



## ISLAMIC CORPORATION FOR THE DEVELOPMENT OF PRIVATE SECTOR (ICD)

### DISCLOSURE STATEMENT Operating Principles for Impact Management

The Islamic Corporation for the Development of the Private Sector (ICD) is a founding signatory to the Operating Principles for Impact Management (*the Principles*). The Principles provide a reference point against which the impact management systems of funds and institutions may be assessed. They draw on emerging best practices from a range of asset managers, asset owners, asset allocators, and development finance institutions.

This Disclosure Statement affirms that ICD's core business, including (a) impact management systems; (b) policies and practices; and (c) investment services (including financing, equity and funds) are managed in alignment with the Principles and in compliance with Shariah principles. Total assets under management in alignment with the Principles is US \$1,650 million as of December 30<sup>th</sup>, 2019.

For and on behalf of  
**The Islamic Corporation for the Development of the Private Sector**

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## Principle 1: Define strategic impact objective(s) consistent with the investment strategy.

The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.

- As the private sector arm of the Islamic Development Bank Group (IsDBG) operating in 55 member countries, the ICD plays an increasingly important role in building enabling environments for the private sector in both middle-income and the remaining low-income countries. The ICD emphasizes inclusive growth that leads to an expansion of opportunities that are accompanied by measures to ensure that the poor and disadvantaged are able to access these opportunities and are not left behind.
- ICD's mission is to complement the role played by the IsDB through the development and promotion of the private sector as a vehicle for economic growth and prosperity. ICD actively seeks to identify opportunities that could function as engines of growth and nurture these opportunities through a range of financial products and services.
- In line with its mandate and expertise, ICD aims to fulfil two purposes:
  - Support the private sector development in member countries including small, medium and large private enterprises via direct and indirect provision of financial products and services.
  - Strengthen the Islamic finance ecosystem within member countries as enabling environment for private sector growth including unconstrained access to suitable financial products and services, availability of required infrastructure and an enabling regulatory environment.
- ICD is a unique DFI, as it offers exclusively Shariah-compatible financing for private sector in its member countries. Moreover, the promotion of Islamic finance and the deepening of Islamic financial intermediation objectives add to ICD's uniqueness.
- In doing so, ICD focuses on a broad definition of development effectiveness. It takes into special account the United Nations (UN) Sustainable Development Goals (SDGs). ICD applies a holistic approach in the sense that it tries to capture all impacted SDGs; directly & indirectly and intended & unintended.
- At the same time, ICD has developed its own SDGs Theory of Change (ToC) which is a specific oriented approach as follows:

ICD considers three of these SDGs as particularly important and directly and indirectly targets these through its investments:

- SDG 7: "Affordable and clean energy", SDG 8: "Decent work and economic growth" and SDG 9: "Industry, innovation and infrastructure"

Moreover, ICD aims at improving enabling the environment and facilitating interaction between key stakeholders by emphasizing two additional SDGs:

- SDG 13: "Climate action" and SDG 17: "Partnership for the goals"

Through its actions, ICD aims to achieve indirect impact on five further SDGs through its investments and engagement:

- SDG 1: “No poverty”, SDG 2: “Zero hunger”, SDG 3: “Good health and well-being”, SDG 4: “Quality Education” and SDG 5: “Gender Equality

### Principle 2: Manage strategic impact on a portfolio basis.

The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance

- ICD is at its core a development financial institution seeking to strengthen the private sector in its member countries. As such, it formulated “ICD’s SDGs theory of change” on a strategic level, which serves as a reference point for all investment and engagement activities to achieve impact across a defined set of SDGs. On an operational level, ICD will continue to define targets, measure contributions to the SDGs in focus and steer investment decisions based on development effectiveness considerations.
- ICD does this by continuous application of dedicated development effectiveness grading system implemented in its investment decision process applying a holistic view on an investment’s i) strategic alignment to ICD’s mandate, ii) contribution to SDGs as well as iii) ICD’s additionality. Furthermore, ICD will continue our efforts in measurement of development impact across existing activities via structured data collection to derive insights for further enhancement and guidance for our business operations.
- All Business Departments (BDs) work with the responsibility towards the contribution of ICD development mandate through an internal Board approved KPI targets. For which these targets are then cascaded to the respective professionals to allow achievement of impact as guided by the ICD 3-year strategy.

