ANNUAL DEVELOPMENT EFFECTIVENESS REPORT
FEATUREING A SPECIAL REPORT ON LINES OF FINANCE
1436H | 2015

ENABLING ENTERPRISE, BUILDING PROSPERITY

MAY 2016
CONTENTS

1436H Highlights II
Abbreviations IV
Message from the CEO VI
Executive Summary IX

1. Introduction: The Strategic Context 1
   1.1 Overview 1
   1.2 The Global Landscape: The Sustainable Development Goals (SDGs) 2
   1.3 The SDGs and the IDBG 1436H Ten-Year Strategy 3
   1.4 ICD 1436H/2015 Ten-Year Strategy 6

2. ICD's Development Effectiveness Framework: Translating Strategy into Operations 11
   2.1 Overview 11
   2.2 The IDBG Corporate Scorecard 12
   2.3 The ICD Development Effectiveness Framework 15
   2.4 ICD Development Effectiveness Measurement System 16

3. ICD in Action 21
   3.1 Overview 21
   3.2 Operating Context 22
   3.3 Regional Development Needs 26
   3.4 Portfolio and Investment Analysis 28

4. Results 31
   4.1 Overview 31
   4.2 Overall Results for 1436H 32
   4.3 ICD Contribution to Private Sector Development
      Active Projects 33
      4.3.1 Banking Equity Finance 33
      4.3.2 Ijara 34
      4.3.3 Direct Investment and Financing 36
      4.3.4 Asset Management Businesses 37
   4.4 Improvements in Organizational Efficiency 38

5. A Special Report on Lines of Finance 43
   5.1 Overview 43
   5.2 LoF Definition and Rationale 44
   5.3 LoF Structures
      5.3.1 Arrangements with Islamic Banks and Leasing Companies 45
      5.3.2 Arrangements with Conventional Banks 46
   5.4 LoF Operating Principles 46
   5.5 ICD's LoFs Portfolio 47
   5.6 LoF Development Impact 48
   5.7 The Challenges Facing LoFs 49

6. The Way Forward 53
   6.1 Overview 53
   6.2 Context 54
   6.3 Enhancing Policy Coherence 54
   6.4 Increasing Efficiency in Implementing Program and Projects 55
   6.5 Coherent Performance Measurement and Reporting Systems and their Coherence 57
   6.6 Impact Evaluation 58

TABLES

Table 2.2 IDBG Goals and Development Results of the IDBG and ICD 1436H Ten-Year Strategies 13
Table 2.3 ICD’s Development Effectiveness Framework 14
Table 3.1 ICD Member Country Classifications by per capita income (current US$)* 21
Table 4.1 (a) Development Results from Provision of Equity Financing (Increases in Access to Financing) 32
Table 4.2 (a) Development Results from Provision of Ijara Financing (Increases in Access to Financing) 34
Table 4.5 Improvements in Business Processes 38
Table 4.6 Improvements in Managing Portfolio and Financial Risks 38

FIGURES

Figure 2.1 IDBG Corporate Scorecard for 2016 – 2018 12
Three-Year Workplan
Figure 2.4 ICD’s Results Framework 15
Figure 3.2 Online UN Survey: What matters most to you? (results as of 17 April 2016) 22
Figure 3.3 Breakdown of total approvals by product in 1436H 26
Figure 3.4 Breakdown of total disbursements by product in 1436H 26
Figure 3.5 Breakdown of total approvals by sectors in 1436H 26
Figure 3.6 Breakdown of total approvals by region in 1436H 27
Figure 4.1 (b) Development Results from Provision of Equity Financing (Development Outcomes) 33
Figure 4.2 (b) Development Results from Provision of Ijara Financing (Development Outcomes) 34
Figure 4.3 Development Results from Provision of Direct Investment and Financing 35
Figure 4.4 Development Outcomes from Provision of Asset Management Operations 36
Figure 5.1 LoFs Regional Breakdown in 1436H 45
Figure 5.2 Planned Mode of Finance 1437H – 1439H 46

APPENDICES

Appendix I The Sustainable Development Goals 58
Appendix II IDBG Ten-Year Strategy Map 59
Appendix III Key Development Effectiveness Indicators in the ADER Survey Questionnaire 60
1436H HIGHLIGHTS

1. Disbursements: ICD's Disbursement Reached US$ 289.9 million in 1436H.

- Disbursements by products:
  - 46.3% Line of Finance
  - 27.4% Asset management services
  - 12.2% Term finance
  - 10.2% Institutional equity
  - 3.9% Corporate equity

- Disbursements by sectors:
  - 53% Finance
  - 18% Industry & Mining
  - 9% Real Estate
  - 5% Trade
  - 4% Transportation
  - 4% Health & Other Social Services
  - 4% Agriculture
  - 2% Information & Communication
  - 1% Education
  - 1% Energy

2. Approved Projects

- Breakdown of total approvals by regions:
  - Global and Regional: 19.7%
  - Sub-Saharan Africa: 22.5%
  - Middle East & North Africa: 27.1%
  - Europe & Central Asia: 18.2%
  - Asia: 12.5%

- Breakdown of Approvals by Sector:
  - Finance: 73.4%
  - Industry & Mining: 23.1%
  - Trade: 1.5%
  - Health & Other Social Services: 1.3%
  - Real Estate: 0.7%
  - Transportation: 0.1%

In 1436H, ICD approved US$ 686.5 million for 34 new projects.
3. Illustrative Project Highlights

1. **Berber Cement Company**
   Sudan
   ICD has a US$ 10 million equity participation to build a cement plant and launch commercial production.

2. **Acorn Infrastructure Services**
   Bangladesh
   ICD provided a term finance facility of US$ 15 million to procure two generators for the new power plant.

3. **Kazakhstan Ijara Company**
   Kazakhstan
   ICD participated in establishing the first ijara company in Kazakhstan with an investment of US$ 10 million.

4. **Leading Force**
   Uzbekistan
   ICD provided a US$ 4 million Murabaha to Leading Force to purchase equipment for a new stone crushing plant.

5. **Azeri Banks**
   Azerbaijan
   Four major banks in Azerbaijan benefited from a US$ 40 million Line of Finance Agreement with ICD.

6. **Nouadhibou Free Zone**
   Mauritania
   ICD provided advisory services and studies for the transformation of Nouadhibou into a Special Economic Zone.

4. Client Survey Results in 1436H

Results from 70% of ICD’s active portfolio

- **Brought in**
  - US$ 76 million new infl ow of foreign exchange

- **US$ 12 million**
  - contributed to community development initiatives

- 50,000 Jobs supported
- 1,180 Medium and small enterprises supported
- US$ 165 million Generated in new government revenues for Member Countries
- US$ 205.8 million Worth of domestic goods purchased

5. Sectoral Highlights

- 1,794 Housing projects
- 61 Agribusiness projects supported
- Access to electricity for 2 million people
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Definition</th>
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<tr>
<td>ADER</td>
<td>Annual Development Effectiveness Report</td>
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<tr>
<td>AIB</td>
<td>Arab International Bank</td>
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<td>AUC</td>
<td>African Union Commission</td>
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<td>AUM</td>
<td>Assets Under Management</td>
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<td>DIF</td>
<td>Direct Investment and Financing</td>
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<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
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<td>ECA</td>
<td>Europe and Central Asia</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FIDD</td>
<td>Financial Institution Development Department</td>
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<td>GCC</td>
<td>Gulf Cooperation Council</td>
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<td>GOED</td>
<td>Group Operations Evaluation Department</td>
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<td>GPS</td>
<td>Good Practice Standards</td>
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<tr>
<td>ICD</td>
<td>Islamic Corporation for the Development of the Private Sector</td>
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<td>IDBG</td>
<td>Islamic Development Bank Group</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>IT</td>
<td>Information Technology</td>
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<tr>
<td>KPI</td>
<td>Key Performance Indicator</td>
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<tr>
<td>LoF</td>
<td>Lines of Finance</td>
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<tr>
<td>MC</td>
<td>Member Country</td>
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<td>MDB</td>
<td>Multilateral Development Bank</td>
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<td>MDG</td>
<td>Millennium Development Goals</td>
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<td>MENA</td>
<td>Middle East and North Africa</td>
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<td>MPI</td>
<td>Multidimensional Poverty Index</td>
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<tr>
<td>NBFI</td>
<td>Non-Banking Financial Institutions</td>
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<td>OIC</td>
<td>Organization of Islamic Cooperation</td>
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<td>ROE</td>
<td>Return on Equity</td>
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<td>PPP</td>
<td>Public-Private Partnerships</td>
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<td>PSR</td>
<td>Project Supervision Report</td>
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<td>SCD</td>
<td>Systematic Country Diagnostic</td>
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<td>SDG</td>
<td>Sustainable Development Goals</td>
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<td>SME</td>
<td>Small and Medium-Sized Enterprises</td>
</tr>
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<td>SSA</td>
<td>Sub-Saharan Africa</td>
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<tr>
<td>UN</td>
<td>United Nations</td>
</tr>
<tr>
<td>XPSR</td>
<td>Expanded Project Supervision Report</td>
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MESSAGE FROM THE CEO

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

I am pleased to present the Islamic Corporation for the Development of the Private Sector’s (ICD) second Annual Development Effectiveness Report (ADER) for the year 1436H/2015. The main purpose of the ADER is to inform Member Countries, partners and other stakeholders of ICD’s development results and about its internal development effectiveness framework that help in monitoring and evaluating our progress towards our goals and targets, as outlined in our ten-year strategy beginning in the year 1436H. Our hope is that the ADER will serve to enhance transparency, accountability and learning at ICD.

