in different currencies and maturities to finance large-scale development projects and promote socio-economic development in its MCs.

IsDB also promotes other Islamic finance instruments, including the Waqf and Zakat.[7] As compared to other forms of charity, these two are substantial, persistent, and sustainable financial sources for their respective users. Hence, if appropriately directed, they can positively contribute and supplement the public-sector efforts in achieving socio-economic development. For instance, in July 2011, IsDB contributed USD 16 million in the form a waqf for a trade and residential complex in Bahrain, while more recently it provided a USD 57.1 million waqf for financing development projects in MCs.

1.4 Partnerships and Resource Mobilization

IsDB aims to mobilize financial and human resources through crowd-funding and crowd-sourcing platforms. The goal is to tap into the abundant liquidity of global capital markets, such as Sovereign Wealth Funds (SWF), to bridge the financing gap in MCs. Across the world, there are many such funds with total assets of USD 7.8 trillion. Of these funds, 29 are owned by the MCs countries totaling USD 3.4 trillion, representing 44% of the total assets held by SWFs worldwide.

The aim is to replicate and build on globally recognized success stories of empowering people to take the lead in changing their lives, such as the "Polio eradication Program" in Pakistan. In this program, IsDB partnered with the Bill and Melinda Gates Foundation to strengthen the healthcare system for the eradication of polio, investing USD 327 million in the program. With this partnership, IsDB not only brought financial resources to the country, but it also mobilized civil organizations, local leaders, and religious scholars to play an active and crucial role in raising public awareness and involvement in the program and beyond. This programme offers a striking example of what can be achieved when partners on all levels work together toward a common goal.

7 A waqf is an endowment while a zakat is an obligatory payment on certain properties. Both are made to a religious, educational, or charitable cause.

1.4 UPDATES ON THE ICD'S STRATEGY

ICD's strategy is based on the IsDB Group's 10-year strategy and is focused on fostering broad-based growth and job creation. In the next three years, ICD has set four strategic priorities to improve operation efficiency and effectiveness:

- **Revisiting the operating model:** The aim is to transform ICD into a front-running institution, with a leaner and more agile organization. In addition, ICD will seek to improve staff efficiency through a comprehensive review of staff allocation across business units. This process will involve identifying staff rotation options and enhancing manpower planning processes. Furthermore, there will be an emphasis on defining roles and tracking performance. This will involve clarifying the specific roles and responsibilities of different positions, reviewing the scorecard and improving the tracking of departmental KPIs and individual targets. These improvements will help ensure alignment with the new business and development impact priorities.

- **Introducing innovative products:** As the private sector development needs of MCs continues to evolve, it is critical for ICD to work on providing new products and services to cater to these needs. Accordingly, ICD will introduce a set of new products to utilize its balance sheet in a more effective and efficient manner, with a focus on off-balance sheet resource mobilization (syndication, co-financing and parallel financing). The organization will also strengthen advisory services capabilities and offerings especially in the Sukuk Program. In addition, ICD will set up a dedicated taskforce for new product development to ensure that new offerings meet a given set of criteria, including market attractiveness, relevance to ICD's development mandate and compliance with Sharia requirements.

- **Improving internal ICD processes:** ICD will also focus on improving its internal processes through the creation of a set of instruments that will align roles and responsibilities across different functions. This process has already led to the creation of target market sheets and enriched process flowcharts. ICD will also seek to improve its internal business processes and efficiencies through better utilization of technology and IT solutions. In particular, ICD will focus on digitization of internal and external communications, automation of several support functions and the development of a set of dashboards for both ICD Management and staff. Furthermore, the investment project approval process will be improved, with a view to enhancing quality of the entry process and reducing the time between approvals and disbursements.

- **Ensuring robust financial performance:** ICD Management has also prepared a set of quick turn-around initiatives to be implemented in 2019. The goal of these are to quickly secure gains and to reinforce the performance of operations with an optimal mix of product portfolio. Furthermore, the establishment of Expenditures Review Committee (ERC) and Consultancy Review Committee (CRC) will help improve efficiency and effectiveness.

Section 2

DEVELOPMENT EFFECTIVENESS FRAMEWORK: MOVING TO THE NEXT LEVEL

2.1 OVERVIEW

In 2018 ICD has continued to improve its Development Effectiveness Agenda (DEA) by taking concrete and tangible actions at global and local levels. At the global level, ICD introduced a more focused approach in measuring its development impact and identifying attribution. This approach involves impact evaluation using experimental and quasi-experimental methods, project grading system at appraisal and SDGs dashboard to maximize impact. ICD has also contributed to the Multilateral Development Banks (MDBs) Harmonization Framework for Additionality in Private Sector Operations. At the local level, ICD is working with local financial institution partners to help them build their own monitoring and evaluation systems in accordance with the five principles of the Paris declaration on aid effectiveness (Ownership, Alignment, Harmonization, Results and Mutual Accountability).

2.2 ADOPTING IMPACT EVALUATION METHODS FOR ATTRIBUTION

A number of academics have questioned the ways numbers are aggregated or modeled by development institutions, arguing they do not fully account for the results of a given intervention. The critics have called for more rigorous performance evaluations and expanding the scope of impact evaluation[1].

In the last two years, ICD has continuously improved its development effectiveness framework by introducing an impact evaluation approach. It started in 2017, by exploring a partnership with the Abdul Latif Poverty Action Lab (JPAL) at the economics department of the Massachusetts Institute of Technology (MIT). This partnership resulted in the design of an impact evaluation of the effectiveness of Islamic finance using a randomized control trial.

Furthermore, ICD conducted its first quasi-experimental evaluation with the Business Resilience Assistance for Value-adding Enterprises (BRAVE) project in Yemen in 2018, under the ICD-IBES Program. [2] The evaluation was carried out by Ghubril Ltd to assess the preliminary impact of grant plus training compared to training only using a variation of quasi-experimental evaluation design, namely pre-test/post-test design. The identification strategy used was a "Difference in Differences" (DID) estimate. Its essence is illustrated in below table. The cell in the lower right shows the "double difference" formula used for the calculation. To estimate impact, it compares the changes in business outcomes (such as operating expenses, total assets, salaries, customer base, income, sales, export, import) over time between enterprises that received training plus grant versus those that received training only. If this difference is positive, we can say that the combination of training and grant has had a stronger impact than training alone. Charts in Appendix 1 show the comparison of both beneficiary groups in terms of BRAVE impact on their business outcomes.

Difference-In-Differences Estimate

Groups	Baseline	Midterm	Comparison Across Time
Treatment Group A	TA1	TA2	TA2-TA1 (Reflexive comparison)
Treatment Group B	TB1	TB2	TB2-TB1 (Reflexive comparison)
Comparison Across Groups	TA1-TB1 (First difference)	TA2-TB2 (First difference)	(TB2-TB1) -(TA2-TA1) (Double difference)

Treatment A – Training provided
Treatment B – Training and grant provided

Source: Ghubril, 2018

1 Rocco Friebel, Rachel Silverman, Amanda Glassman, Kalipso Chalkidou. 2019. "On results reporting and evidentiary standards: spotlight on the Global Fund". The Lancet.
2 Industry and Business Environment Support

Finally, ICD also started introducing empirical research in its program design. The first attempt at this is the BRAVE Women program, again initiated by the IBES program in collaboration with the Women and Youth Empowerment Division of IsDB. This partnership submitted a joint proposal to the Women Entrepreneurs Finance Initiative (We-Fi), a multi-donor fund supported by 14 governments and managed by the World Bank. One of the empirical research questions that the Randomized Control Trial will address is: In fragility contexts, which types of women-led/owned businesses benefit more from business resilience training combined with grant-matching?

2.3 DEVELOPMENT IMPACT GRADING SYSTEM AT APPRAISAL TO MAXIMIZE IMPACT

ICD needs to allocate resources to the neediest contexts while mitigating risk, ensuring return and maximizing impact. Risk, financial return and impact are three variables that typical investment committees of Development Finance Institutions should look at to make an approval decision for any investment or advisory project. The new grading system, to be piloted in 2019, is an initiative to improve ICD's development effectiveness framework.

The objectives of the grading model are to:

Estimate the development impact of investment and advisory projects submitted for approval;

Provide evidence for effectiveness and accountability and;

Assign ratings of project's expected performance based on how well the project is contributing to ICD's goals.

The model has benefited from benchmarks of other Development Financial Institutions (DFIs) such as the Development Effectiveness Rating (DER) of German Investment Corporation (DEG), the Anticipated Impact Measurement and Monitoring system (AIMM) of IFC, the Development Effectiveness Learning Tracking and Assessment Tool (DELTA) of the Inter-American Development Bank (IaDB), the Additionality and the Development Outcome Assessment (ADOA) of the African Development Bank (AfDB), the Design and Monitoring Framework (DMF) of Asian Development Bank (ADB), and the impact model of the Dutch Development Bank.

The methodology of ICD's Development Impact Scoring System (DISS) is based on five outcome categories:

i. Strategic alignment with ICD's mandate,
ii. Fragility context of the country,
iii. Development effects and contribution to the SDGs,
iv. Financial performance and,
v. ICD's Additionality.

First, the strategic alignment with ICD's mandate is analyzed through

ICD's goals related to job creation, development of the SME sector and the development of the Islamic finance sector.

Second, supporting fragile states is a priority for ICD as more than half of ICD's MCs are classified as fragile. Therefore, the model is considering the fragility status of MCs using the OECD's classification (See chapter 3 below). If a country is more fragile, then it receives a higher score in that category, signifying that the country needs more ICD interventions and the impact is likely to be higher.

Third, using HIPSO, ICD will identify and select specific and relevant SDGs. This process will be supported with the use of quantitative and quantitative analysis on the likelihood of a project reaching a specific contribution threshold defined in each SDG area.

Fourth, when it comes to financial performance, the model incorporates ratios and indicators such as: ROIC (Return on Invested Capital), IRR (Internal Rate of Return), DSCR (Debt Services Coverage Ratio), ROA (Return on Assets) and ROE (Return on Equity). For line of finance projects, the CAR (Capital Adequacy Ratio) will be also used and analyzed. In addition to these financial ratios, the model uses the ERR (Economic Rate of Return) which is a comprehensive tool for advocating investments for economic evaluation.

Fifth, ICD's Additionality is examined in terms of financial and non-financial additionality following the MDBs Harmonized Framework for Additionality.

ICD Additionality	Factors
Financial Additionality	Financing Structure
	Innovative Financing Structures and/or Instruments
	MDBs' Own Account Equity
	Resource Mobilization
Non-Financial Additionality	Risk Mitigation
	Policy, Sector, Institutional, or Regulatory Change
	Standard-Setting: Helping Projects and Clients Achieve Higher Standards
	Knowledge, Innovation, and Capacity Building

2.4 ADOPTION OF MDBS HARMONIZATION FRAMEWORK FOR ADDITIONALITY IN PRIVATE SECTOR OPERATIONS

The concept of Additionality means that interventions made by DFIs to support private sector operations should contribute beyond what is available on the market and, furthermore, should not crowd out the private sector. ICD adopted the new MDBs Harmonization Framework for Additionality in Private Sector Operations in October 2018. The Framework responds to a request from MDB shareholders at the G7 Finance Ministers meeting. Subsequently, a working group has been formed comprising the 9 major MDBs. The Islamic Development Bank Group was represented by ICD in the exercise. Although the term Additionality is embedded in the founding documents of many MDBs, there is no common definition of the term, and a harmonized approach to determine its presence in DFIs operations is required.

The working group spent a year and a half undertaking surveys, detailed reviews and consultations, publishing the main outcomes in "MDBs Harmonized Framework for Additionality in Private Sector Operations".[3] The report articulates in detail (i) the principle of additionality; (ii) common definitions for financial and non-financial additionality (approved by all MDBs); (iii) guidance on a common approach to the governance of additionality; and (iv) examples of types of evidence that help demonstrate the presence of additionality.