### Principle 3: Establish the Manager’s contribution to the achievement of the impact.

The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels. The narrative should be stated in clear terms and supported, as much as possible, by evidence.

- The goal of ICD’s Development Effectiveness Policy is to improve the development impact of ICD via (i) the maximization of ICD’s contribution to enhancing the factors and conditions that enable member countries to achieve their development goals (ii) the continuous enhancement of ICD internal operations which can be achieved through increasing staff awareness and knowledge. The goal is achieved through continuous improvement of ICD’s operations in terms of design, implementation and results.
- ICD’s strategic goal is to be the key enabler of private sector development in its member countries and this is supported by five key pillars. In alignment with ICD’s articles of agreement (AoA) and investment guidelines, these five key pillars place the “additionality” of the investment in full focus. Central to ICD strategy is to serve the private sector within its member countries through financial institutions within its network that act as “channels”, thereby helping to mobilize additional private sector resources and thus multiplying the development impact.
- In addition to its financial activities, ICD also provide non-financial advisory and technical supports to its clients. Such non-financial channels have proven their ability in contributing to the achievement of ICD overall development impact. The beneficiaries of these products started to acquire the needed knowledge to develop and improve their development impact systems to be also contributors to the achievements of the SDGs.

**Principle 4: Assess the expected impact of each investment, based on a systematic approach.**

For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact? The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations. In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards and follow best practice.

- SDGs Analysis is included in the Quality at Entry Process of ICD's investments approval procedures.
- It starts with the project concept approval where the theory of change of the project is linked to SDGs.
- Then, a Due Diligence Development Impact Questionnaire including SDGs related questions is submitted to the client to help prepare the full project proposal.
- Finally, a Development Effectiveness Note is prepared to inform the Investment Committee Meeting Decision, including contribution to SDGs.
- ICD is also using a customized Grading System to assess its potential proposals in terms of development effectiveness which is a requirement for ICD to distribute limited resources in most sustainable and efficient manner.
- The objectives of the Grading model are:
  - estimate the development impact of investment and advisory projects submitted for approval.
  - Identify projects that maximize ICD's Development Impact at appraisal.
  - provide evidence for effectiveness and accountability
  - assign ratings of project expected performance based on how well the project is contributing to ICD's goals.
  - Promote and support clients/partners engagement towards impact alongside with financial return.
- It does so by assessing the proposal against five outcome categories (i) Strategic alignment with ICD's mandate, (ii) Fragility index of the country, (iii) Development effects and contribution to the SDGs, (vi) Financial performance and, (v) ICD's Additionality.
- The Rating system comprises Impact categories with indicators that capture the key elements of the Theory of Change:
  - First, strategic alignment with a focus on the fragility of the country and the project's alignment with beneficiary country's priorities;
  - Second, additionality to assess the unique contribution of ICD beyond what is available in the market;
  - Third, project Outcomes using the DFIs' Harmonized Indicators for Private Sector Operations (HIPSO) and The Global Impact Investing Network IRIS Framework (GIIN);
  - Fourth, SDGs contribution to identify a direct proven contribution of the project to at least one SDG indicator.
- The Overall Development Outcome rating of the project in this case will be a synthesis of the project's performance in all the five areas mentioned above.
- ICD assesses its impact achievement for each investment at three different levels:
  - First, during project identification and planning, the Due Diligence questionnaire includes SDGs related questions to raise awareness about the SDGs.

- Second, during annual review, the results of the development effectiveness survey is shared individually with clients who responded to the survey to showcase their contribution to SDGs.
- Third, since December 2018, ICD has adopted a new Technical Assistance mechanism to assist its clients to take SDG Actions.

**Principle 5: Assess, address, monitor and manage potential negative impacts of each investment.**

For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG) risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice. As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

- ICD integrated a formal development impact measurement system into its development effectiveness framework. The measurement system builds on the best practices of other IFIs promoting private sector development and enables the identification of the contribution of ICD's projects to the SDGs.
- ICD introduced its development impact grading system as an integral part of its development effectiveness grading model. The purpose of this model is to estimate the impact of ICD's initiatives. The development of this system was grounded in best practices in measuring the impact of private sector development initiatives in other Multilateral Development Banks (MDBs). Emphasis was placed on identifying the contribution to the SDGs.