The year 1436H has been eventful in international development. The Sustainable Development Goals were adopted by the nations of the world and the Paris conference on climate change achieved a remarkable global consensus on concrete targets and the means to achieve them. The Islamic Development Bank Group (IDBG) and ICD have endorsed the conclusions of these landmark agreements and have integrated them into their ten-year strategies beginning in 1436H. In particular, the need to achieve inclusive and sustainable growth will be major strategic goals for both organizations. ICD has set itself ambitious targets such as generating 400,000 jobs and providing access to finance for 10,000 small and medium sized enterprises in the next ten years that will directly contribute to the goals of the IDBG such as creating a million jobs in its Member Countries during the same period.

At the same time, many ICD Member Countries have become increasingly fragile due to internal and cross-border conflicts, political instability and falling oil prices. In these countries, mostly located in the Middle East and North Africa region, these conditions have exacerbated already precarious situations for many people. Sadly, in many cases, development achievements of the past have been adversely impacted, causing increases in human misery. At the same time, for ICD, the deteriorating operating conditions have affected its ability to serve the people in these regions and have diminished its capacity to raise capital.

Ironically, while oil exporting Member Countries have suffered as a result of falling prices, the oil importing Member Countries, mostly in Asia and parts of Africa, have enjoyed a budget windfall because of the decreased prices. Many of the latter countries are enjoying more stable political and economic situations, which in turn makes it possible for ICD to make effective contributions to poverty reduction.

ICD’s mission has remained the same since its inception in 1420H/1999: to promote private sector development in its Member Countries by helping to create an enabling environment for the growth of private enterprises, promoting investment through a range of Shari’ah-compatible financial instruments and by expanding access to Islamic capital markets. ICD continues to actively support private sector development in its Member Countries through various mechanisms including equity participation, providing leasing
opportunities (ijara), direct investment and financing, asset management and advisory services. A very important part of ICD’s work continues to be the promotion of Islamic finance. There is no doubt that there is significant potential for this in the Member Countries as well as within Muslim communities across the world. The continuing challenge is to find the right channels to do so. ICD has been pioneering efforts in this area through active participation in financial markets and by conducting research on the best avenues to achieve this goal.

This report highlights ICD’s performance in achieving development results and operational efficiency. The measurement of development effectiveness has been done through a number of instruments such as the Annual Development Effectiveness Survey, the preparation of extended project supervision reports and independent evaluations by the IDB Group Operations Evaluations Department. It is encouraging to note that participation in the Survey has increased significantly this year. Taken together, this body of evidence suggests that ICD has been successful in generating direct employment (including among women), growth of small and medium enterprises and other types of enterprises whose contribution to government revenues have been significant and whose activities have resulted in increases in domestic purchases of goods and services. The Asset Management operations have succeeded in leveraging access to other sources of financing for the private sector in the Member Countries. The gradual transformation of the ICD Member Countries into mostly middle-income countries has highlighted the importance and growth of the use of flexible instruments such as Lines of Finance. The case studies of ICD projects interspersed through this report further illustrate the development impact of ICD’s work.

A major milestone for ICD in 1436H was the approval of its second general capital increase from US$ 2 billion to US$ 4 billion, which meant that the capital available for subscription increased from US$ 1 billion to US$ 2 billion. This approval is indicative of the confidence of the Member Countries in ICD to carry out its mission of private sector development.

ICD has embarked on a process of decentralisation to enhance operational efficiency. It has received a number of international awards in recognition of its proficiency as an Islamic financing institution. ICD obtained an Aa3 (long-term)/P-1 (short-term) rating by Moody’s in 1436H. This rating reflected ICD’s sound financial and risk management frameworks.

The Corporation has made considerable strides in terms of creating the building blocks of a development effectiveness system starting with corporate strategies and performance indicators at various levels including the operational departments and their projects. The next task will be to weave all the elements into a seamless and coherent system that provides precise project and department level results which could be aggregated to provide measures of how ICD is contributing to the IDBG strategy, its goals and objectives and scorecard. ICD will continue to work with the Multilateral Development Banks - Evaluation Cooperation Group in developing and implementing its good practice standards for measurement of the development effectiveness of its private sector projects.

In all of its efforts, ICD has been guided by the Chairman of the Board and the Board itself. I would like to take this opportunity to thank them and the ICD staff for their dedication and hard work. Finally, ICD’s ability to generate development benefits in our Member Countries would not have been possible without the sincere efforts of our partners and clients in those countries.

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

KHALED AL-ABOOIDI
Chief Executive Officer
The 1436H Annual Development Effectiveness Report (ADER) outlines ICD’s efforts at enhancing its operational efficiency that have allowed it to achieve notable development results. Progressive advances in its development efficiency framework have contributed to ICD becoming a pioneer in providing Islamic financing to its Member Countries (MC). All this has been achieved despite working in often uncertain and fragile operating conditions in many MCs, as a result of falling oil prices and ongoing political instability.

This ADER also includes a special report on ICD’s Lines of Finance – a flexible mechanism that is already ICD’s largest financial instrument in terms of volume and likely to grow more in importance as ICD’s MCs become more economically prosperous.

ICD has the pieces in place to build a seamless development effectiveness framework that translates its corporate aspirations, goals and objectives into tangible and measurable programs and projects.

**Strategic Context**

The year 1436H saw the introduction of the Sustainable Development Goals (SDGs) 2016–2030 as the new international development goals, as well as a global agreement to combat the adverse effects of climate change. The ten-year strategy of the Islamic Development Bank Group (IDBG) as well as of the ICD has aimed at internalisation of these international goals through the adoption of the principles of inclusive and sustainable growth. Islamic financing practices have the potential to support the achievement of the SDGs.

**Development Effectiveness Framework**

The achievement of the IDBG and ICD’s strategic goals will depend on their ability to translate the goals into concrete realities. This process can occur if the organizations build a functioning development effectiveness framework and make sure it works properly. The IDBG has outlined its strategy in a Strategy Map and has set indicators to measure the achievement of its targets in its Corporate Scorecard.

ICD’s strategy and targets directly contribute to the achievement of the IDBG’s results through its concentration on private sector development in its MCs. It has put in place the building blocks of a development effectiveness framework including a corporate results framework and key performance indicators at various levels of the Corporation. The next step in this evolution will be integrating them into a coherent and seamless organizational system.

**ICD in Action**

Since last year, two more ICD MCs joined the ranks of the middle-income countries (Bangladesh and Tajikistan), leaving only the majority of Sub-Saharan African countries as low-income MCs. This further enhances the role of the private sector as a critical engine of inclusive and sustainable growth, employment and poverty reduction. At the same time, ICD’s operating environment has differed significantly between its MCs, particularly between the oil exporting and importing countries and countries which exhibited fragile and uncertain environments as compared with those that did not.

ICD’s portfolio continues to be dominated by its financial instruments, particularly the Lines of Finance. Its asset management role is expanding. During the time period under examination, ICD continued to move away from its traditional emphasis on the Middle East and North Africa region (MENA) and toward a more balanced geographical distribution.

ICD received its second general capital increase in 1436H, and was given a “high quality and very low credit risk” financial performance rating by Moody’s.
Results

The development results achieved by ICD and reported upon in this Report are based on the second Annual Development Effectiveness Survey conducted in 1437H/2016. The Survey had a 70% response rate. The results of the survey indicate that ICD generated development benefits in its MCs across all of its mechanisms: equity financing, ijara, direct investment and financing and asset management.