While recognizing that the assessment of additionality is contextspecific for each project within the boundaries of each MDB's mandate, a harmonized approach will allow for a more effective and efficient conversation with shareholders. This approach will allow them to better decide on where and how to intervene in order to ensure that MDB resources are used in the most catalytic manner possible, and that they are directed where they are most needed. Ultimately, the goal of this approach is to support the delivery of the "2030 Agenda for Sustainable Development". The report was jointly launched by all MDBs on October 9th, 2018 and can be downloaded at https://icd-ps.org/en/publications.

3 Multilateral Development Banks' Harmonized Framework for Additionality in Private Sector Operations (2018). Retrieved from https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/development+impact/resources/201809-mdbs-additionality-framework

2.5 ADOPTION OF AN SDG DASHBOARD AGAINST THE TEMPTATION OF "SDG WASHING"

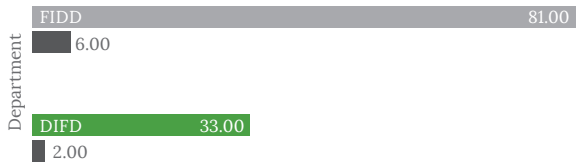
ICD acknowledges the risk of diluting the effect of the SDGs if the organizations are undertaking some project activities but do not actually contribute. Such "SDG-washing" could lead to cynicism about the SDGs, as organizations receive recognition for contributing to the SDGs without providing anything tangible. However, such risk can be mitigated by sound approaches to impact measurement and management to ensure that projects are effectively contributing towards the global goals.

In 2018, ICD developed an in-house SDG development impact metric system, tracking the annual progress vis-à-vis the projected outcomes agreed upon during project's approval. The model drawn from the SDG indicators and HIPSO metrics allows the user to generate real time automated dashboards based on the observed impact against the pre-prepared and customized reporting formats. In short, the model provides a real time snapshot of how the project is performing regarding achieving SDGs and the project's stated objectives.

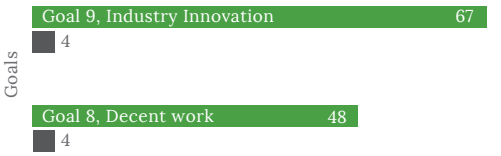
The screenshots of a sample dashboard and reporting formats are provided below. They show a dashboard, the operational results (investments in relevant SDGs) and SDG impacts. The system will be further upgraded this year to integrate the large pool of investments undertaken each year, accounting for both annual and cumulative investments per SDGs, segregated according to each business line and department. Going forward, the core elements of this system will also be embedded within the existing institutional architecture of private sector enterprises through the new Technical Assistance program.

Screenshot of ICD's SDGs Dashboard

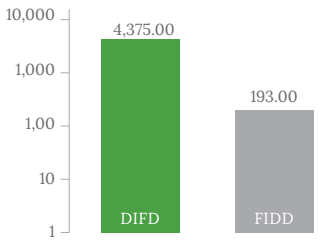
SDG Investments (contribution) per Department



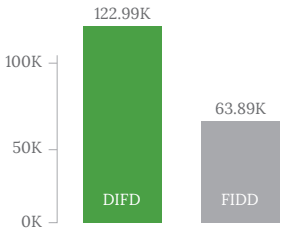
Investments Portfolio and Projects per SDG



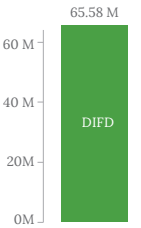
Jobs Generated by Department



Community Development per Department



Goods and Services Purchased locally per Department



SDG Operational Results - ICD Investments

7 AFFORDABLE AND CLEAN ENERGY
1 Projects
15.00 Amount US$m

8 DECENT WORK AND ECONOMIC GROWTH
4 Projects
47.50 Amount US$m

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
5 Projects
72.80 Amount US$m

SDG's Operational Results - ICD's Impact (2017)

1 NO POVERTY
USD 13mn
Spent in Community Development

2 ZERO HUNGER
USD 133mn
27 Projects

3 GOOD HEALTH AND WELL-BEING
USD 68mn
24 Projects

4 QUALITY EDUCATION
USD 6mn
10 Projects

7 AFFORDABLE AND CLEAN ENERGY
USD 169mn
19 Projects

8 DECENT WORK AND ECONOMIC GROWTH
Jobs generated
10,795

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
MSME loan Volume
USD 420mn
MSME with loan Access
9,367

2.6 NEW M&E TECHNICAL ASSISTANCE MECHANISM FOR ICD LOCAL PARTNERS

In 2018, ICD started offering Technical Assistance (TA) to support financial institution partners in MCs to implement their own Development Impact Monitoring System (DIMS). The first beneficiary of the DIMS TA was Al-Akhdar Bank (AAB) in Morocco, followed by the Maldives Islamic Bank.

The objectives of the TA were the following:

Definition of the goals of the Development Impact Monitoring System (DIMS);

Statement of the SDGs Narrative, relevant to the mandate of the financial institution;

Development of the Capacity of the Management and the technical departments on the foundations of the System;

Identification of the key development indicators aligned with the strategy and products;

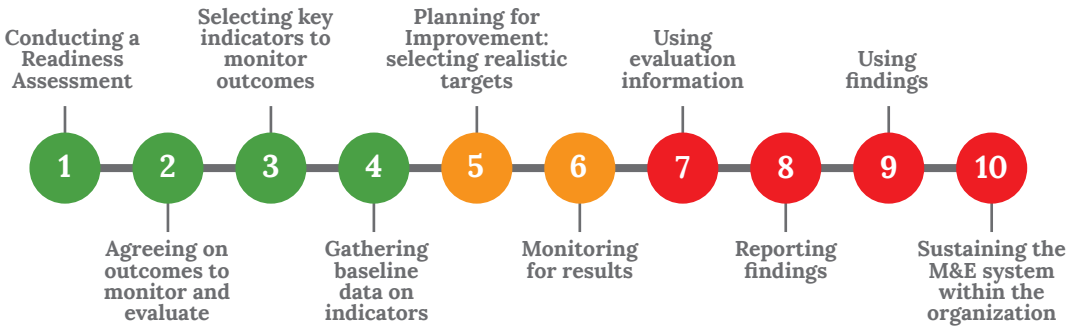
Preparation of a clear roadmap for the implementation of the system, including "Quick Wins".

ICD's overall approach is inspired by the "Ten Steps to a Results-Based Monitoring and Evaluation System" authored by Jody Zall Kusek and Ray Rist (World Bank, 2004). Additionally, the ICD technical assistance team has used two development indicator databases: HIPSO and the Global Impact Investing Network (GIIN).

Case Study: Support to Al-Akhdar Bank to establish its own Development Impact System

Al-Akhdar Bank (AAB) in Morocco is the first partner that benefited from ICD's initiative to support partner financial institutions to build their own M&E system. AAB is a new participative bank owned by ICD and the Group "Credit Agricole du Maroc" (CAM). ICD's TA mission visited AAB in December 2018 and helped define a clear roadmap including: an automated dashboard by Feb.2019, the first development impact report by March 2019 and the accession to GIIN by Oct. 2019.

Objectives of the system	Methodology	AAB SDGs Narrative
• Meet the requirements of the shareholders to have a development impact reporting system; • Translate the commitment of the Management and the Staff for the well-being of the system; • Demonstrate Al-Akhdar Bank's contribution to the country's economic and social development and to the SDGs; • Contribute to the effectiveness of the Bank's products.	• Based on a pre-diagnostic questionnaire filled by AAB prior to the mission, identification of the Development Impact Themes relevant to the business model of the bank; • Exploitation of a database of around 600 indicators from DFIs' Working Group HIPSO and the Global Impact Investors Network (IRIS.GIIN); • Selection of 59 Indicators relevant to the Development Impact Themes identified • Identification of 46 indicators relevant to the strategy and products of AAB; • Selection of 21 indicators for which data are already available in 2018 ; • Field visit of a sample of customers to test the relevance of the development indicators;	Al-Akhdar invests, with the support of its partners, in Financial Inclusion (SDG 8,10), Access to finance for MSMEs (SDG 9,3) and Housing (SDG 11,1) in order to impact on SDG1, SDG2, SDG3 and SDG$ 



Section 3

A SPECIAL REPORT ON ICD'S ROLE IN FRAGILE SETTINGS

3.1 OVERVIEW

Fragility acts as a major obstacle to the realization of the SDGs in the ICD's fragile MCs. The OECD's comprehensive classification of fragility measures it through the accumulation and combination of risks and capacity on an annual basis. SMEs are an important part of economies of the developing countries, particularly in fragile, conflict-affected situations because they provide the need for products, services, and employment opportunities. Despite SMEs' critical role in the wider economic and socio-economic framework of a fragile context, SMEs face challenges, particularly in terms of acquiring finances. Through blended finance and greater engagement with fragile MCs, ICD can aid in increasing stability and helping these specific MCs implement the SDGs.

3.2 THE CONCEPT(S) OF FRAGILITY

Over the last decades, there has been a growing recognition of the key role of fragility as a major obstacle for sustainable development at local, national, and regional levels. This realization has led to a greater interest in understanding of underlying causes of fragility and a greater appreciation of the concept as such. Some frameworks for analyzing fragility have emerged over the years focusing on why some states are not providing essential functions[1]. Like other development finance institutions, ICD has adopted OECD's fragility definition and analytical framework. The framework is organized around five key dimensions of fragility: economic, environmental, political, societal and security. For each one of these dimensions, OECD measures fragility through the accumulation and combination of risks and capacity on an annual basis[2].

The framework allows more targeted assistance according to the most critical fragility characteristic in the individual contexts. Moreover, the fragility profile can be followed through the annual States of Fragility report.

Economic Fragility[3]:

The OECD's economic fragility is determined by either structural or temporary economic weakness and coping capacities that mitigate risks. Extreme economic fragility is present when a country is highly dependent on resources and aid, and the drivers of long-run growth (productivity) and individual economic opportunities are nonexistent. Moderate economic fragility is when a country has low levels of economic opportunities, but moderate economic interdependence or when a country has high levels of economic opportunities but is resource and aid dependent.

Political Fragility[4]:

The level of political fragility is defined by the protection of human rights, particularly those of women

and minorities, the presence of checks and balances in the political system, and political stability. In an extreme political fragility context, for example, there is a significant degree of political violence, an exceptionally low democratic accountability and a weakness in political institutions combined with major violations of human rights.

1 A 2016 paper from the United Nations University for instance, reviewed 35 major analytical frameworks for state fragility developed and applied by International development actors, including the World Bank, OECD, and major donors. Bosetti, L. et al. (2016). Fragility, Risk, and Resilience: A Review of Existing Frameworks.
2 OECD. (2018). State of Fragility 2018. Retrieved from https://read.oecd-ilibrary.org/development/states-of-fragility-2018_9789264302075-en#page87
3 OECD. (2018). State of Fragility 2018. Retrieved from https://read.oecd-ilibrary.org/development/states-of-fragility-2018_9789264302075-en#page87 and OCED. (2016). States of Fragility 2016: Understanding Violence: the OECD fragility framework. Retrieved from: https://read.oecd-ilibrary.org/development/states-of-fragility-2016/the-oecd-fragility-framework_9789264267213-7-en#page
4 OECD. (2018). State of Fragility 2018. Retrieved from https://read.oecd-ilibrary.org/development/states-of-fragility-2018_9789264302075-en#page87 and OCED. (2016). States of Fragility 2016: Understanding Violence: the OECD fragility framework. Retrieved from: https://read.oecd-ilibrary.org/development/states-of-fragility-2016/the-oecd-fragility-framework_9789264267213-7-en#page

Security Fragility[5]:

The security dimension captures the drivers of violence and the institutional mechanism that either prevent or mitigate violence. Weak rule of law and gender-based violence legislation, along with the widespread presence of illicit crimes, terrorism and armed conflict, is classified as extreme security fragility. Additionally, within the context of extreme security fragility, the state has lost control of a significant portion of its territory to either external or internal non-state actors.