**Principle 6: Monitor the progress of each investment in achieving impact against expectations and respond appropriately.**

The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action. The Manager shall also seek to use the results framework to capture investment outcomes.

- The Development Effectiveness approach of the ICD measures/assesses the development impact of a private venture on the society/economy as a whole. The performance dimensions are largely based on the Evaluation Cooperation Group (ECG) Good Practice Standards (GPS) for Evaluation of Private Sector Operations. The impact of the project on various stakeholders is assessed by examining project performance in five key areas (Financial Success, Promotion of Islamic Finance, Economic Benefits, Environmental, Social, Health & Safety Effects, and Private Sector Development).
- In ICD, the Ex-post analysis is two-fold: (i) the annual survey to track all active investment and advisory projects, (ii) the ex-post evaluation for mature projects.
- The annual development effectiveness covers all HIPSO development indicators. The survey was customized to include the SDGs. This survey is the principal source of evidence of the Annual Development Effectiveness Report (ADER).

- The M&E Division under the Development Effectiveness Department conducts a number of evaluation missions to mature projects where a more in-depth data is collected and analyzed. The evaluation approach follows the MDBs' Evaluation Cooperation Group Good Practice Standards for Private Sector Operations.
- 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 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.

**Principle 7: Conduct exits considering the effect on sustained impact.**

When conducting an exit, the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.

- The exit strategy for any investment shall be approved by the appropriate internal authoritative body. The Business Departments (BD) shall prepare the following analysis to enable the decision-making process:
  - Advantages and disadvantages of various exit alternatives;
  - The rationale for exit;
  - Timing considerations;
- ICD can exit from its investment(s) fully, partially, hold or increase its investment in its portfolio companies.
- Exits from the investments should be considered in the following situations when one or more of these objectives are met:
  - Financial objectives described in the original business plan, feasibility;
  - Developmental objectives are met; SDGs contributions are satisfied;
  - Private sector player is interested in buying out the ICD (enabling the Private Sector);
  - Increase of Knowledge Transfer to the local economy via this investment has been positive.
- Additionally, the ICD will exit an investment if it breaches the principles of Shariah.
- As the timing of the exit could have profound impact on the overall development results of the ICD, the appropriate internal body shall examine proposals for existing investments and make recommendations on the most optimal strategy for the eventual realization of each investment in coordination with the Development Effectiveness Department.

**Principle 8: Review, document and improve decisions and processes based on the achievement of impact and lessons learned.**

The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

- Reporting on development results is an important aspect of ICD's accountability as a development finance institution (DFI). Projects financed by ICD are selected because of their contribution to economic development in member countries, and ICD is ultimately accountable for the resources used to fund such projects. The intended M&E system should be able to report the results for individual projects as well as for the portfolio as a whole in a concise and accessible format.

- All BDs shall prepare the development impact section in each Concept Review Paper (CRP) based on the Template of Theory of Change circulated by the Development Effectiveness Department (DE) to all BDs.
- The Development Effectiveness Team will review those submissions and provide feedback and comments in a Development Effectiveness Note (DEN). This DEN will assess and rate the compliance of the Development Impact section with ICD’s Development Effectiveness Policy.
- The Development Effectiveness team will use the data collected through the development impact questionnaire to update the DE grading system for each project.
- The overall aim is to improve the decision-making process to allow for greater leverage and better usage of ICD resources towards its development mandate as prescribed by the Board.

**Principle 9: Publicly disclose alignment with the Principles and provide regular independent verification of the alignment.**

The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concern.

- ICD’s Annual Development Effectiveness Report (ADER). The report’s objectives are:
  - **Accountability:** Communicate the development outcomes of ICD’s interventions to the Board of Directors, the Member Countries, the public and other stakeholders.
  - **Lessons Learned:** Identify ways to continuously improve the development impact of ICD’s policies, strategies, programs, and projects.
  - **Sharing Knowledge:** Exchange knowledge and increase awareness for ICD’s interventions.
- ICD’s impact and sustainability data reported in the ADER is audited by an external auditor.
- Additionally, this Disclosure Note shall serve to re-affirm the alignment of ICD’s procedures with the Principles and will be updated annually.
- ICD is currently assessing different options for an independent verification of the alignment with the Principles according to Principle 9 and aims to provide an independent verification by the time of next Disclosure Statement, July 12, 2021.