Incremental Aggregate Development Results from the Development Effectiveness Survey (Based upon 45 Responding, Active Projects)

ICD’s partners/clients in the MCs for these projects reported the following results:

- Provided over 50,000 jobs
- Generated US$ 165,440,544 in increased government revenues
- Increased domestic purchases of ICD clients by US$ 205,774,881
- Supported 1180 SMEs and 3944 new businesses including 1794 Housing Projects and 61 Agribusiness Projects
- Provided new energy sources for 2 million people (as part of only one project - Acorn in Bangladesh)
- Raised net inflows of foreign currencies by US$ 76,172,152
- Contributed US$ 11,773,381 to community development initiatives

In addition, Funds managed by ICD made US$ 538.9 million available to MCs’ Companies.

Lines of Finance

Lines of Finance (LoF) are emerging as the main financial instrument for ICD in promoting private sector development and Islamic financing practices in its MCs – over the next three years, these will account for 43% of all planned modes of finance. A LoF is generally provided to a financial institution in an MC to finance the private sector in that country, often through Small and Medium-Sized Enterprises (SMEs), in a Shari’ah compliant manner. LoFs can also serve an entire country or region. They allow ICD to expand its reach by taking advantage of the knowledge of the local financial institutions. In 1436H, most of the LoFs were concentrated in specific countries in Sub-Saharan African (SSA). Future plans include strengthening the use of this flexible instrument in Sub-Saharan Africa.

The challenges to expanding the reach of the LoF include questions surrounding some of its applications from a perceived internal inability to handle large transactions in LoF, as well as external constraints such as weak capacity in the financial institutions in the MCs and political and other fragilities in some MCs’ regions.

The Way Forward

ICD has the building blocks in place to become a more effective development organization, including a clear corporate strategy, targets for departmental key performance indicators (KPIs), and project specific Development Indicators Monitoring System (DIMS). It has furthermore adopted the private sector development measurement framework endorsed by the Multilateral Development Banks (MDB) Evaluation Corporation Group’s Good Practice Standards (GPS) for Private Sector Operations. The way forward would be to build on this excellent base by integrating the design, delivery and assessment components of ICD.
1. INTRODUCTION: THE STRATEGIC CONTEXT

1.1 Overview

The 1436H Annual Development Effectiveness Report (ADER) is the second ADER to be prepared by the Islamic Corporation for the Development of the Private Sector (ICD). The purpose of the ADER is to chronicle ICD’s development achievements. This first chapter focuses upon the context. Chapter 2 outlines progressive advances in ICD’s development efficiency framework, and makes clear how they have contributed to ICD becoming a pioneer in providing Islamic financing to its Member Countries (MCs). In Chapter 3, ICD’s efforts in enhancing its operational efficiency are detailed, while Chapter 4 considers how these efforts have allowed it to achieve notable development results. The ADER also provides a special report on ICD’s Lines of Finance (Chapter 5), a flexible mechanism that is already ICD’s largest financial instrument in terms of volume, and one that is likely to grow in importance as its MCs become more prosperous. Finally, Chapter 6 outlines a way forward for ICD to become more developmentally effective. Each chapter ends with an illustrative case study.

The year 1436H witnessed the introduction of the Sustainable Development Goals (SDGs) as the new international development goals, as well as a global agreement to combat adverse climate change that includes concrete targets. The ten-year strategy of the Islamic Development Bank Group (IDBG) as well as of the ICD has engaged with these international goals through the adoption of the principles of inclusive and sustainable growth. These strategies show that Islamic financing practices can help contribute to the achievement of many of the SDGs.
INTRODUCTION: STRATEGIC CONTEXT

1.2 The Global Landscape: The Sustainable Development Goals (SDGs)

“2015 will be remembered as a momentous year for concluding a number of international agreements on Sustainable Development Goals (SDGs), climate change, and global trade.” (Dr. Ahmad Mohamed Ali, Chairman, Islamic Development Bank Group, at the 3rd International Conference on Financing for Development Addis Ababa, Ethiopia July 2015).

The SDGs (see Appendix 1) were adopted as the universal development goals in 2015. They build upon and replace the Millennium Development Goals (MDGs), and cover the period from 2016 to 2030. The SDGs concentrate on three broad objectives: (i) achieving the unfinished MDGs such as meeting the maternal mortality targets, and surpassing others such as eliminating poverty altogether rather than simply aiming to reduce it by half as promised in the first MDG; (ii) promoting inclusive growth; and, (iii) promoting sustainable development that includes the mitigation of and adaptation to climate change. Following Jeffrey Sachs’ (2012, Lancet) nomenclature, the SDGs have a triple bottom line. These bottom lines are:

**Economic Development**
A necessary but not sufficient condition for reducing poverty and ensuring enduring prosperity for all.

**Environmental Sustainability**
Human activity is pushing crucial global ecosystem functions past a dangerous threshold, beyond which there is a very high probability that the Earth will encounter abrupt, highly unusual events with potentially devastating outcomes for human wellbeing and life.

**Social Inclusion**
Widening wage gap between skilled and non-skilled workers and the fragility of gainful employment for large parts of the world’s labour force.
As the first ICD Annual Development Effectiveness Report for 1435H/2014 (published in 2015) pointed out, the developing world now mainly consists of middle-income countries. The future prosperity of these countries will depend on the continuation of economic growth that is sustainable, meaning ensuring environmental security, and inclusive, in order to address issues related to the nearly inevitable income inequality that arises during periods of economic growth and transition.

There will be major challenges related to the measurement of the achievements of the SDGs. The 17 Goals have 169 targets and 231 indicators, developed by the Inter-Agency Expert Group on Sustainable Development Goal Indicators. These indicators will be the basis for the annual progress report on the SDGs that is to be prepared by the UN Secretary-General and made available to Member States to inform their deliberations at the High-level Political Forum. The 231 indicators will require an unprecedented amount of data to be gathered and analyzed. For many of the indicators, especially those that are part of the MDG framework, the data are already produced by national statistical systems. Yet there are many other indicators for which data are not yet available, some of which will require complex qualitative and quantitative methodologies. This task may prove daunting for the developing countries, and even more so for their development partners.

Islamic finance could be instrumental in supporting international efforts targeting ending poverty (SDG-1), achieving food security (SDG-2), ensuring healthy lives (SDG-3), and promoting peaceful and inclusive society (SDG-16). Additionally, innovative Islamic financial instruments especially for infrastructure development can also be used to mobilize resources to finance water and sanitation projects (SDG-6), sustainable and affordable energy (SDG-7), build resilient infrastructure (SDG-9) and shelter (SDG-11).”

- Dr. Ahmad Mohamed Ali

1.3 The SDGs and the IDBG 1436H Ten-Year Strategy

The SDGs are reflected in the IDBG 1436H ten-year strategy. IDBG has also demonstrated its commitment to them by announcing significant funding at the Addis Ababa Financing for Development Conference, as is detailed in this official statement: “The IDB Group will double its development assistance activities from around US$ 80 billion recorded during the MDGs-period to more than US$ 150 billion in the next 15 years (2016 – 2030) to support programs and projects for the successful realization of SDGs in our Member Countries.” (Dr. Ahmad Mohamed Ali, Chairman, Islamic Development Bank Group, at the 3rd International Conference on Financing for Development, Addis Ababa, Ethiopia, July 2015)
This commitment by the IDBG will make a significant contribution to the massive level of resources, in the range of trillions of US$, that will be required to achieve the SDGs. In particular, the IDBG offers access to complementary and innovative financing mechanisms such as Islamic finance, whose goals are in line with those of the SDGs.

As Christine Lagarde, Managing Director of the International Monetary Fund, pointed out at the Islamic Finance Conference in Kuwait City on November 11, 2015:

“Islamic finance has the potential to contribute to higher and more inclusive economic growth by increasing access of banking services to underserved populations. To this day, a large segment of the Muslim population—who are a primary, but not the only, market for Islamic finance around the world—remain financially underserviced, with only one-quarter of adults having access to bank accounts. In addition, Islamic finance’s risk-sharing features and the strong link of credit to collateral means that it is well-suited for Small and Medium-Sized Enterprise (SME) and start-up financing—which we know can promote inclusive growth. For the same reason, Islamic finance has shown its value in infrastructure investment, which can spark productivity gains and catalyze high value-added growth.”

The SDGs were a major determinant in setting the goals for the IDBG’s 1436H ten-year strategy. In particular, consideration was given to the challenges of achieving the SDGs in predominantly middle-income MCs in an era of an increasingly global marketplace marked by rising income disparities and greater concerns about security and social cohesion. In addition, demographic and socio-cultural shifts are expected to lead to greater pressures on infrastructure and greater demand for services. The fast pace of globalization, including the radical innovations in transportation and communication technologies that are emerging, will also generate risks and opportunities for IDBG’s Member Countries.
1. INTRODUCTION: STRATEGIC CONTEXT

IDBG's Development Goals and Results

The IDBG’s vision is to support its MCs in achieving inclusive and sustainable growth, particularly by improving connectivity between them as well as with the rest of the world, and by promoting the development of the Islamic Financial sector globally.