Societal Fragility[6]:

Societal fragility is measured by the degree and scope of income inequalities and inequalities among genders, cultures, religions and caste system. Another measure involves fair and equal access to justice and a robust civil society.

Environmental Fragility[7]:

Environmental fragility, like the previous dimensions, is determined

by vulnerabilities to risk and mechanism of coping capacities. With environmental fragility, countries are at a higher risk to encounter a natural disaster and are more susceptible to infectious diseases. Additionally, when a country is classified as being high in environmental fragility, it lacks the coping capacity, such as a strong civil society or food security, to ease the impact of these risks.

When a country achieves progress in one area, it does not necessarily lead to stability. Rather, states must improve in all areas of the OECD's framework of fragility to attain stability. For example, when a country has achieved economic growth, but poverty reduction, gender inequality, corruption, state-sponsored violence, or illicit activities are not dealt with effectively as part of the development approach, fragility will persist or increase in intensity. Thus, fragility is incompatible with the 17 SDGs. In other words, fragility is counterproductive to achieving the SDGs.

3.3 WHY FRAGILE CONTEXTS MATTER FOR ICD AS A DFI

Fragile context matters for ICD because it has a significant impact on poverty and economic growth, negatively impacts the most vulnerable segments of the population, threatens transnational and national security, and increases illicit activities and networks. Moreover, fragile context acts as a roadblock for the ICD fragile MCs to achieving progress in the SDGs.

In examining the United Nation's Sustainable Development Report 2018, it is evident that the ICD fragile MCs are consistently at or near the bottom. In a fragile context, achieving progress is difficult without effective international support and guidance. The "2018 SDG Progress: Fragility, Crisis, and Leaving no one behind" by the ODI, found that individuals living in conflict, are internally or externally displaced and often have received little attention by the national government or the international community. In that respect, the ODI noted that

5 OECD. (2018). State of Fragility 2018. Retrieved from https://read.oecd-ilibrary.org/development/states-of-fragility-2018_9789264302075-en#page87 and OCED. (2016). States of Fragility 2016: Understanding Violence: the OECD fragility framework. Retrieved from: https://read.oecd-ilibrary.org/development/states-of-fragility-2016/the-oecd-fragility-framework_9789264267213-7-en#page

6 OECD. (2018). State of Fragility 2018. Retrieved from https://read.oecd-ilibrary.org/development/states-of-fragility-2018_9789264302075-en#page87 and OCED. (2016). States of Fragility 2016: Understanding Violence: the OECD fragility framework. Retrieved from: https://read.oecd-ilibrary.org/development/states-of-fragility-2016/the-oecd-fragility-framework_9789264267213-7-en#page

7 OECD. (2018). State of Fragility 2018. Retrieved from https://read.oecd-ilibrary.org/development/states-of-fragility-2018_9789264302075-en#page87 and OCED. (2016). States of Fragility 2016: Understanding Violence: the OECD fragility framework. Retrieved from: https://read.oecd-ilibrary.org/development/states-of-fragility-2016/the-oecd-fragility-framework_9789264267213-7-en#page

"without the concerted efforts of the international community to address the needs of people caught in a crisis and to measure the impact of this support, we will not achieve the SDGs for all, and the gap between this marginalized group and the rest of the world will grow[8]."

In that respect, SMEs and the ICD support to them play a crucial role in the fragile context. According to researchers at the Conflict Research Unit at Clingendael, "The collaboration of SMEs, be it along a value chain or within a cluster, can be instrumental in rebuilding trust and initiate a process of reconciliation between adverse groups at community and regional levels."[9]

Benefits of Small and Medium-Sized Enterprises

Globally, there are 36 to 44 million SMEs, with 68% of them located in developing economies.[10]

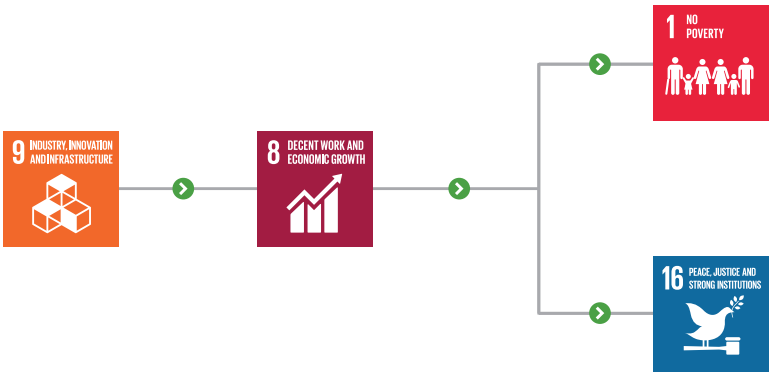
SMEs play a vital role in the economic, social and political growth of a developing country. IFC has noted that SMEs tend to create most of the jobs in emerging economies, where between 70% and 95% of newly created jobs are due to SMEs.[11] SMEs create much-needed employment opportunities[12], products, services, productivity and investments[13]. In a fragile context, SMEs can help defuse vulnerabilities that contribute to fragility. SMEs, for example, can help defuse economic and social drivers of fragility by providing youth employment opportunities, especially joint enterprises that can help build trust and cohesion in society.

8 https://www.odi.org/publications/11194-sdg-progress-fragility-crisis-and-leaving-no-one-behind
9 Anette Hoffman and Paul Lange. (2016). Growing or Coping? Evidence from Small and Medium sized enterprise in fragile settings. CRU Report from Clingendael. Retrieved from: https://www.clingendael.org/sites/default/files/pdfs/growing_or_coping_1.pdf
10 IFC. (2018). Access to Credit Among Micro, Small, And Medium Enterprises. Retrieved from: https://www.ifc.org/wps/wcm/connect/1f2c968041689903950bb79e78015671/AccessCreditMSME-Brochure-Final.pdf?MOD=AJPERES
11 https://www.ifc.org/wps/wcm/connect/Industry_EXT_Content/IFC_External_Corporate_Site/Financial+Institutions/Priorities/SME+Finance/
12 For a discussion on the relationship between SMEs and employment creation in developing countries, see, for example, Ayyagari, Demirgüç-Kunt, and Maksimovic (2011) and; Klapper and Richmond (2011).
13 Anette Hoffman and Paul Lange. (2016). Growing or Coping? Evidence from Small and Medium sized enterprise in fragile settings. CRU Report from Clingendael. Retrieved from: https://www.clingendael.org/sites/default/files/pdfs/growing_or_coping_1.pdf

In FCS, SMEs play a critical role because in this context infrastructural damage is significant, and the national government is too weak to provide the needed resources or finances to address this problem. Moreover, this is where SMEs play an indispensable role in sustainable development because they provide essential services in FCS. For example, in 2014, in Mali the World Bank supported a bottom-up approach, where local entrepreneurs built and operated a small-scale mini-grids in rural areas of the country[14].

In a fragile context, SME engagement and its potential positive impact goes beyond economic contributions, also offering a social contribution. There is a growing body of literature suggesting a positive correlation between the non-economic contributions of SMEs and peacebuilding. In developing economies, including fragile context, approximately 35% of SMEs are fully or partly owned by women, particularly in the health sector.[15] Thus, the economic empowerment of women in a fragile context through SMEs and other means is critical for reducing societal fragility risks and enhancing coping capacities. Not only will supporting women-owned SMEs help them, their communities and families economically through the benefits of SMEs, but it will also help women socially by empowering them, improving gender equalities, and giving women a voice; thereby reducing vulnerabilities to risk factors for political and societal fragility.

Figure 1: Contribution of private sector intervention to SDGs.



Thus, in a fragile context, private sector intervention targeting SMEs (SDG9), contributes to job creation (SDG8), peacebuilding (SDG16) and poverty reduction (SDG1) (see Figure 1).

Challenges Faced by Small and Medium-Sized Enterprises

Despite SMEs benefits, these enterprises face challenges, particularly those in conflict zones. Access to capital is a major challenge for SMEs, which restricts their business growth and development. In developing countries, the IFC noted that about 55-68% of SMEs are unserved or underserved, and women-owned firms are particularly impacted where 57% to 71% are unserved or underserved.[16]

In addition to financial constraints, in a fragile, conflict-affected and violent context, SMEs also face challenges posed by infrastructural damage, lack of or no access to raw materials and/or production inputs. For example, in conflict settings, access to capital is a significant issue in addition to the

14 World Bank. http://documents.worldbank.org/curated/en/430111542046664487/Mali-AFRICA-P131084-Mali-Rural-Electrification-Hybrid-System-Project-Procurement-Plan
15 IFC. (2018). Access to Credit Among Micro, Small, And Medium Enterprises. Retrieved from: https://www.ifc.org/wps/wcm/connect/1f2c968041689903950bb79e78015671/AccessCreditMSME-Brochure-Final.pdf?MOD=AJPERES
16 https://www.ifc.org/wps/wcm/connect/1f2c968041689903950bb79e78015671/AccessCreditMSME-Brochure-Final.pdf?MOD=AJPERES

shortage of electricity, water, or factor inputs resulting from the conflict. Thus, the challenges faced by SMEs in a fragile context can impact the number of jobs they can create. When SMEs lack financing opportunities or are in the conflict situation, this will negatively impact the number of jobs they can produce. In Yemen, between 2015 and 2016, for example, SMEs were impacted by the on-going conflict, with 49% of Business Resilience Assistance for Value-adding Enterprises (BRAVE) project[17] participants noting that they laid off workers due to damages caused by the conflict before the launch of the project.[18]

SME Context in ICD's Member Countries

The 2018 ICD Development Effectiveness Survey found that the total share of SME financing in the banking portfolios of partner financial institutions was 36%. Additionally, the survey results indicated that these financial institutions lack the regulatory and infrastructure systems to support SMEs. For example, 35% of financial institutions surveyed noted that they did not have a dedicated SME department and 30% have not established an SME policy. The survey also revealed that one-third of financial institutions have never received any form of external support related to SME financing. Concerning this group, all were Islamic financial institutions from Nigeria, Niger, Guinea, Tajikistan, and Yemen, except for Mali. Given the importance of SMEs in a fragile context, a potential role for ICD is present. Through increased collaboration between ICD and partner financial institutions, more financial institutions will be able to establish an SME policy, establish dedicated SME departments, and increase their capacity to finance requests of their client SMEs.

ICD's Impact within Fragile Member Countries

To understand the ICD's role in helping SMEs cope with the fragile situation and progress towards achieving the SDGs, it is useful to adopt a system's view and examine how resources are used to generate tangible outputs that would help achieve the desired outcomes for the financial institutions and SMEs that would ultimately lead to the achievement of SDGs in the MCs. This view is represented by the Theory of Change, shown in Figure 2. It demonstrates an approach for ICD to fund and support SME's in fragile and conflict-affected settings. Through the strengthening of the private sector in ICD's fragile MCs, ICD can directly increase the coping capacities in fragile contexts such as human capital (employment), regulatory policies that support the private sector development and the government's ability to develop these policies, as well as improving disparities in income. On the other hand, ICD will directly contribute to the decrease of vulnerabilities that contribute to risks for fragility, such as macroeconomic factors and unemployment rates, particularly among youths. For example, SMEs tend to use more labor-intensive technologies; therefore, SMEs have a more immediate positive impact on employment in a fragile context.[19] In turn, this situation can contribute to poverty reduction (driver of fragility) and increase in employment levels (economic coping capacities).

The ICD's fragile MCs, particularly the ones experiencing conflict, pose a challenge for the private sector development and subsequently the achievement of the SDGs. The application of blended finance can support private sector development, address key development challenges, act as an effective approach to the attainment of the SDGs, and adhere to the basic principles of Islamic financing. Blended finance is defined as "the strategic use of development finance for the mobilization of additional finance toward sustainable development in developing countries."[20] Thus, through blended finance, ICD can capitalize on public-private partnerships as a solution for growth and development within its fragile MCs.

