

Independent Verification Report  
**Operating Principles for Impact Management**



July 2021

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*Confidential*

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# Independent Verification Report on alignment of ICD Impact Management System with the Operating Principles for Impact Management

Prepared for Islamic Corporation for The Development of Private Sector (ICD)

Date: July 02, 2021

## Background

As a founding signatory to the Operating Principles for Impact Management (the "Impact Principles"), ICD is committed to disclose the degree of alignment of its (a) impact management systems; (b) policies and practices; and (c) investment services (including financing, equity, and funds) with the Impact Principles.

Considering the same and to meet the requirement of Impact Principle #9, ICD has approached PKC Advisory to conduct an independent verification of the 'Disclosure Statement' prepared by ICD management and provide the conclusion on the alignment of ICD's impact management system with the Impact Principles.

## ICD Responsibility

It is the responsibility of ICD to define its processes as well as the roles and responsibilities of its management and other employees to align them with the requirements of the Impact Principles. It is also the responsibility of ICD to publicly report on its website (<https://www.icd-ps.org>), on an annual basis, its commitment to the Impact Principles and the extent to which its Impact Management Systems are aligned with the Principles.

## PKC Advisory Responsibility

Our responsibility is to independently verify the 'Disclosure Statement' published by ICD in the month of June 2021 relating to the Operating Principles for Impact Management and provide a limited assurance on the alignment of ICD's impact management system with the Principles. Our review of ICD's impact management system does not include any assessment of the effectiveness of ICD impact measurement approach, evaluation of the veracity of the outputs of ICD's impact assessment tools or verification of the resulting impacts achieved.

## Methodology and Scope of Independent Verification

- Verify that ICD policies address each of the Impact Principles
- Assess the relevance, completeness, reliability, neutrality, and understandability of the policies in relation to the Impact Principles
- Conduct interviews with the people in charge of defining, applying, and enforcing the ICD Impact Policies
- Perform walk-through tests to check the correct application of the ICD Impact Policies
- Verify the amount of assets under management (as of December 31, 2020) aligned with the Impact Principles
- Review the integrity of the information provided in the Disclosure Statement in relation to the Impact Policies

## Conclusion

Based on the procedures performed and the evidence obtained through review of ICD Policies and discussion with the personnel responsible for impact management, nothing has come to our attention that causes us to believe that ICD impact management system is not in alignment, in material respects, with the Impact Principles.

## Detailed Assessment Conclusion

PKC Advisory has independently verified ICD's extent of alignment with the Impact Principles. Key takeaways from our assessment are as follows:

- **Principle 1: Define strategic impact objective(s), consistent with the investment strategy**

ICD has Board approved investment strategies at the portfolio level to achieve the desired impact objectives and targeted Sustainable Development Goals (SDGs).

- **Principle 2: Manage strategic impact on a portfolio basis**

ICD has established an integrated toolkit to track and assess the development impact for its on-going and completed projects from entry point to exit. The assessment involves 5-steps viz. Concept Review, Due Diligence, Final Review, Operation and Completion with the aim to collectively improve ICD's ability to consistently manage, collect and report on the development impacts of its projects.

ICD has also set KPIs for its Business Departments and Development Effectiveness Department that includes monitoring and ensuring achievement of impact objectives approved by the Board of ICD.

- **Principle 3: Establish the manager's contribution to the achievement of impact**

ICD follows a pre-defined screening process for the proposed interventions to have a deeper understanding of the business of the investee company. These companies are assessed on financial and non-financial parameters to check their growth potential and ability to achieve positive impacts as per the overall development objectives of ICD.

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

ICD has established policies or processes for the following:

- Assessment and quantification of the expected impact of each intervention including its likelihood at the initial phase of proposal evaluation.
- Making recommendation to the investee company in case any significant risk factors are identified during the project lifecycle that could result in the impact varying from the ex-ante expectations.
- Periodic assessment of risks including country risks and setting credit limits.
- Monitoring of the actual impacts and explore opportunities to increase the impact of the intervention as per the overall mandate and exit strategy if the impact is found higher than the intended impact.

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

ICD evaluation process includes identification of Environmental, Social, and Governance (ESG) risks and establish an action plan to avoid or mitigate the identified risks along with the investee companies.

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

ICD has a predefined process in place to collect impact data during the project life cycle by conducting field visits and surveys. The collection of data is done on an annual basis as well as on ad hoc basis. The collected data is then further analyzed to compare the expected and actual impact performance. In case of impact underperformance or other negative effects, ICD either opt to update the impact targets for that project or explore the exit as per the approved exit strategy.

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

ICD examination of exit proposals includes due evaluation of actual impact achieved and financial stability of the investee company to ensure the targeted SDG goals shall remain maintained independently by the investee company post the exit.

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

ICD has a process in place to measure the actual vis-à-vis expected impact of each intervention and document their positive and negative impacts. It has also established a practice to assess the impact outcomes to further improve strategic decisions for future investments.



**PKC Advisory**  
**02 July, 2021**

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