Promoting Inclusive Growth

IDBG’s founding mission is to improve wellbeing between and within MCs and Muslim communities around the world. With most of its MCs having now attained middle-income status, primarily through greater economic growth, they are now having to deal with the issues of increasing income inequality and the distribution of the growth dividend, particularly among the disadvantaged in their respective societies. For low-income MCs meanwhile, the greatest challenge is addressing the prevailing endemic poverty given their limited resources.

A key goal of the IDBG over the next 15 years is to promote inclusive growth. This will mean not only increasing the income of the poor, but also delivering social services such as education and health as well as addressing the lack of access to adequate infrastructure. In turn, this suggests that IDBG’s development efforts will need to be multidimensional.

The IDBG envisages a target of an 18% reduction in the percentage of the population living in or near the poverty line in its MCs. A second target will concentrate on reducing the percentage of the population living in severe poverty, especially among the youth and in fragile states. The overall goal is to reduce the percentage of MCs’ population living in severe poverty by 3%.

Enhancing Connectivity

IDBG has always promoted cooperation between its MCs. Its Vision 1440 specifically re-affirms this principle. Over the next ten years, IDBG will place increasing emphasis on facilitating the integration of IDBG Member Countries’ economies both with each other as well as with the rest of the world. It will achieve this goal by strengthening economic ties through the enhancement of trade within the Organization of Islamic Cooperation (OIC), and by promoting foreign direct investment (FDI) and the competitiveness of its MCs. The targets are a 4% increase in intra-OIC trade and a 1.6% increase in the OIC’s share of global FDI.

Growing the Islamic Finance Sector

The promotion of Islamic financing practices is unique to and a key element of IDBG’s mandate. The size of the Islamic financing sector relative to the overall financial markets in most MCs and the global financial markets remains relatively small. However, as the MCs reach middle-income status and begin to acquire greater financial strength, Islamic financing windows are becoming more lucrative and are thus beginning to attract attention from the international financial community. IDBG has been a pioneer in this field and will continue to work with its MCs to create a conducive environment for such financing by encouraging the development of appropriate rules and regulations as well as financial institutions and innovative instruments that will appeal to the citizens of its MCs and the international financial markets.

IDBG’s target is to create conditions such that the Islamic Financial institutions hold 5% of the world’s financial assets and that 25% of the world population become clients of the Islamic finance system, with formal accounts.
Human Development Results
The results that IDBG hopes to achieve are that its efforts will reach 400 million people in its MCs over the course of next ten years, so that:
- 290 million people have access to better economic and social infrastructure
- 4.4 million people have access to basic social services
- 1 million jobs are created
- 1 million people attend training/learning events

1.4 ICD 1436H/2015 Ten-Year Strategy

ICD was established in Rajab 1420H (November 1999) as an independent entity within the IDBG. The mission of the ICD is to complement the IDBG through the development and promotion of the private sector, as a vehicle for economic growth and development in Member Countries. The main objectives of the ICD are: to identify and promote investment opportunities in the private sector in the Member Countries in order to accelerate economic growth, to provide a wide range of Shari’ah compatible financial products and services and to expand access to Islamic capital markets by private companies in Member Countries.

Following the announcement of the latest ten-year IDBG strategy in 1435H, ICD developed its own ten-year strategy that was approved in 1435H and whose implementation began in 1436H. This latter strategy is geared towards contributing to the goals and targets of the overall IDBG strategy.

ICD’s major strategic premise is that responsible private sector development will be fundamental to the achievement of IDBG’s strategy as well as the SDGs. This will be particularly true for ICD’s mostly middle-income MCs. The international consensus amongst experts is that the private sector should be engaged from the very start and that neither the unfinished MDGs nor the new SDGs will be achieved without the leadership of private enterprises. Boosting the private sector and building vibrant domestic and international
private and public-private partnerships (PPP) are thus vital prerequisites for the successful accomplishment of the SDGs in the post-2015 era. Experience over the past 16 years confirms that a dynamic and innovative private sector can generate sustainable poverty reducing growth.

The ICD 1436H/2015 ten-year strategic vision has five major developmental and operational objectives,

- **Creating employment opportunities**
  - Generating 400,000 new job opportunities

- **Increasing access to finance**
  - Providing access to finance for 10,000 small and medium sized enterprises

- **Ensuring financial sustainability**
  - Generating average return on equity (ROE) of 2%

- **Scaling up operations**
  - Achieving US$ 14 billion in approvals and US$ 8 billion in disbursements

- **Enhancing financial stability**
  - Maintaining and improving the current AA rating in international financial markets
ICD Strategic Focus

ICD’s 1436H ten-year strategy centers on three transformational elements: i) Enhancing products and services; ii) Focusing upon Sectors; and, iii) Encouraging regional diversification. The strategy furthermore envisages strengthened links between these transformational elements and the IDBG ten-year strategy by emphasizing certain aspects of each of the three elements:

- **Product and Services** – ICD currently offers six products and services: term finance, corporate equity, institutional equity, lines of finance (LoF), asset management, and advisory services. Over time, the LoF has become a primary ICD product, with almost zero defaults; it has proven to be effective at promoting Islamic finance while reaching out to SMEs in MCs in order to target the poor as primary beneficiaries. Targeting the poor as primary beneficiaries is consistent with the 2015 IDBG strategy goals of increasing the growth of Islamic finance and reducing poverty because the SMEs are the most important instrument for generating employment in the MCs.

- **Sectors** – ICD has historically focused on supporting the financial industry in the MCs as a way of developing the private sector. This focus was justified because the financial institutions often had the greatest number of horizontal and vertical linkages in the economies of the MCs. The ICD has done so by providing a conduit for deposits for savers and a source of funding for investors. In addition, it operates across all sectors of the economy. The Islamic Financial Institutions Development Program advises financial institutions on setting up Islamic financing subsidiaries or windows, converting conventional financial institutions into Islamic entities, and creating new Islamic banks and mechanisms focused on local markets. In particular, the development of the financial sector is critical for the growth of the SMEs and is crucial to generating employment for the poor. Within the financial sector, the line of finance and term finance will remain the major instruments. Agriculture and energy have become critical industries for ICD corporate sector operations. ICD will continue to focus on these areas to promote economic growth through private sector development.

- **Regional Diversification** – In line with the diversified developmental needs of its Member Countries, ICD has historically offered its products and services to all regions of its MCs, particularly those with higher development needs. Since ICD’s establishment and up until 1430H, 65% of total approvals went to the MENA region. There has recently been more of a focus on the less developed countries in sub-Saharan Africa. Consistent with its commitment to the SDGs and the IDBG strategy, ICD will enhance this trend in the future.

The promotion of Islamic finance, particularly through the MCs’ financial institutions, is set to accelerate. ICD will contribute to the IDBG efforts to enhance the role of Islamic finance in ending global poverty (SDG-1), achieving food security (SDG-2), ensuring healthy lives (SDG-3), and promoting a peaceful and inclusive society (SDG-16). In particular, ICD will continue to use and look for innovative Islamic financial instruments to build resilient infrastructure (SDG-9) and shelter (SDG-11), mobilize resources to finance water and sanitation projects (SDG-6), and for sustainable and affordable energy (SDG-7).
**Case Study: Equity Participation in Berber Cement Company, Sudan**

**Context**
The cement industry is capital intensive and involves large quantities of resources to be able to secure the raw materials such as gypsum and limestone. Most cement in Sudan is sold in bags and transported by trucks over long distances to the main market zone. The local market prices are overall very high compared with international prices, which can be explained by reference to multiple factors including high local production costs, high transportation costs, high taxes, and the role of speculation.

**ICD Project**
Since 2005, ICD has had an equity stake in Berber Cement Company, which began with an initial investment of US$ 10 million. The project’s aim was to establish a cement plant in the city of Berber, located about 330 km north of the capital of Khartoum. The envisaged production capacity was 1.6 million tons of cement per annum. Construction of the plant took over two years, and commercial production began in 2010.

In terms of financial performance, the Berber Cement Company has been profitable over the last two years. However, profits and overall sales are on a downward trend. The shareholders’ equity is only positive because of a surplus from a revaluation of the company’s assets in 2012. Although demand for the company’s products is high, the company is not able to sell more as it is only able to operate at 30 – 40% of its capacity due to the unstable power supply from the national grid, frequent electricity cuts, and lost electricity from the transmission lines. These challenges have hampered production to a significant extent. This year alone, out of 273 potential working days, the plant has been operational for only 86.5 days.