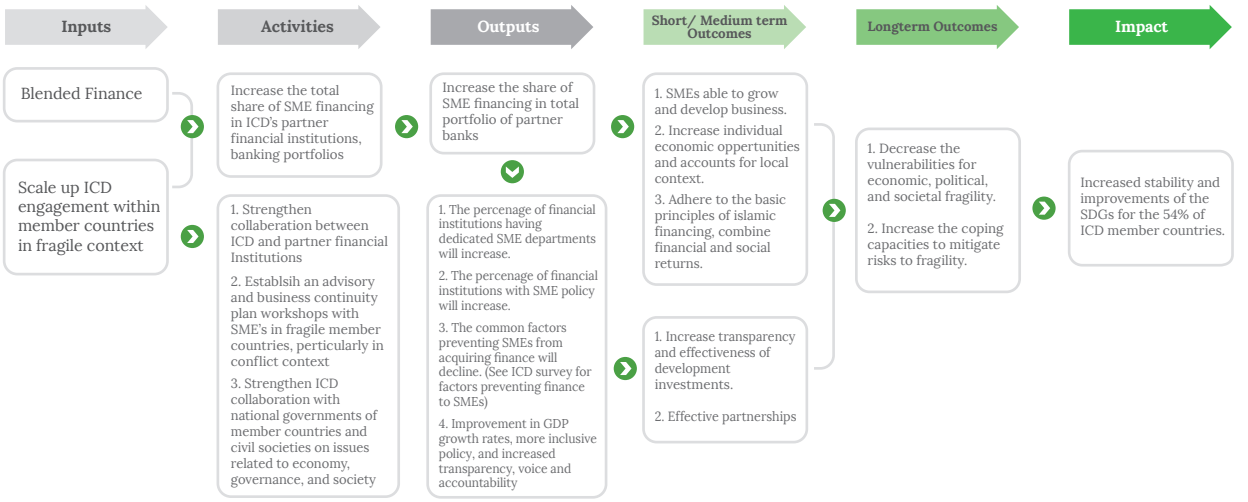
17 BRAVE is a project under the IBES, which was established to enhance the resilience of the private sector in Yemen by providing training on business resilience and business continuity planning as well as providing matching grants to those that met the program requirements. The project aimed at helping firms develop and grow their business. It was implemented in Aden, Sana'a, and Hadramout.

18 SMEPS. Presentation for Results and Observation on Baseline Data – Brave Project. The Group (528 Firms).

19 Ariyo, D. (2008). "Small Firms are the Backbone of the Nigerian Economy". Africa Economic Analysis, Academy of Management Journal, Vol. 1, No 1, pp. 109-124; Akingunola, R. O. (2011). "Small and Medium Scale Enterprises and Economic Growth in Nigeria: An Assessment of Financing Options". Pakistan Journal of Business and Economic Review, 2(1), 78-97; and Janet, A., Agu, O. A., Oji, A. O., & Alapa, I. F. (2015). Small and medium scale enterprises and national development. Small, 7(13)

20 Morris, S. (2018). The international Development Finance Club and the Sustainable Development Goals: Impact, opportunities, and challenges. Center for Global Development.

Figure 2: Theory of Change: ICD's impact within fragile Member Countries

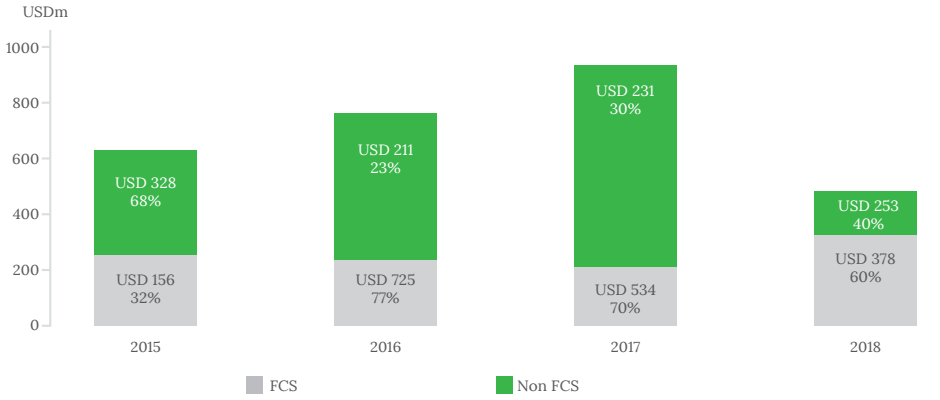


3.4 ANALYSIS OF ICD'S PORTFOLIO IN FRAGILE SETTINGS

The aim of this section is to address ICD's interventions in fragile states and to make a comparison across the last 4 years (2015-2018). The analysis is based on the list of ICD MCs classified as being in FCS using OECD fragility index.

First, ICD had continuously increased its overall approvals in 2015, 2016 and 2017 before a slowdown in 2018 (see Figure 3). The share of approvals in FCS decreased from 40% in 2015 to 23% in 2017, before increasing to 68% in 2018. On average, in the last 4 years, 36% of ICD approvals went to MCs in FCS.

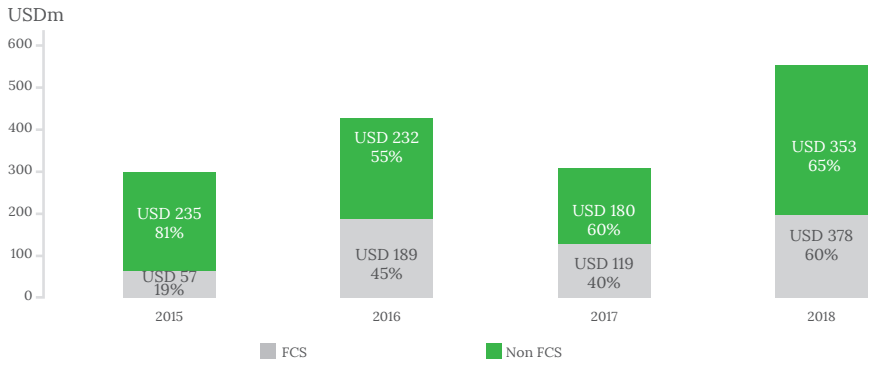
Figure 3: Evolution of ICD's approvals in FCS and non-FCS (2015-2018)



From 2015 to 2018, 18 out of 40 MC beneficiaries of ICD's approvals were in fragile situations.

Second, in terms of disbursements, the average share of MCs in FCS was 36% (see Figure 4). It reached its peak of 45% in 2016 before decreasing to 35% in 2018.

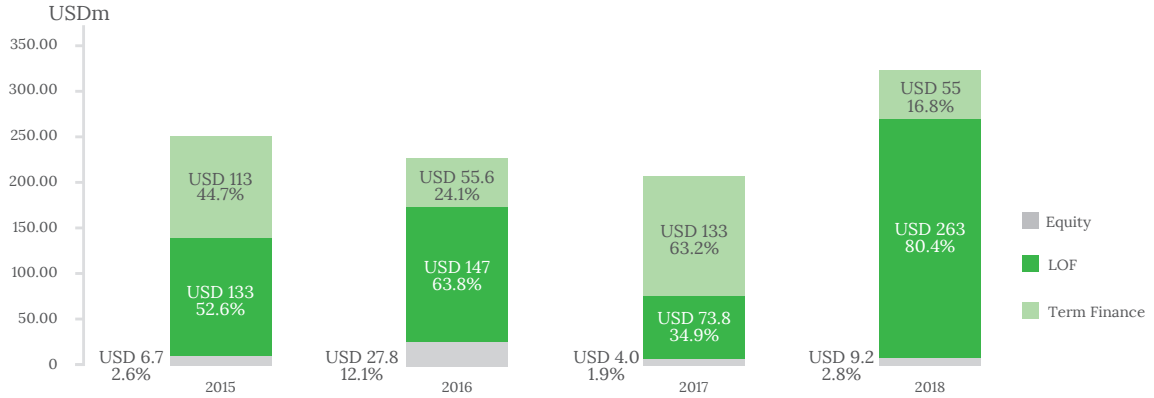
Figure 4: ICD's disbursements to FCS and non-FCS (2015-2018)



From 2015 to 2018, 14 out of 29 MCs beneficiaries of ICD's disbursements were in fragile situations.

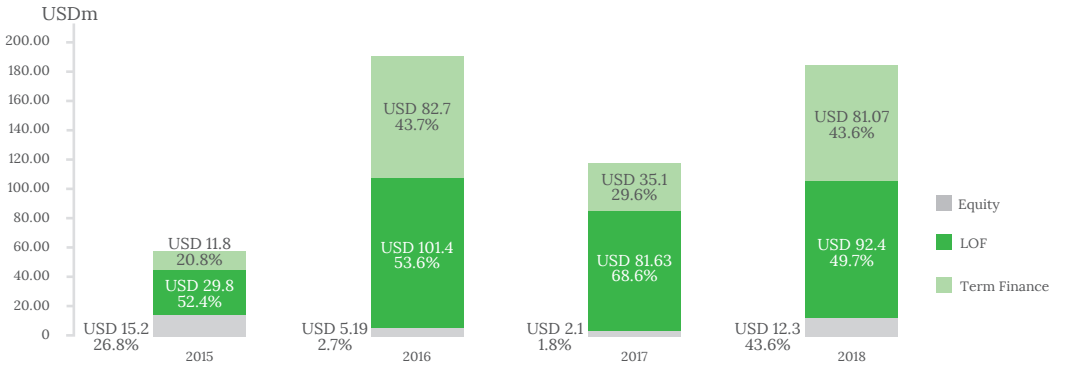
Third, in terms of approval by product, in the last 4 years, Line of Finance and Term Finance got most of the approvals in fragile settings (see Figure 5). LoF was the main product in FCS in 2018 (80%).

Figure 5: ICD's approvals in FCS by Product (2015-2018)



Finally, in terms of disbursement by product, starting from 2016, disbursements in FCS have been mainly done through LoF and Term Finance (see Figure 6).

Figure 6: ICD's disbursements to FCS by Product (2015-2018)



3.5 ICD SURVEY RESULTS: OPPORTUNITIES AND CHALLENGES TO SUPPORT SMES IN FRAGILE SETTINGS

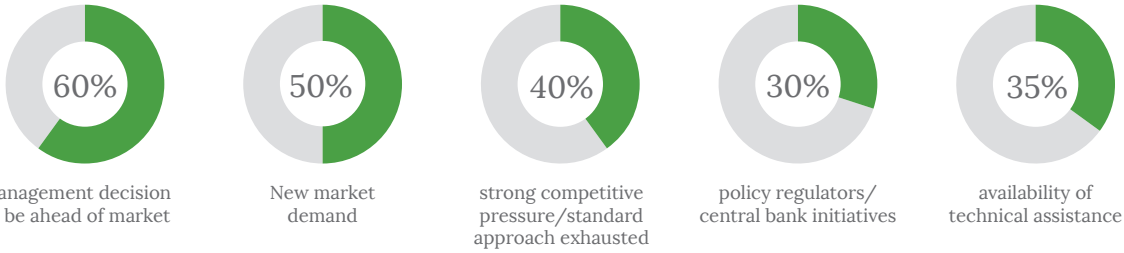
This section presents a summary of the survey findings, while the full report can be found in Appendix 2.

The 2018 ICD Development Effectiveness Survey was administrated to ICD's MCs that are categorized as being fragile based on the OECD framework for fragility. The survey was administrated in January 2019 with an 83 % response rate (20 out of 24 targeted projects from 13 MCs). Overall, the survey discovered that there are several challenges and gaps faced by partner financial institutions and that a potential exists for ICD to step in and play an effective role with their partner institutions.