**Development Outcomes**
From an economic performance perspective, and despite of all the difficulties and challenges mentioned above, the project had multiple positive effects:

- Creation of 516 jobs, of which 91% are for Sudanese
- Increased direct employment to 564 and 5 for women in the Berber and Atbara regions as 74% of factory employees are from these areas
- Indirect work and business opportunities for local residents through the outsourcing of cleaning services and transportation
- Payment of taxes and duties in the form of VAT, municipal tax and a production levy.

*Source: GOED Project Post - Evaluation Safar 1437/Dec. 2015*
2. ICD’s DEVELOPMENT EFFECTIVENESS FRAMEWORK: TRANSLATING STRATEGY INTO OPERATIONS

2.1 Overview

The achievement of the strategic goals and objectives of the IDBG and ICD will depend on their ability to translate the goals and objectives into concrete realities. This can happen if the organizations build a functioning development effectiveness framework. As noted previously, the IDBG has elaborated its strategy into a Strategy Map (Appendix 2) and has set indicators to measure the achievement of its targets in its Corporate Scorecard.

ICD’s strategy and targets directly contribute to the achievement of the IDBG’s results through its concentration on private sector development in its MCs. As described in this chapter, it has put in place the building blocks of a comprehensive development effectiveness framework including strategic objectives, guiding principles, a corporate results framework, and key performance indicators at various levels of the Corporation. The next step in this evolution will be integrating these together into a coherent and coordinated system.
2.2 The IDBG Corporate Scorecard

The IDBG has developed a robust Strategy Map for the next ten years that could allow the Group to achieve its vision, with a tightly aligned set of indicators that are aspirational yet realistic. It has also identified indicators for its goals that are relatively specific, measurable, achievable, relevant and time bound (SMART). Moreover, the Bank has specific definitions for the terms used in its strategic goals. For example, it has adopted the Multidimensional Poverty Index (MPI) as a measure of acute multidimensional poverty. The index uses three dimensions: health, education, and standard of living. The MPI reflects deprivations in basic and essential social services.
Tracking Progress

In order to track progress towards the achievement of its goals, the IDBG has prepared a Corporate Scorecard for its 2016 – 2018 three-year workplan (Figure 2.1). The Scorecard sets out specific intermediate targets for 2018 for the goals, results and performance outlined in the Strategy Map. In doing so, it addresses one of the major drawbacks of the MDG process, i.e. the lack of intermediate objectives. The advantage of having interim objectives is that it allows for course correction in case the IDBG falls behind in meeting one or more of these targets. As can be seen in Figure 2.1, the IDBG Strategy Map and the Corporate Scorecard have linear causality structures that link each performance variable to specific results and then those results to a unique goal.

**Figure 2.1 IDBG Corporate Scorecard for 2016-2018 Three-year Workplan**

<table>
<thead>
<tr>
<th>GOALS</th>
<th>INCLUSIVENESS</th>
<th>CONNECTIVITY</th>
<th>GLOBAL ISLAMIC FINANCE SECTOR GROWTH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction in population living in/near poverty</td>
<td>48%</td>
<td>-5.6%</td>
<td>18%</td>
</tr>
<tr>
<td>Reduction in population living in severe poverty</td>
<td>19%</td>
<td>-7%</td>
<td>3%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>RESULTS</th>
<th>COMPREHENSIVE HUMAN DEVELOPMENT</th>
<th>COOPERATION AMONG MCs</th>
<th>ISLAMIC FINANCE SECTOR DEVELOPMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>2018</td>
<td>2025</td>
<td>2014</td>
</tr>
<tr>
<td>People provided access to infrastructure</td>
<td>27</td>
<td>84</td>
<td>290</td>
</tr>
<tr>
<td>People reached with basic social services</td>
<td>3</td>
<td>13</td>
<td>44</td>
</tr>
<tr>
<td>Jobs created</td>
<td>0.05</td>
<td>23</td>
<td>1</td>
</tr>
<tr>
<td>People to attend training/learning events</td>
<td>1</td>
<td>3</td>
<td>1.6</td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PERFORMANCE</th>
<th>OPERATIONAL EFFICIENCY</th>
<th>RESOURCE MOBILIZATION</th>
<th>FINANCIAL PERFORMANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>2018</td>
<td>2025</td>
<td>2014</td>
</tr>
<tr>
<td>Increase in results per $1 million invested</td>
<td>-</td>
<td>3%</td>
<td>10%</td>
</tr>
<tr>
<td>Reduction in expenses per $1 million disbursed</td>
<td>-</td>
<td>3%</td>
<td>10%</td>
</tr>
<tr>
<td>Reduction in time from Concept to 1st disbursement</td>
<td>-</td>
<td>-5%</td>
<td>-30%</td>
</tr>
<tr>
<td>Resources mobilized through co-financing</td>
<td>1:1</td>
<td>1.3</td>
<td>1.3</td>
</tr>
<tr>
<td>Resources mobilized through IDBG managed funds</td>
<td>1:1.2</td>
<td>1:1</td>
<td>1:10</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>RESULTS-BASED MANAGEMENT</th>
<th>PEOPLE MANAGEMENT</th>
<th>GROUP SYNERGY</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>2018</td>
<td>2025</td>
</tr>
<tr>
<td>Budgeted Initiatives linked to Strategy Map targets</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Satisfactory rating of MCPS at completion</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Client satisfaction (Client Perception Survey)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Satisfactory rating of IDBG operations (GOED Rating)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Budgeted initiatives shared lesson learned at closure</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
The two ten-year strategies developed in 1436H are highly coherent with the goals and expected results of the IDBG and ICD (Figure 2.2). ICD’s expected contribution to meeting the overall IDBG goals is based on its work in promoting private sector development in the Member Countries emphasizing both the establishment of the enabling environment as well as encouraging the development of entrepreneurship. Its strategy will be to utilize flexible and relevant instruments such as the lines of finance and encouraging financial institutions to implement Islamic financial practices across and among the Member Countries.

Table 2.2  IDBG Goals and Development Results of the IDBG and ICD 1436H Ten-Year Strategies

<table>
<thead>
<tr>
<th>IDBG Group Goals</th>
<th>IDBG Group Expected Results</th>
<th>ICD Expected Results</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Inclusiveness</strong></td>
<td>• 290 million people with access to economic and social infrastructure</td>
<td>• More than 10,000 SMEs financed</td>
</tr>
<tr>
<td>• 18% reduction in population living in/near poverty</td>
<td>• 4.4 million people with access to basic social services</td>
<td>• A 3-fold increase in development impact through a focus on developing financial channels</td>
</tr>
<tr>
<td>• 3% Reduction on population living in severe poverty</td>
<td>• 1 million jobs created</td>
<td>• 400,000 more jobs across all member countries</td>
</tr>
<tr>
<td><strong>Connectivity</strong></td>
<td>• US$54 Billion intra-OIC trade financed</td>
<td>• At least one direct investment project in each member country with a focus on high impact sectors and regional integration projects financed</td>
</tr>
<tr>
<td>• 4% increase in intra-OIC trade</td>
<td>• US$28 billion Intra-OIC trade and investment insured</td>
<td>• An enabling environment for the development of the private sector fostered through provision of advisory services</td>
</tr>
<tr>
<td>• 1.6% increase in share of OIC in Global FDI</td>
<td>• US$2.5 billion financing facility supporting RCI</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• US$7 billion project financing for RCI</td>
<td></td>
</tr>
<tr>
<td><strong>Global Islamic Financial Sector Growth</strong></td>
<td>• Appropriate eco-system for Islamic Finance in 17 countries</td>
<td>• Islamic financing channels established and supported in each member country through provision of capital and technical assistance in setting up the Islamic window, and converting traditional financial entities into Islamic entities</td>
</tr>
<tr>
<td>• 18% share of Islamic Financial Clients (as % of world’s population with formal accounts)</td>
<td>• International finance institutions integrated with the international system in 8 countries</td>
<td></td>
</tr>
<tr>
<td>• 5% share of Islamic Finance Institution’s assets (as % of world Financial assets)</td>
<td>• 100% of population with access to Islamic Finance System in 4 countries</td>
<td></td>
</tr>
</tbody>
</table>
2.3 The ICD Development Effectiveness Framework

Development effectiveness measurement at ICD takes place at all levels and is closely linked to its planning process (Figure 2.3). At each organizational level, the planning parameters are used to develop products/activities such as strategies, objectives and (project) designs and implementation frameworks. The achievement of these products/activities is then measured by the instruments outlined in column 4. For example, at the corporate level, the key measurement instruments for effectiveness are the Corporate Scorecards and the ADER Annual Survey. For ICD departments, the Key Performance Indicators (KPIs) can be derived from the Corporate Scorecard and outline their contribution to the achievement of ICD’s objectives. Finally, each individual project can tailor its results to the achievement of the KPIs.

Table 2.3 ICD’s Development Effectiveness Framework

<table>
<thead>
<tr>
<th>Organizational Levels</th>
<th>Planning Parameters</th>
<th>Products / Activities</th>
<th>Development Effectiveness Measurement Instruments</th>
</tr>
</thead>
</table>
| Corporation           | • MC Considerations  
  • SDGs  
  • IDBG 1436H ten-year strategy and results framework  
  • IDBG Corporate Scorecard | • ICD 1436H ten-year strategy  
  • ICD Results Framework | • ICD Corporate Scorecard  
  • ADER Annual Survey |
| Departments           | • ICD Strategy  
  • Budgets  
  • Priorities | • Departmental Strategy | • Key Performance Indicators (KPIs) |
| Projects              | Project Planning  
  • Problem Analysis  
  • Stakeholder Analysis  
  • Analysis of Objectives | • Project Approval Documents including results statement  
  • Project Implementation  
  • End of Project | • Development Indicator Measurement System (DIMS)  
  • Monitoring (PSR)  
  • XPSR (ICD M&E), Independent Evaluation (GOED) |

The Monitoring and Evaluation Department provides methodological guidance to ICD. For example, it assists the Departments in the preparation of the Development Indicators Monitoring System (DIMS) by first providing the framework for these documents and second, by providing specific assistance to project teams. This Unit also takes the lead role in the Expanded Project Supervision Report (XPSR) assessments, which are done immediately or soon after project has reached an early “maturity” stage. The Group Operations Evaluation Department (GOED) does evaluations of randomly selected ICD projects, two per year on average, after they are completed.
2.4 ICD Development Effectiveness Measurement System

The ICD Results Framework Tracking Progress

The approval of the SDGs and their explicit introduction into the IDBG’s strategic framework as well as evolving international good practices necessitates a re-examination of the Corporate Results Framework outlined in the 2014 ADER, in order to better capture ICD’s broad development impact consistent with the IDBG objectives. The development of a Corporate Results Framework would guide each ICD department to identify its contributions to the corporate goals.

The ICD Results Framework (Figure 2.4) serves as the basis for measuring development effectiveness. The framework is consistent with similar matrices adopted by other multilateral development banks, and outlines results for private sector development initiatives. It allows for consistent monitoring and evaluation of projects.

**Figure 2.4 ICD’s Results Framework**

<table>
<thead>
<tr>
<th>Inputs</th>
<th>Outputs</th>
<th>Outcomes</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Building islamic finance channels (equity, LOF)</td>
<td>• Increase the financial stability of the clients</td>
<td>• Create jobs</td>
<td>• Poverty reduction</td>
</tr>
<tr>
<td>• Selective direct investments (equity, term finance, corporate finance)</td>
<td>• Build and develop islamic financial institutions</td>
<td>• Improve access to finance for SMEs</td>
<td>• Inclusive growth</td>
</tr>
<tr>
<td>• Advisory services to Government and private sector actors</td>
<td>• Increase the production capacity and the quality of services of the clients</td>
<td>• Increase payment to Governments</td>
<td>• Better living standards</td>
</tr>
<tr>
<td>• Developing business opportunities through partnership</td>
<td>• Mobilize the clients’ investment needs from the market</td>
<td>• Increase customers’ access to improved services and products</td>
<td>• Improved environment for islamic finance business</td>
</tr>
<tr>
<td>• Asset management program</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Developing an enabling environment</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
2. DEVELOPMENT EFFECTIVENESS FRAMEWORK: TRANSLATING STRATEGY INTO OPERATIONS

The Annual ADER survey is a good instrument for gauging the development and operational performance of the currently active projects of the Corporation. It is based on the work of the Multilateral Development Bank (MDB) Evaluation Cooperation Group’s Good Practice Standards (GPS) for Private Sector Operations Evaluation, and focuses on four criteria: (i) financial performance; (ii) economic performance; (iii) private sector development; and, (iv) environmental, social, health and safety. ICD has added an additional indicator to the above to capture its performance in the area of Islamic finance. The 1437H ADER survey showed a marked improvement in the percentage of ICD clients who responded – the percentage rose to 70% as compared to 54% in the previous year.

ICD has been experimenting with a Corporate Scorecard since March 2014, when there was a proposal to introduce a scorecard encompassing a mix of development and financial measures, each with a target value. The development impact measures focused upon variables like extent of mainstreaming of development into operational practices and mobilizing resources to implement the 1436H business plan. The financial indicators included achieving profitable growth and ensuring high portfolio quality. Two non-financial objectives were also included: (i) enhance the internal processes at ICD including operational efficiency and introducing new products, policies and processes; and, (ii) promote further learning and growth, which included building competent human resource bases and developing a climate for motivating employees. A “traffic light” measurement process was envisaged, with green indicating satisfactory performance and red signifying unsatisfactory results.

This scorecard system has to be updated to take into consideration the 1436H IDBG Corporate Scorecard and the applicable SDGs to reinforce the point that development goals such as increasing access to finance to SMEs, housing, energy, education and health can be achieved through Islamic financing mechanisms that specifically target the poor.
Key Performance Indicators (KPIs)

ICD departments produce key performance indicators to measure their success. However, these indicators have concentrated mainly on financial milestones rather than development successes. Recently, ICD has realized the importance of including developmental goals and objectives in the KPIs and has started to reconfigure them based on ICD’s ten-year strategy and development objectives. The purpose would be to focus upon the contribution of each ICD department to these objectives.

Development Indicators Monitoring System (DIMS)

The DIMS is a monitoring tool that tracks the development impact of ICD’s project investments in MCs as well as in Muslim communities in non-MCs. DIMS is prepared at the design phase of each project and consists mainly of baselines and targets of the core development indicators of the projects. It is used to monitor progress through the Project Supervision Reports (PSRs) as well as to provide ratings of the development outcomes, and is used to report on ICD’s contribution to the completion of the project through the Expanded Project Supervision Report (XPSR).

The current set of guidance for the preparation of the DIMS is also based on the MDB Evaluation Group Cooperation’s Good Practice Standards.

Expanded Project Supervision Reports (XPSRs) and Independent Evaluations

ICD’s M&E Department carries out XPSRs for projects within 3 – 5 years after they are launched. The purpose of these reports is to provide the management of ICD with timely reporting on project performance and to learn relevant lessons. As in the case of the ADER survey and DIMS, the design of the XPSRs is also based on the MDB Evaluation Cooperation Group’s Good Practice Standards for Private Sector Operations Evaluation.

ICD’s own efforts are supplemented by post-project (independent) evaluations undertaken by the Group Operations Evaluation Department (GOED). They serve as useful sources of development results achieved by the ICD and also as important learning tools offering recommendations to improve the designs of future projects with similar objectives.

In 1436H, the M&E Department conducted seven XPSRs and one real-time evaluation, while the GOED undertook two evaluations of ICD projects. The Department plans to conduct eight XPSRs and two real-time evaluations in 1437H in addition to working on renewing the Corporation’s development effectiveness policy and streamlining the various measurement systems to create a seamless and coherent development effectiveness structure.
Case Study: Acorn Infrastructure Services, Bangladesh

Context
Energy is vital for economic growth in any country and is also a key ingredient in improving the socioeconomic conditions of the poorest. Yet Bangladesh’s power sector is relatively undeveloped and frequent power outages have resulted in industrial and commercial businesses relying on inefficient and expensive alternatives for generating electricity. The country’s power deficit is also expected to worsen over the coming years, with electricity demand set to grow rapidly. Indeed, over the last 10 years, net energy demand has grown at an annual rate of 8.1%. At present, only 68% of the population have access to electricity.

Company
Acorn Infrastructure Services Limited is a private limited company that has recently set up a 100-megawatt power plant project in Chittagong, Bangladesh. The purpose of the project is to generate and supply electricity to the Bangladesh Power Development Board and thus to reduce the frequency and duration of power outages and to help address the country’s huge energy deficit.

ICD Project
In November 2012, ICD provided a term finance facility of US$ 15 million to Acorn Infrastructure Services to procure two generators for its new power plant. The ICD financing was an important factor in the financial success of the power plant. The company had limited options in terms of financing and most of the traditional sources of funding were proposing high interest rates.