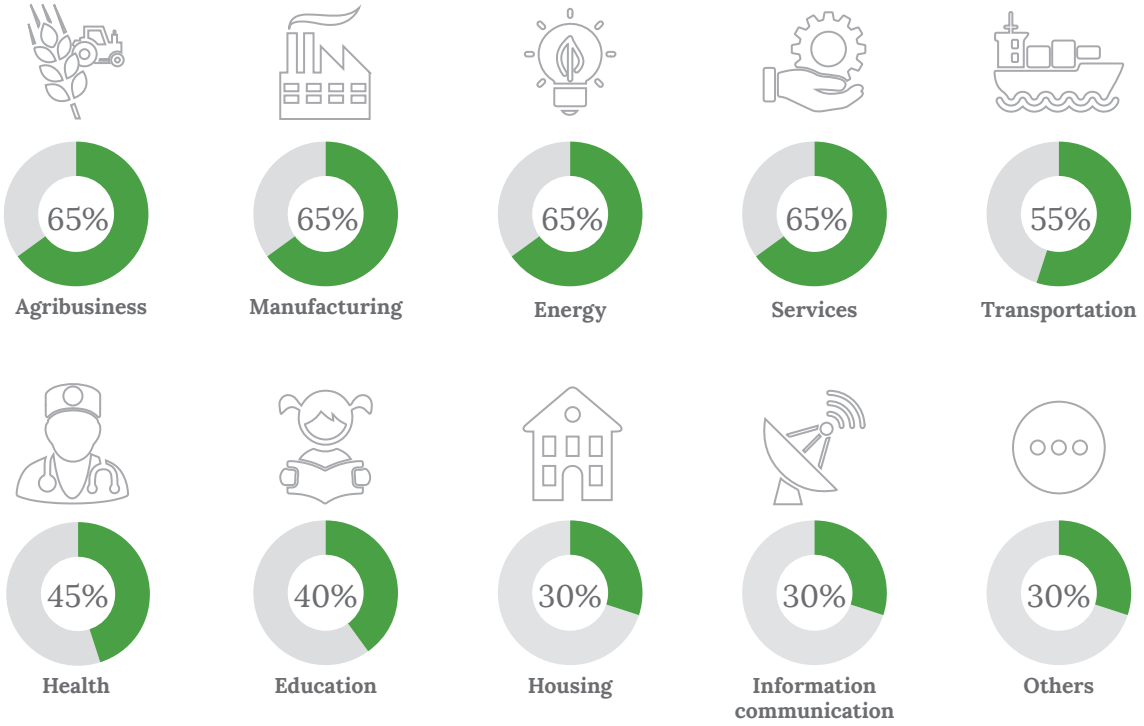
The survey results show that 35% of financial institutions currently do not have a dedicated SME department and 30% do not have an SME policy. Additionally, the survey shows that 30% of financial institutions have never received any external support related to SME financing. The survey sample has included different types of financial institutions: 35% Islamic Banks, 30% conventional banks with an Islamic window, 20% Conventional Banks, and 15% Ijara Companies

In terms of partnership longevity, the oldest partners are in Yemen (13 years) and sub-Sahara Africa (10 years). The types of partnership between these banks and ICD include the following: shareholders only (35%), a line of finance only (55%), and both (10%).

Major SME financing strategies in partner institutions include:



In addition, the survey results show that the main sectors that have been targeted in SME financing are



The survey also discovered various reasons for ICD partner institutions to target specific sectors of the economy. First, in Gambia, Niger, Nigeria, Tajikistan, Mauritania, and Burkina Faso, financial institutions target SMEs because SMEs dominate the economic activities in these countries. Second, in Nigeria, Sierra Leone, and Tajikistan, financial institutions are targeting SMEs because SME activities align with the country's development plan, such as supporting the producers of goods and creating jobs. This is critical in a fragility context, because SME growth can reduce the country's vulnerability to risk related to economic fragility and improve the coping capacities of the economy, such as increased GDP growth and employment rates. The third reason for ICD partner financial institutions targeting SMEs is the targeted sectors being more and more solicited (Guinea), and characterized by a high demand, low risk, and profitability (Palestine).

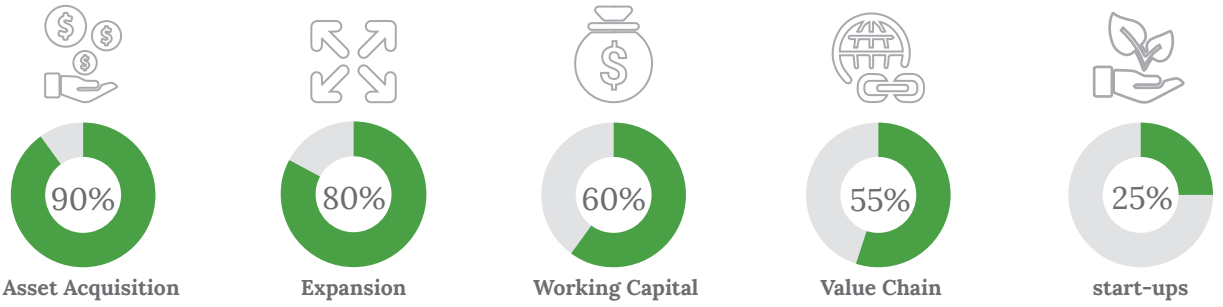
In terms of the type of business functions targeted, survey shows that the majority of institutions are more willing to provide finance for asset acquisition (90%) and expansion (80%), working capital (60%) and value chain (55%), but are least likely to provide finance for start-ups (25%).

ICD's partner financial institutions noted that the financial products good to serve SMEs in their context are as follows: Sukuk and guarantees, working capital, asset financing, trade finance, line of confirmation with correspondent bank, and using the full range of Islamic finance products, such as salam, tawaruq, mourabaha, ijara, and istisna.

Many institutions (75%) do not end their support to their clients after financing, but continue mentoring them on business development. Only one third of the institutions provide training or networking opportunities with other business people.

As SME growth is very important to the economies in the fragile contexts, it is worth examining the support of financial institutions to SMEs. On average, the share of SME financing in total banking portfolio in 2018 was 36%, and the total number of clients they have served was slightly over 8 million (of those, over 6 million came from three largest banks). Banks are receiving large amounts of financing requests, which they can satisfy only partially. In 2018, banks could finance only 23% of them. But with the largest bank included, which receive a disproportionally huge volume of requests, the financing rate was mere 11%.

Finally, the survey asked the partner financial institutions how satisfied they were with the partnership with ICD. 80% reported that they have received at least some benefit from the partnership. Conventional banks were the most satisfied with the partnership (rating of 4 out of 5), but Islamic banks – the least satisfied (rating of 2.9 out of 5). In terms of partnership type, shareholders together with line of finance were the most satisfied (4.5 out of 5), but shareholders alone – the least satisfied (2.2 out of 5).



3.6 ICD'S INNOVATION IN SUPPORTING SMES IN FRAGILE SETTINGS

3.6.1 The IBES Program, the architect of the BRAVE Initiative

Competitive enterprise growth requires a favorable business environment that offers low transaction costs to help companies respond to market demand and initiatives. Given the complex nature of both the problem of market failures and the solution through donor interventions, enterprise growth initiatives (especially for SMEs) need to operate at several levels. In order to revitalize enterprise performance, build coalitions in the private sector, transform market institutions and improve the business environment, these initiatives should occur at the national, sectoral, and enterprise levels.

To assist the MCs in fragility situation, as of 2018, ICD has continued to customize its advisory program for Industry and Business Environment Support (IBES). The goal of this program is to help ICD play an instrumental role in helping many of the most challenging regions. As a result, IBES is expanding its activities into fragile and conflict-affected areas of the Middle East, Africa and Asia, while also trying to reach a wider segment of potential beneficiaries.

The aim of IBES is to identify critical challenges inhibiting the growth of businesses and work closely with public and private partners. This partnership involves identifying solutions, putting in place needed technical assistance interventions, mobilizing resources from the partnerships and sharing expertise. The program focuses on four themes:

- Firm Productivity, Resilience and Innovation as a firm level intervention;
- Value Chains as sector level of intervention;
- Special Economic Zones as spatial level of intervention; and
- Business Environment as national level of intervention.

Moving forward, the program plans to expand its operations horizontally across the four themes, shifting focus from special economic zones (SEZ) towards value chains (VC) as the core theme linking firm, spatial, and national level themes. The program is expected to focus primarily at the firm level and to a lesser extent on value chain interventions. The former will leverage the design and fund-raising experience gained in structured projects such as BRAVE to blend modalities and themes within one intervention. Value chain projects will be undertaken only if the selected intervention creates traction for subsequent financing or firm support schemes, allowing the transition from technical assistance to project financing or blended finance arrangement from DFIs. Specific to conflict affected and fragile environments, value chain and firm level approaches will be combined to design business resilience programs while learning from the BRAVE model and other international practices. More balance will be needed between delivering projects and developing new ones. The materialization of direct development impact will be an important objective for both efforts.

3.6.2 BRAVE: The first pilot in Yemen

Since the recent turmoil in Yemen, a quarter (25%) of all enterprises have closed. The most affected have been women-owned enterprises where almost half have been forced to close (42%), including those operating in the vital health sector, further compounding the struggle of the average Yemeni citizens to access basic health services.

In response to this conflict, ICD's IBES Team has initiated the concept of Business Resilience Assistance for Value-adding Enterprise (BRAVE). The BRAVE project was designed through joint efforts between ICD and the Small and Micro Enterprise Promotion Service (SMEPS), an NGO based in Yemen, to combine value chain design principles, grant-matching scheme concepts for Micro, Small and Medium Enterprises (MSMEs) and banking credit practices within an integrated framework that responded to the in-conflict challenges of the private sector. The IsDB provided the sponsorship.

The IsDB-SMEPS Technical Assistance Grant Agreement was signed at the end of 2016, and in January 2017 BRAVE started its operations with the objective to "enhance the resilience of the private sector, as the engine of sustainable growth, against the impact of ongoing violence." The Deauville MENA Transition Fund financed the project with a budget of USD 9 million. The BRAVE project targeted five pro-poor/value adding sectors of the economy, namely private health care, fisheries, food industries, clothing and agri-business. The beneficiaries of the project were employees and owners of MSMEs and Lead Value Chain Firms that received training only and/or training and grants in three regions of the country: Sana'a, Aden and Hadramout. The training and grant support were intended to build and sustain a long-lasting infrastructure for sustainability and growth of the Yemeni private sector.

The BRAVE project structure consisted of three parts: project team, a Grant Judging Panel of six members, and an Advisory Committee. In terms of activities, the project had the following five components: business resilience capacity building, business recovery support, value chain resilience, BRAVE IT platform, and a Project Management Unit (PMU).

BRAVE was designed as a two-phase project to be completed in three years. By the end of 2018, the project's first phase had managed to support 528 MSMEs and large firms in the three selected locations. The MSME selection process consisted of two phases: eligibility screening for training (selection from 1,226 applicants) and computerized random selection for grants from those who completed training and developed their Business Continuity Plans. A grand total of 295 enterprises were selected to receive grants with 50% matching contribution from their own funds. However, due to the withdrawal of 29 firms, this total only amounted to 266 enterprises, including the participation of 15 Lead Firms.

The overall rationale of the project is summarized in the Theory of Change with six main categories: inputs, activities, outputs, outcomes, impact, and context (see Figure 7).

Figure 7: Theory of Change of BRAVE-Phase 1

Impact	• Improved MSMEs Performance • Restored confidence and Trust in DB in Yemen • Revitalized value chain resilience • Local actors maintained business development services, BDS support
Outcome	• Improved MSMEs resilience • Sustained business recovery for MSMEs • Sustained value chain resilience • Sustained business support deliveries and scale up
Outputs	• Strengthened business resilience capacity • Supported business recovery • Supported Lead Firms' resilience • Built capacities of local actors: SMESP, banks, training and BDS providers
Activities	• Preparing ToT on business resilience; training MSMEs on Business Resilience; Business advisory support • Providing matching grants for 270 MSMEs; providing BDS for 270 MSMEs • Providing training on business resilience for 40 MSMEs; providing matching grants for 15 Lead Firms • Setting up PMU operations, IT system, CRM and managing BRAVE relationships with local banks and training institutions
Input	• USD 241K for ToT and SMEs training on BR; USD 3.68 million for 270 MSME matching grants; USD 265K overhead • USD 736K for 40 Lead Firms trained, matching grants for 15 Lead Firms, BDS support; USD 594K for PMU, • USD 70K for IT platform; USD 156K for ICD oversight and technical support; and USD 280K for contingency

Inputs: 1. Political support: mobility and access are restricted due to high insecurity zones, limited support from the authorities. 2. Technical: ICD and SMEPS cooperation with banks and MSMEs (identification of beneficiaries, disbursement and grant matching on time) 3. Financial and HR: mobilized and local support in three zones provided procurement, disbursement and reimbursement delay due to high risk-credit rating banks and operating in Yemen.

Context/Opportunity (Helping and Hampering factors): IsDB-ICD policy and normative framework, SMEPS experiences in operating in conflict zones and supporting SMEs. Cooperating and building on local actors' capacity: collaboration with local banks, local judges and advisors, training institutions; mobilizing resource adaptability and flexibility in mitigating the risks associated to the project in a complex political, socio-economic and environmental context.

3.6.3 Development Results of the Pilot Phase based on the External Evaluation Report

In October 2018, ICD contracted Ghubril Ltd. (an independent evaluation firm, based in Canada) to conduct the midterm evaluation of the BRAVE Project. To undertake the evaluation, Ghubril has composed a core multi-national team of three expert evaluators based on their regional knowledge, location and experience in similar evaluations and subject matter. In addition, a team of local enumerators conducted the interviews with project beneficiaries under the supervision and guidance of the in-country team member. The evaluation team was supported by Ghubril's in-house staff that helped with logistics, document review, data management and analysis.

The evaluation covered the time period from January 2017 to August 2018 and included 189 beneficiaries in three locations where the project has been implemented. Local enumerators made site visits to businesses in Sana'a and Aden. Due to the wide spread of business activities and access difficulties in the Hadramout governorate, with the center in Mukalla, the team conducted phone interviews with business owners in this location. Also, the evaluation team interviewed SMEPS and ICD officers, representatives of three local banks and three training institutions.

3.7.3.1 Relevance of the Project

In examining the relevance of the BRAVE project, according to the MSME survey, 97% of entrepreneurs confirmed that the intervention was right and did occur at the right time. The results indicated that the grants have helped recipients survive during the on-going conflict, and that overall, the intervention has helped them grow their business. In general, the support was rated as relevant to the needs of businesses in terms of them being able to obtain new assets and materials, expand operations, and hire workers. In addition to the benefits

to enterprises, the intervention has provided benefits to the community as a whole, especially in light of the on-going conflict, by creating new job opportunities and improving access to new services, particularly in the health sector.

Knowledge transfer through the training component of BRAVE was another benefit noted by both groups of beneficiaries (training only group and training and grant group). In the MSME survey, 91% of all respondents noted that the training was sufficient. They reported that they had learned how to deal with risk, assure business continuity, particularly in a crisis, carry out project research and evaluation, develop business plans, and better understand investment decisions. Perhaps more importantly, even the beneficiaries that were not awarded a grant, acknowledged the benefits of the training component of the BRAVE project.

Beneficiaries that only received training and no grant expressed their disappointment for not receiving grants, which would have been vital for business survival as some of them had to close their business because of lack of funding.

Regarding the recipients of grants, about a third of the respondents noted that the grant amounts were insufficient for their business needs since the grant covered their basic needs only, but not other investments requirements. It must be noted, however, that BRAVE support never intended to go beyond assistance with the crucial assets, a condition that the project team explicitly communicated at the start of the project.

3.7.3.2 Effectiveness of Output and Outcome Achievement

In terms of project's service delivery, a large proportion of MSME survey respondents stated that they received quality training and that the matching grant process was excellent or good. For example, the BRAVE dashboard reported that over 800 direct jobs were created as a result of the project and 600,000 people gained access to health care services. Additionally, MSMEs were able to increase their customer base, improve performance, and increase the wages of employees through the support of BRAVE. A success story is the Aden Dental Clinic, owned by Dr. Maisah Hassan Mohamed, which was severely impacted by the conflict and experienced continuous interruptions of electricity and deterioration of medical equipment. With the support of BRAVE, Dr. Mohamed was able to continue with her business and learned important principles of continuity and how to deal with risks. Upon receiving BRAVE's support, Dr. Mohamed noticed an increase in the number of customers, net profits, and fixed assets.[21]

In regard to interactions among stakeholders, there was no formal communication strategy in place; although the project team used social media quite effectively to disseminate project information to the public. Local banks maintained a direct communication with ICD and SMEPS by phone, emails and through meetings. Overall, the project achieved notable results.

3.7.3.3 Preliminary Impact

BRAVE is moving in the desired direction as many MSMEs have witnessed an increase in sales, exports and imports, customer base, products and markets, and an expansion of business activity, especially in the health sector. Support to MSMEs, either financial or through training, allows BRAVE's participants to develop their businesses, which has several value-added benefits to the economy, translating into reduced economic and societal vulnerabilities for risk towards fragility in these two dimensions.

MSME survey respondents thought that BRAVE has also helped restore confidence and re-build trust in doing business in Yemen (74% and 40% respectively), revitalize value chains (57%), and reinforce the inclusion of women in the economy (43%). Additionally, survey respondents noted that BRAVE helped nurture partnerships and, as a model project, helped Yemeni businesses in advocating the role of the private sector in the peace building process to both governments and donors. The surveyed beneficiaries and interviewed officials of local banks and training institutions believed that all these positive changes would not have happened without BRAVE interventions. Moreover, the analysis showed that training, in combination with the grant, had a stronger impact on both MSMEs and the whole business environment than training alone.

21 Business Resilience Assistance for Value-adding Enterprise. Women Entrepreneurs: case studies 2018 – 2017.

3.6.4 Beneficiaries' Stories Compiled by SMEPS, our Local Partner

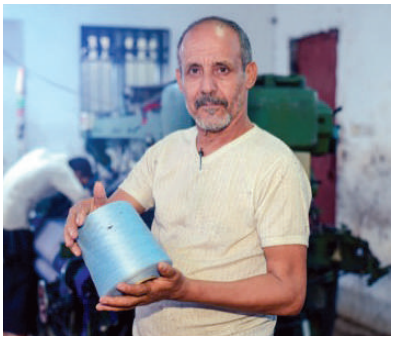
Story 1 - Al Ameer for Mauaz Manufacturing

Founded in 1995, the company's aim since day one was to produce craftsmanship of izzar (Mauaz).

The manufactory imports knitting and spinning materials for the production of Mauaz. The extra knitting and spinning are sold to wholesalers and retailers in the local market. It also has retail stores located in several provinces where they sell directly to consumers. Al Ameer had four main factories in Aden, Shabwa, Mukalla and Hodeidah, as well as several sub-factories and 25 retail stores throughout Yemen.

According to the owner, everything was going well until the conflict broke out. After the outbreak of violence, many customers were unable to pay back their obligations to Al Ameer, especially in the conflict zones. Furthermore, the imports stopped, production was interrupted and electricity was blacking out. All the obstacles made the owner seriously consider closing the business.

BRAVE members targeted Al Ameer business during the field survey, promotion and registration stages of the project. The factory then joined the business continuity training which helped the owner to prepare the business continuity plan for the first time. They prepared a conservative plan with only 2-3 production lines but were advised by the BRAVE adviser to add 10 more lines due to the high demand. They took the risk "Bravely" and invested more to cover the total cost (around USD 107,000 SR) and also USD 10,000 for extra factory rehabilitation to increase production.



As a result of the intervention, the factory created a new production line: Al-Shemage – Traditional cloth for men, in Gulf countries in particular. This is the first time a local company has produced such a high quality product to be exported to Saudi Arabia and Emirates. This new expansion allowed them to open additional 8 retail stores in different cities and employ more staff. During the busy periods, they hire even more workers, sometimes exceeding 500 seasonal workers.

Adding a new local product to the market has benefited both wholesalers and retailers as they are now able to cover the demand in the local market again. Clearly BRAVE has had provided a tangible benefit to Al Ameer, its employees, and the community.

Scan to watch the video

Story 2 - Bio Move for Plastic Organs and Rehabilitation

As a result of the conflict, the public health system largely collapsed, with a significant increase in the number of people disabled, specifically by landmines. In response, Dr. Elham, the owner of Bio Move Center, has stated that "Our goal is to reach all handicapped across the country." Like many private clinics, Bio Move faced numerous challenges, including electricity shortage and an unstable currency. Dr. Elham was about to shut down the entire project, when she heard about BRAVE.

Bio Move specializes in manufacturing plastic organs for handicapped people and providing rehabilitation programs. The current conflict made it difficult for Bio Move to reach its patients due to limited access to other governorates. The center, which has a single branch located in Sana'a, found itself forced to seek other solutions to reach the patients. Therefore, the idea of establishing a new branch in the more secure governorate of Ibb emerged, which has also witnessed a major influx of Internally Displaced Persons (IDPs) from Hodeida, Taiz, Lahj and Dhalae'e.

BRAVE helped Bio Move Center stay in operation with an electrical generator at its main branch in Sana'a. Additionally, the new branch in Ibb has started to provide high standard services with modern and high-quality equipment. Now patients have access to proper treatment at this branch without the need to travel long distances abroad.

Scan to watch the video

Story 3 - Al Salahi Clinic

Despite the conflict and the damages incurred to his medical center, Dr. Adel Al-Salahi did not stop providing great services. According to Dr. Salahi, the losses and damages caused by the conflict at the Salahi Clinic exceeded USD 300,000.

All this did not stop him from performing his work. Dr. Salahi opened the doors of his home to patients, receiving emergency cases and carrying out small and medium surgeries. In total, he has treated over 100 cases in his home during the conflict.

Nevertheless, he was determined to rehabilitate the medical center and reopen it again. His project coincided with the start of BRAVE. After winning BRAVE project support, the business continuity course helped the hospital director develop a new plan to restore health services better than the previous ones. Furthermore, after Al-Salahi clinic received the grant, the health services have improved, the Clinic has installed new devices and built rehabilitated rooms for children, which helped save many children's lives. This achievement is especially important in Aden, where high quality health services are rarely found. Now, Al-Salahi has motivated other hospitals to improve their services. In fact, he has signed several contracts with those hospitals to assist them with their improvement efforts.

The Clinic undertook many interventions such as (i) rehabilitating the emergency care room with some equipment, (ii) re-equipping and rehabilitating another building, (iii) transferring all the damaged sections to the new building at a cost of more than USD 200,000, and (iv) buying medical equipment worth of USD 65,000.

It is also important to note that the clinic has started to process the first

oxygen and cylinder filling plant in the city of Aden. This plant provides oxygen to all health facilities in Aden and neighboring cities. This is a milestone project which could save hundreds of lives. Al-Salahi hospital is now resilient, able to provide high quality services and remain in operation.

Scan to watch the video

Story 4 - Al-Madani Poultry

Al-Madani Poultry Corporation was affected by the conflict too, as an entire poultry hangar was shut down and hundreds of poultry died inside.

With the support of BRAVE, the owner has rebuilt the damaged poultry hangar and added a new integrated automatic feeder facility which distributes food automatically to the entire poultry hangar. BRAVE also helped improve the infrastructure in other ways. For instance, it helped finance a power generator to help keep the lights on and has provided automatic waterers to distribute water. Business is now back on track, turning from a fear of closure to increasing production, retaining employees, and even increasing employment by 20%. The production capacity has also increased by 30% compared to the pre-conflict numbers. As a result, Al-Madani has increased its market share, revenues, and profits.

Scan to watch the video

Story 5 – The Green House Company

The Green House Company is considered to be one of the outstanding agribusiness companies in Yemen. Its business module is based on importing seedlings, such as bananas and strawberries, and multiplying them. The multiplying process goes through many stages until the seedlings are ready to withstand the natural atmosphere, grow, get harvested and then sold.

The major problem facing this business was preserving and protecting these seedlings. Thousands of seedlings were subjected to severe cold shocks that eventually killed them. Thousands of dead seedlings meant a significant loss for the business. This hardship could have been prevented with improvement in the businesses infrastructure. For example, a "Cool house" could have protected the plants while special illumination and upper covers could have provided light and helped with growth, and extra shelves would have allowed for increased seedling plantings.