Development Outcomes
- The project generated 146 direct jobs, including 62 engineers in the power plant. About a quarter of the employees are from Chittagong.
- About 50,000 indirect jobs are impacted positively by the project in the Chittagong industrial zone by reducing the frequency and duration of power outages. The Chittagong Export Processing Zone is one of eight exporting zones in the country.
- As a result of the project, approximately 2 million people in Bangladesh gained improved access to energy. This also represents a contribution to Sustainable Development Goal 7: Access to energy.
- A little bit more than US$ 1.2 million was paid in taxes to the Government of Bangladesh, money that can be used to improve the living standards of the population.
- There were approximately US$ 54 million in domestic purchases from local suppliers as a result of the plant, which represents a contribution to the development of local markets by offering business opportunities to local suppliers.
3. ICD IN ACTION

3.1 Overview

Since last year, two ICD MCs have joined the ranks of middle-income countries, leaving the majority of Sub-Saharan African countries as low-income MCs. Given the very significant efforts made to promote private sector in those two MCs by ICD, this move underlines the role of the private sector as a critical engine of inclusive and sustainable growth, employment and poverty reduction. At the same time, ICD’s operating context varied significantly between its MCs and particularly among the oil exporting and importing countries and countries which exhibited fragile and uncertain environments.

ICD’s portfolio continues to be dominated by its financial instruments and particularly lines of finance. Its asset management role is also expanding. ICD is furthermore moving away from its emphasis on the MENA region to a more balanced geographical distribution. It received its second general capital increase in 1436H and a “high quality and very low credit risk” financial performance rating from Moody’s.
3.2 Operating Context

Of the 14 ICD Member Countries identified as low-income countries (LICs) in the 1435H/2014 ADER, Bangladesh and Tajikistan have now graduated to a low middle-income country (MIC) status. The remaining 12 LICs are all in Sub-Saharan Africa. Figure 3.1 shows the breakdown of Member Countries by income level classification, and particularly illustrates the preponderance by region.

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

<table>
<thead>
<tr>
<th>Classification</th>
<th>Africa</th>
<th>Asia</th>
<th>America</th>
<th>Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low-income countries (LIC): 12</td>
<td>Benin, Burkina Faso, Chad, Comoros, Gambia, Guinea, Guinea-Bissau, Mali, Mozambique, Niger, Sierra Leone, Uganda</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Lower middle income countries (LMIC): 16</td>
<td>Cameroon, Cote d’Ivoire, Djibouti, Egypt, Mauritania, Morocco, Nigeria, Senegal, Sudan</td>
<td>Bangladesh, Indonesia, Kyrgyz, Pakistan, Tajikistan, Uzbekistan, Yemen</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Upper middle income countries (UMIC): 16</td>
<td>Algeria, Gabon, Libya, Tunisia</td>
<td>Azerbaijan, Iran, Iraq, Jordan, Kazakhstan, Lebanon, Maldives, Malaysia, Turkey, Turkmenistan,</td>
<td>Suriname</td>
<td>Albania</td>
</tr>
<tr>
<td>High income countries (HIC): 6</td>
<td>-</td>
<td>Bahrain, Brunei, Kuwait, Qatar, Saudi Arabia, UAE</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

As a result, and as the ADER 1435H/2014 argued, the role of the private sector will increase in importance and it will become the critical engine of inclusive and sustainable growth, employment and poverty reduction. This suggests that ICD’s role will become even more crucial in helping to achieve the IDBG’s goals in general and specifically those related to the SDGs.

Although most of ICD’s MCs are emerging economies, i.e. economies which are transitioning from inward looking closed economies to become open market economies integrated to the burgeoning global markets, they continue to have relatively young populations with very high rates of youth unemployment. This indicates that the growth dividend has not been shared equally or appropriately in many countries. Access to social services such as health and education remains extremely limited for a large part of the population. There is a marked dichotomy in these economies between a small, highly skilled workforce and a large, relatively unskilled labour force. The latter suffers from high rates of marginal employment and subsistence wages. Combined with the relatively young demographic structure, the presence of income inequality and inequality of access to income creates an environment that can result in civil and political unrest that in turn discourages domestic and international investment.

The solution for such a situation is to create an enabling environment that lets the private sector flourish. To do so, it is necessary to have policies that encourage enterprise growth. Another important factor is the development of appropriate infrastructure.

The UN had conducted a survey in the context of the preparation of the SDGs to assess what matters most for people. Figure 3.2 provides a list of the 16 elements receiving the highest number of votes from the almost 10 million people around the world who responded to this survey, and is not disaggregated by income level. Many of these 16 elements are evident in the SDGs. Moreover the work of IDBG and particularly ICD is relevant for virtually all of the elements that mattered most to people. Some of the most obviously relevant ones are: better job opportunities, better transport and roads, reliable energy at home, and access to clean water and sanitation.


<table>
<thead>
<tr>
<th>Elements</th>
<th>Votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>A good education</td>
<td>8,918,730</td>
</tr>
<tr>
<td>Better healthcare</td>
<td>5,318,954</td>
</tr>
<tr>
<td>Better job opportunities</td>
<td>5,423,978</td>
</tr>
<tr>
<td>Affordable and nutritious food</td>
<td>4,475,451</td>
</tr>
<tr>
<td>Protection against crime and violence</td>
<td>3,672,826</td>
</tr>
<tr>
<td>Access to clean water and sanitation</td>
<td>3,575,029</td>
</tr>
<tr>
<td>Support for people who can’t work</td>
<td>3,278,644</td>
</tr>
<tr>
<td>Better transport and roads</td>
<td>3,183,262</td>
</tr>
<tr>
<td>Equality between men and women</td>
<td>2,918,602</td>
</tr>
<tr>
<td>Reliable energy at home</td>
<td>2,897,275</td>
</tr>
<tr>
<td>Political freedoms</td>
<td>2,784,511</td>
</tr>
<tr>
<td>Freedom from discrimination and persecution</td>
<td>2,689,956</td>
</tr>
<tr>
<td>Protecting forests, rivers and oceans</td>
<td>2,499,341</td>
</tr>
<tr>
<td>Phone and internet access</td>
<td>2,455,384</td>
</tr>
<tr>
<td>Action taken on climate change</td>
<td>1,976,274</td>
</tr>
</tbody>
</table>

*Figure 3.2 Online UN Survey: What matters most to you? (results as of 17 April 2016)*
In addition, the conclusion reached in the 1435H/2014 ADER still holds true: “A number of surveys of private firms conducted by the World Bank have found that one of the major gaps in achieving private sector and infrastructure development is access to financing. This means that ICD, as the major private sector development entity of the IDBG, will become an increasingly important driver and facilitator for the private sector in its Member Countries and will experience an increasing demand for its services.”

A major challenge experienced in the year 1436H is the sharp devaluation in the price of oil. Indeed, since June 2014, oil prices have dropped by 73%, with prices falling to a 12-year low of US$ 30 per barrel in January 2016. There are no immediate prospects of an increase in the prices given the global oversupply and ongoing weak demand.

The precipitous drop in oil prices has had differential impacts on ICD MCs. Overall, the oil exporting countries experienced a drastic reduction in earnings and the oil-importing nations enjoyed a dividend in terms of reduced oil import payments. The Economist (March 16, 2016) quoted the IMF as estimating that the lower oil prices had reduced government revenues in Arab oil exporting nations by US$ 340 billion in 2015. This was particularly evident in the Gulf Cooperation Council (GCC) states, where oil receipts typically account for 80% of the government revenues. As a result, government expenditures, particularly capital expenditures, have slowed and unemployment has risen.

According to the IDB Chief Economist Complex, the fall in oil prices will have implications for the IDBG in terms of mobilization of resources as oil exporting countries seek to reconsolidate their fiscal positions. It may also result in increased demand for financial assistance from the oil exporting countries. At the same time, the oil importing countries will have relatively more disposable income to spend on other things, potentially including enhancing spending and targeted social assistance to the poor.
3.3 Regional Development Needs

In 1436H, ICD continued working in mainly four regions: the Middle East and North Africa (MENA), Sub-Saharan Africa (SSA), Asia, as well as Europe and Central Asia (ECA). However, its emphasis on Sub-Saharan Africa as a region of concentration has increased.
MENA

Some of the countries are in political transition and the region in general is marked by prolonged and intensifying conflicts. The political fragility has created situations of considerable uncertainty and has discouraged the private sector from investing further. Basic needs such as delivery of health and education services remain unfulfilled. Growth of meaningful employment for the young through the growth of the SMEs will be essential. Much of MENA remains a risky environment for private sector development in general, and considerable effort will be required to find appropriate and sustainable investment.

The ability of most of the MCs in this region to undertake development activities will be affected by the fall in oil prices and the downward adjustment that will be required in their fiscal profiles. It will create greater repayment and default risks, especially in the private sector. Employment in the energy and related sectors is likely to decline. The fact that oil prices are not likely to rise in the near future has led leaders in these regions to contemplate long overdue structural reforms such as reducing the relatively high subsidies on food, energy and water. It has also led to a re-examination of planned large expenditures on infrastructure.