BRAVE helped The Green House Company overcome these obstacles. The company took the training on business continuity, helping it to stay in business and face risks. The project contributed to the financing of the first protected cool house in Yemen, with special illumination light, upper sheets and large shelving areas. The Green House Company contributed USD 30,000 to the matching grant and employed 2 permanent workers and 4 seasonal workers. By the end 2019, The Green House Company will increase its productivity to 200% and add new crops, such as potatoes.

Scan to watch the video

Story 6 - Shoura Factory for Ice

The Shoura Factory for ice largely provides ice for fishermen, helping to keep their fish fresh. The plant was established in 2009 and has been in operation ever since. As a result of the conflict, it was struggled with the distribution of its products from Mukalla to distant markets, primarily because of insulation issues in transport. For this reason, it lost out on partnerships and contracts from other regions, both for transporting fish and providing ice.

After receiving training in business continuity methodology and obtaining the grant, the company has addressed this issue. It has increased its capacity, with the refrigerated transport trucks now able to carry 450 bags of ice, thus providing the large amounts of ice for its customers. For comparison, prior to this increased capacity,

the largest cold compartment in Hadramout carried only 300 bags. As each bag is sold for 800 Yemeni riyals, this improvement represents considerable sums of money.

Furthermore, the grant component provided a job opportunity for a truck driver and 40 workers with daily pay, which also led to 10 new clients for the business.

Scan to watch the video

3.6.5 Next Step: BRAVE Women Yemen, Mali, Nigeria

The year 2018 was a turning point in the upward growth trend of the IBES Program. The successful roll-out of BRAVE 1 in Yemen has been a remarkable success for ICD and IsDB in front of international donors. As a result, an additional USD 3 million was procured from the Deauville MENA Transition Fund in February 2018. This money is to be used to support an additional 40 Lead Firms in the country as well as 10 more business associations/cooperatives in what can be deemed the project's "second phase". This expansion of the original project to a wider national scale, as well as the corresponding deepening of the project's Value Chain component, is meant to support and protect vital value chains in the targeted sectors and upgrade the chain performance, thus impacting many more SMEs (both formal and informal).

Moreover, IBES's performance as a reliable internal partner for innovative project design and effective implementation outfit, attracted additional interest from IsDB (Women and Youth Empowerment Division) to partner for the newly launched global fund for Women Entrepreneurs Finance Initiative (We-Fi). The IBES team was able to prepare, defend and secure a multi-country USD 32 million program to replicate BRAVE model for women-led MSMEs over a 4-5 years' timeframe for three fragile contexts: Yemen, Nigeria and Mali.

We-Fi is a collaborative partnership among 14 governments, eight multilateral development banks (MDBs), and other public and private sector stakeholders, hosted by the World Bank Group. It seeks to address financial and non-financial constraints faced by women-owned/led small and medium enterprises in developing countries (https://we-fi.org).

The BRAVE Women program aims to enhance the resilience of MSMEs owned/managed by women in fragile context as potential engines for innovation, employment, and improved quality of life. The program has the following five components:

1. **Business Resilience Capacity Building:** Training of 1,500 MSMEs on how to assess risks and determine their business priority by preparing a Business Continuity Plan (BCP).

2. **Business Recovery Support (BRS):** Grant matching scheme for over 1,200 MSMEs in pre-selected value chains, on a cost-sharing basis for the procurement of capital goods and services to support business recovery/growth.

3. **Value Chain Resilience:** 40 lead firms and business associations/cooperatives in Nigeria and Mali supported in protecting vital value chains and upgrading the chain performance, impacting many more SMEs.

4. **BRAVE IT Platform:** An online IT platform will be developed to handle CRM, Monitoring/Reporting and knowledge sharing among project stakeholders.

5. **Project Management Unit:** A unit helping to oversee and administer the project.

The new BRAVE Women Initiative considers that both in fragile and non-fragile situations, women tend to have a relatively high propensity to invest back into the family and the community, making entrepreneurship a coping strategy to poverty reduction. In addition, there is a strong link between entrepreneurship and reduction of gender gaps in certain indicators such as education, health, and household nutrition.

This initiative will complement ongoing initiatives in these countries, with an emphasis on women access to skills training and to finance schemes, with the ultimate goal to boost entrepreneurship and job creation within fragile and conflict settings.

Section 4

THE WAY FORWARD

4.1 OVERVIEW

Moving forward, ICD will take into consideration the concerns and expectations of its partner financial institutions as they are striving to improve the services to their client SMEs in fragile settings. This section introduces the relevant findings from the ICD's 2018 Development Effectiveness Survey that address these issues. Further, the endeavors of the financial institutions in a fragile context are often limited by security risks, lack of effective and efficient cross-border transactional capabilities and disrupted global banking networks. Use of the state-of-the-art technologies may suggest digital solutions to overcome these challenges.

4.2 EXPECTATIONS OF ICD LOCAL PARTNERS IN FRAGILE SETTINGS

The ICD 2018 Development Effectiveness Survey was administered with the aim to learn about experiences, opinions and expectations of the partner financial institutions regarding their services to client SMEs in fragile settings. Many SMEs experience difficulties in obtaining financing, and the survey respondents shared their observations of reasons that prevent SMEs from getting financing. The following is a list of such reasons:

- Collateral and cost of borrowing in the country
- High composite risk associated with business and lack of convincing mitigation plan
- Low business turnover
- Poor account performance
- Unattractive business proposal
- Poor business accounting systems and procedures
- Inadequate security offers
- Lack of clear organization, financial records, visibility of business
- Some sectors are not regularized by the government
- Lack of collateral, inadequate documentation of repayment capability
- Lack of long-term resources
- Weak cash flow
- Economic concerns
- Lack of knowledge in leasing
- Low managerial skill

As ICD strives to help the partner institutions overcome the difficulties caused by various fragilities in their country, it would be useful to consider the expectations that the survey respondents shared. To be able to better serve their SME clients, financial institutions would like ICD to help them with the following:

- Expertise in Islamic banking practices, exchange of knowledge and skills in implementation of various financing mechanisms
- Provision of technical assistance in the form of seminars and training for employees, for example, training for SME team on Structured Finance/SME Transactions Advisory Services
- Assistance in accessing financial markets in order to source and mobilize financial resources
- Cheaper funds and longer tenure
- Proactivity
- Technical support
- Capacity building
- Variety of Islamic Finance Products
- Trade Finance
- Treasury services/products
- Flexibility in product offering and payment frequency

4.3 POSSIBLE ICD'S SOLUTIONS IN THE CONTEXT OF DIGITAL ECONOMY

Multinational financial institutions are experimenting with leading-edge technologies designed to disintermediate trust and facilitate the execution of contracts. Blockchain is the underlying technology, and smart contracts is the digital application that is running on such a distributed ledger. The notion is to clear payments between contracted parties in the most effective manner possible. The system removes cash-flow bottlenecks, resulting from the validation typically required by a third party, by sharing the burden of provenance and trust among all participants.

A prominent consortium of banking institutions, led by UBS (a large Swiss multinational investment bank), has fostered in-house development capability and is working with blockchain service providers to pilot and operate such an arrangement.

ICD may consider working with a reputable IT solutions provider that has scale and depth to support the technology (for example, IBM) to develop an Ethereum-based blockchain.

It would designate the MDBs involved in the network as "miners" (owners) and partner with a smart contract developer, such as Monax, to issue contracts between the MDBs and the local banks. Beyond that, the ICD blockchain will be accessible to all recipients of development funds along with all local banks who enter into a contract with any one of the MDBs.

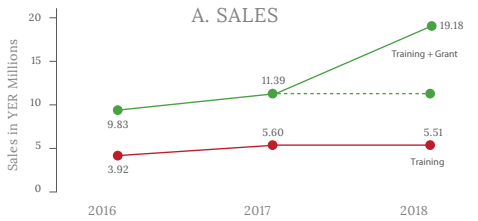
Every time money is transferred from the MDBs to the local banks and from the local banks to the beneficiaries, all MDBs will validate that transaction. The act of clearing a payment, based on agreed-upon conditions laid out in all the smart contracts running on the ICD blockchain, will be witnessed by all MDBs.

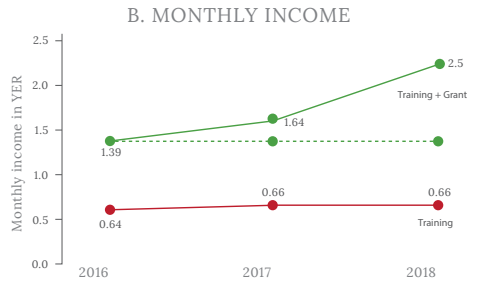
This banking topology will create an immutable, incorruptible and irreversible record of any and all transactions that are executed henceforth.

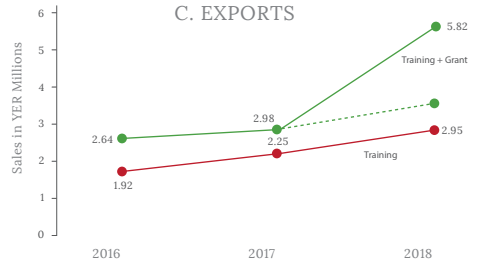
APPENDICES

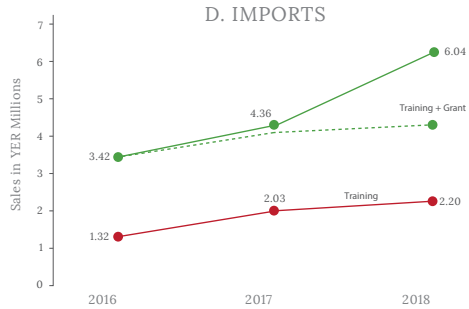
APPENDIX 1- EVALUATION OF BRAVE PHASE 1

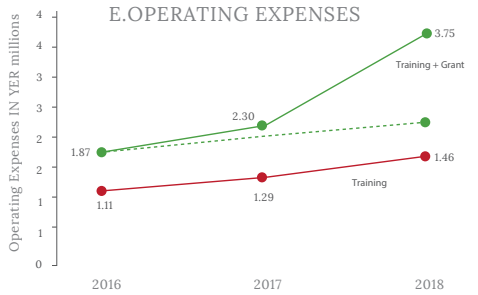
Difference in Differences Results

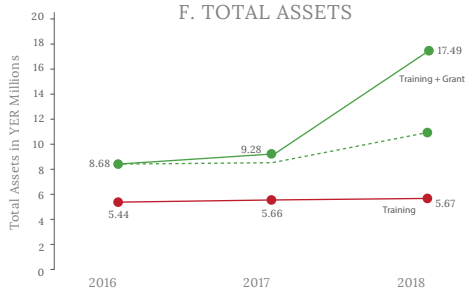


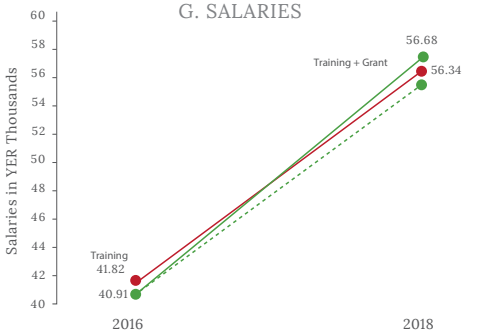


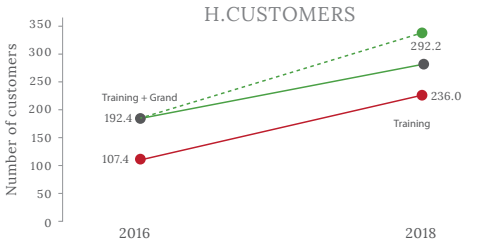












APPENDIX 2 – RESULTS OF THE ICD 2018 ANNUAL DEVELOPMENT EFFECTIVENESS SURVEY

SUMMARY

The 2018 ICD Development Effectiveness Survey targeted those MCs classified as being in Fragile Situation using the OECD fragility index. The survey response rate is 83% (20 out 24 targeted projects from 13 MCs).

The survey findings show the gaps faced by partner financial institutions and the potential role that ICD can play:

- 54% of ICD MCs are classified as being fragile in 2018 (29 out of 54).
- The total number of individual clients of the surveyed financial institutions is 8 million.
- The total number of client SMEs is estimated to be 377,159 without one outlier from Nigeria: Sterling Bank (with 1 million clients).
- The share of SME financing in the total banking portfolio in 2018 was 36%.
- Financial institutions were able to finance 23% of their client SMEs' requests (4,929 financing facilities provided in 2018). With Sterling Bank from Nigeria included, the financing rate would reach only 11% of all requests received in 2018 (54,929 SMEs were financed out of half a million requests).
- 35% of financial institutions do not have a dedicated SME department.
- 30% of financial institutions do not have an SME policy.
- 30% of financial institutions have never received any kind of external support related to SME financing.
- From those financial institutions that have benefitted from any kind of external support, less than a half (43%) have received technical support for SME financing.
- The main sectors financial institutions have covered span from agribusiness to energy, manufacturing, services and transportation.
- Three main reasons why these sectors were targeted:
  - High SME concentration in these sectors and SME dominance in the economic activities,
  - Alignment of these sectors with the country development plan,
  - High profitability of these sectors and demand for their products/services.

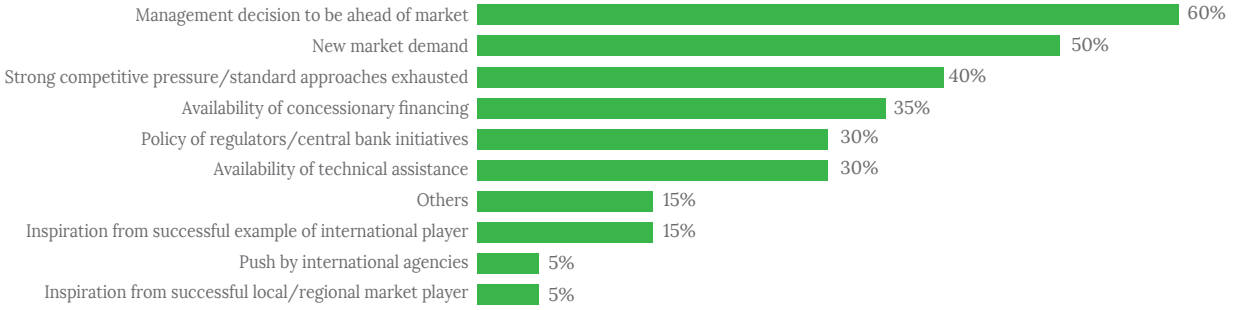
IDENTIFICATION OF RESPONDENTS

- Total number of ICD MCs: 54
- Number of ICD MCs classified to be in Fragile Situation according to the 2018 OECD fragility index: 29 (54%)
- Number of countries in fragile context where ICD has an active portfolio: 15
- Number of countries in fragile context covered by the survey: 13 (87%)
- Number of financial institutions targeted in the survey: 24
- Number of partner financial institutions that have responded to the survey: 20 (83%)

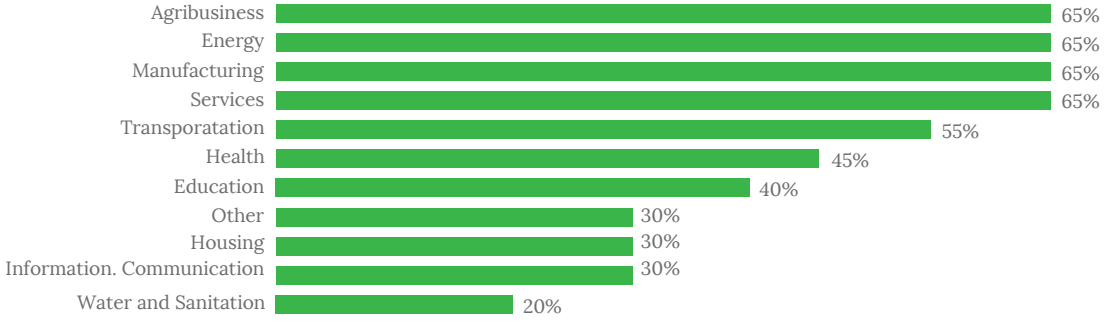
- 35% are Islamic Banks, 30% are conventional banks with an Islamic window, 20% are Conventional Banks, and 15% are Ijara Companies.
- On average, financial institutions have been partnering with ICD for the last 5-6 years. The oldest partners are in Yemen (13 years) and Sub-Saharan Africa (10 years).
- Financial institutions have different types of partnership with ICD: Shareholder only 35% (7), Line of finance only 55% (11), both 10% (2)

SMEs FINANCING STRATEGY

- The main objectives for introducing SME financing [1]:
  - Management decision to be ahead of market (60%)
  - New market demand (50%)
  - Strong competitive pressure/standard approaches exhausted (40%)
  - Availability of technical assistance (35%)
  - Policy of regulators/central bank initiatives (30%)



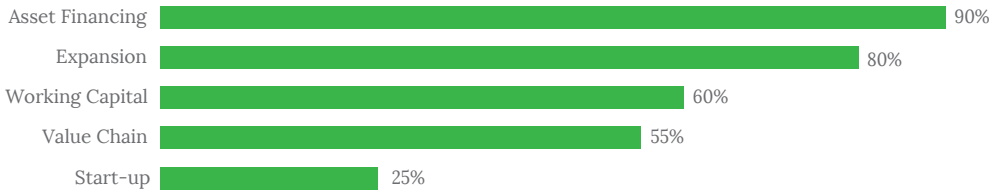
- SME financing targets are reflected in their KPIs and performance management in 18 out of 20 institutions (90%).
- 30% do not have an SME Policy.
- 35% do not have a dedicated SME department.
- 30% have never received any kind of external support related to SME financing. They all are Islamic financial institutions from Nigeria, Niger, Guinea, Tajikistan and Yemen, and one is a conventional bank from Mali.
- For those who have received support from external parties, it was mainly financing support (93%). Less than a half (43%) have received technical support.
- The main sectors financial institutions have covered span from agribusiness to energy, manufacturing, services, and transportation.



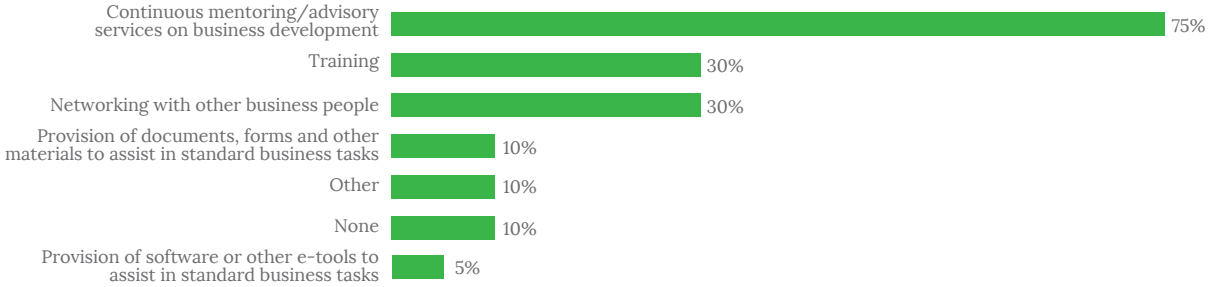
Response options derived from the following EBRD Study: "Global best practices in banking for women-led SME's" Oct. 2014, EBRD

- Main reasons why ICD partner financial institutions in different countries are targeting these sectors:
  - SMEs dominate the economic activities and are concentrated in these sectors: Gambia, Niger, Nigeria, Tajikistan, Mauritania, Burkina Faso.
  - Alignment with the country development plan (e.g., support the producers of goods in order to reduce imports and create jobs) and government support in line with the Bank's target market: Nigeria, Sierra Leone and Tajikistan.
  - The country is under construction, and the targeted sectors are more and more solicited: Guinea.
  - High demand, low risk, and profitability: Palestine.

- Banks are more willing to provide financing for asset acquisition (90%) followed by expansion (80%), working capital (60%), value chain (55%) and less likely to finance start-up (25%).



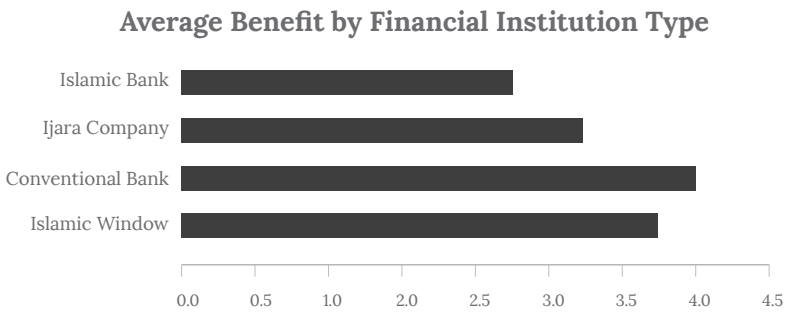
- After financing, institutions continue mentoring their clients on business development (75%), and one third provide training or networking with other business people. Quite a few assist their clients in business standardization or IT related activities.

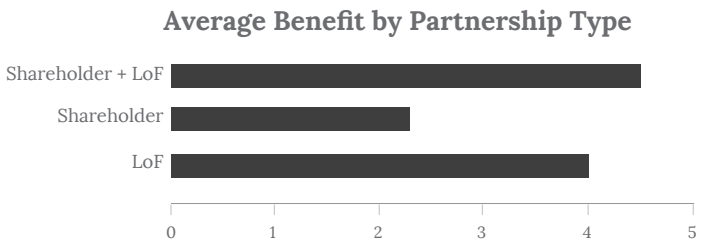


- On average, the share of SME financing in total banking portfolio volume in 2018 was 36%.
- The total number of individual clients of the surveyed financial institutions is 8 million with three outliers: two from Nigeria (Sterling Bank and Wema Bank) and one from Tajikistan (OrienBank) each totaling more than 2 million clients.
- The total number of SME clients is estimated to be 377,159, excluding one outlier from Nigeria: Sterling Bank (with 1 million clients).
- Excluding the outlier Sterling Bank from Nigeria (which received 500,000 requests), ICD partner financial institutions received 20,981 SME financing requests in 2018 and were able to finance only 4,929 (23%). With Sterling Bank data included, the financing rate is only 11%. The total number of SMEs that get financed reached 54,929 in 2018.

- According to our partners, the most common reasons that prevent SMEs from getting financed are:
  - Collateral and cost of borrowing in the country
  - High composite risk associated with business and lack of convincing mitigation plan
  - Low business turnover
  - Poor account performance
  - Unattractive business proposal
  - Poor business accounting systems and procedures
  - Inadequate security offers
  - Lack of clear organization, financial record, visibility of business
  - Some sectors are not regularized by the government
  - Lack of collateral, inadequate documentation of repayment capability
  - Lack of long-term resources
  - Weak cash flow
  - Economic concerns
  - Lack of knowledge in leasing
  - Low managerial skill
- For them, the benefit from the partnership with ICD was:

On a 5-point scale, the ratings of the partnership with ICD by Financial Institution type and by Partnership type are:





- The financial products that they believe are good to serve SMEs in their context are:
  - Sukuk and guarantees
  - Working capital
  - Asset financing
  - Trade finance
  - Line of confirmation with correspondent banks
  - Using the full range of Islamic finance products: salam, tawaruq, mourabaha, ijara, istisna

- The expectations they have from ICD to better serve their SME clients are:
  - Expertise in Islamic banking practices, exchange of knowledge and skills in implementation of various financing mechanisms
  - Provision of technical assistance in the form of seminars and training for employees, for example, training for SME team on Structured Finance/SME Transactions Advisory Services
  - Assistance in accessing financial markets in order to source and mobilize financial resources
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