ASIA

In South and South-East Asia, MCs continue to benefit from lower energy prices and relative political stability. The private sector in most of these countries is matured or maturing to the extent that direct investment needs will accelerate. This region also provides interesting opportunities for promoting Islamic financing windows as people now have disposable income to save and invest. Private sector development and infrastructure development continue to be major development needs.

SSA

While most of the MCs in this region are LICs and some remain politically fragile, a number of countries have shown encouraging economic signs recording average annual GDP growth of about 6%. Countries also saw improvements in the enabling environment for private sector development. Critical development needs include the promotion of employment and social and physical infrastructure development.

ECA

The MCs in this region are gradually repositioning their economic structures to take advantage of a more integrated global market. However, the political balance remains tenuous as regional and global powers jostle for dominance.

Given the diversity of the development paths of its Member Countries, it is important that ICD develop a variety of financial products, especially Islamic financing instruments, to meet the demand. In addition, its offerings will have to be competitive as alternative financing opportunities will be plentiful in its MCs given their progression to higher income status.

Finally, the number of actors involved in development partnerships in this region’s MCs has grown significantly. They include traditional donors, emerging donors (China, India, Russia), global interest-based coalitions, southern and northern philanthropies and mature civil society organizations. ICD will have to consider forming development partnerships with one or more of this set of actors in order to deliver appropriate and effective development financing. The MCs themselves, as they become more developed, will demand greater ownership of its future. ICD and other donor institutions will have to reposition themselves in this milieu to work towards achieving their own goals, that of the IDBG and ultimately the SDGs.
3.4 Portfolio and Investment Analysis

ICD Portfolio

In 1436H, ICD approved US$ 686.5 million worth of financing for a total of 34 investments, disbursing US$ 289.5 million, with a disbursement/approval ratio of 42%. New project approvals were allocated towards high-impact sectors such as agribusiness, energy, industry and infrastructure. These projects added value to the economic and social development of MCs by creating new jobs and by facilitating technology transfer as well as cross-border investments.

LoF made up the bulk of ICD approvals, representing 50% of the total (Figure 3.3). Term Finance was the second largest mode of finance, accounting for 25% of ICD 1436H approvals. In addition to investment and financing projects, ICD also received 13 advisory service contracts from various stakeholders in the MCs.

ICD disbursed US$ 289.5 million in 1436H (Figure 3.4). The largest disbursement allocation over the past year went to LoF, representing 46% of the total. Asset Management services products accounted for 27.4% of total disbursements.

The distribution of ICD's 1436H approvals across various sectors reflected a focus on the financial sector, which amounted to US$ 504 million (Figure 3.5). The industry and mining sector accounted for the second highest allocation, totalling US$ 158.6 million.
In 1436H, ICD had a well-balanced geographical distribution of its investment commitments (Figure 3.6). Allocations of ICD resources were based on a number of factors, including development needs, credit-worthiness and ICD strategic priorities. The highest amount of 1436H approvals was allocated to the MENA region, followed by the SSA region.

**Figure 3.6  Breakdown of total disbursements by region in 1436H**

A major milestone for ICD in 1436H was the approval of its second general capital increase. During its 15th annual meeting, the ICD General Assembly approved the second increase in the Corporation’s authorized capital from US$ 2 billion to US$ 4 billion, releasing capital available for subscription from US$ 1 billion to US$ 2 billion.

**Investment Performance**

ICD total operating income was US$ 97.74 million in 1436H, as compared to US$ 110.68 million in 1435H, a reduction of 12%. The net income was US$ 20.51 million in 1436H and US$ 26.25 million in 1435H. The reduction in income is due to a fall in oil prices and instability in many MCs.

ICD obtained an Aa3 (long-term)/P-1 (short-term) rating by Moody’s in 1436H. This rating reflected sound ICD financial and risk management frameworks, including prudential policies for capital adequacy, liquidity, asset and liability management, credit risk, and market risk. The key factors underlying the ICD’s Aa3 rating were:

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

According to Moody’s, the outlook for ICD’s rating is stable, which reflects its expectation that the balance sheet expansion will be accompanied by continued capital increases and improving asset quality. This positive rating will assist ICD in accessing long-term funds from Islamic capital markets and respond to growing demand for assistance from its MCs.
3. ICD IN ACTION
Context
Kazakhstan experienced a slowdown in economic growth in 2014, sparked by falling oil prices. Private investments are likely to be relatively weak in the years to come, owing to the fragility of the banking sector, low commodity prices and rising perceptions of political risk. In Central Asia, Kazakhstan arguably has the most sophisticated and enabling environment for Islamic banking and finance transactions.

Company
Established in 2013 and operational since 2014, Kazakhstan Ijara Company is the first Islamic leasing company in Kazakhstan, with a paid-up capital of US$ 20 million. The company provides leasing for domestically produced items in support of the local capital goods and machinery industries. It primarily provides its services to serve the requirements of SMEs. However, it also serves some industrial projects and corporate businesses.

ICD Project
ICD participated in establishing the first ijara company in Kazakhstan. It invested US$ 10 million in the leasing market in Kazakhstan. A subsequent significant devaluation of the local currency reduced this contribution to approximately US$ 8 million.

Development Outcomes
The main development results of Kazakhstan Ijara Company include:

- Expected positive operational income by the end of 2015 as Kazakhstan Ijara Company is building up its portfolio and operation;
- Contribution to sustainable economic development by financing SMEs, which create jobs (3,000 jobs, of which 45.5% are for women) and pay taxes to government (US$ 2.5 million in 2014);
- Employment of 16 permanent staff, of which 56% are women;
- Promotion of Islamic finance as the first and only Shari’ah compliant ijara company in Kazakhstan, and facilitating access to Islamic finance for small enterprises thus promoting private sector development.

*Source: ICD XPSR Report for KIC, 2016
4. RESULTS

4.1 Overview

The development results achieved by ICD and reported in this chapter are based on the second Annual Development Effectiveness Survey conducted in 1436H/2016. A total of 70% or 45 out of the 65 ICD partners who were invited to participate in the survey responded, an improvement over the previous year’s 54% response rate. The results of the survey show that ICD generated significant improvements in access to finance for the private sector in its MCs. This resulted in notable gains in job creation, setting up of new SMEs or increased government revenues from enterprise operations across all of its mechanisms including equity financing, ijara, direct investment, financing and asset management.

The organizational efficiency of ICD has been enhanced through improvements in its internal processes, through its recent decentralization initiatives, as well as the formation of new partnerships and skills training programs. ICD’s achievements have also been recognized with numerous international awards.
4.2 Overall Results for 1436H

ICD conducted its second Annual Development Effectiveness Survey in 1437H/2016 in order to gather information on its performance in contributing to private sector development in its Member Countries for the reporting period of January to December 2015.

The survey questionnaire focuses on the achievements of ICD’s clients, with the aim of demonstrating how ICD contributes to these achievements. The survey questionnaire was sent to 65 active projects in the following areas of business: financial institution development (38 projects), direct investment (23), and asset management (4). The sample projects were chosen out the active projects financed by ICD and running for at least one year. The development and other indicators used in the ADER Survey are outlined in Appendix 3. The survey response rate was 70% compared to 54% last year, with 45 projects responding.

The value of the responding financial institution development and direct investment projects represented approximately 62% of the total value of the projects invited to take part in the survey. With regard to asset management projects, responses were received from all four projects contacted, and the four had a total value of US$ 538.9 million. Overall then, the proportion of projects providing survey responses represented a relatively robust sample of ICD’s project portfolio.

The box details the aggregate development results of the responding projects, generated as a result of the provision of ICD financing and advisory support. It particularly shows that ICD has contributed to creating jobs as well as to generating additional revenues for the government and supporting SMEs.

Incremental Aggregate Development Results of the 45 Responding Active Projects

As of December 31, 2015, ICD’s project partners in the MCs:

- Provided over 50,000 jobs (includes direct employment from both the construction phase and from the LoF and ijara sub projects);
- Generated US$ 165,440,544 in increased government revenues;
- Increased domestic purchases of ICD’s clients by US$ 205,774,881;
- Supported 1,180 SMEs and 3,944 new businesses, including 1,794 Housing Projects and 61 Agribusiness Projects;
- Provided new sources of energy for 2 million people (e.g. through the Acorn project in Bangladesh);
- Raised net inflows of foreign currencies by US$ 76,172,152;
- Contributed US$ 11,773,381 to community development initiatives;

In addition, funds managed by ICD made approximately US$ 538.9 million available to MCs’ companies;

Sectoral Highlights

- 1,794 Housing projects
- 61 Agribusiness projects supported
- Access to electricity for 2 million people
4. RESULTS

4.3 ICD Contribution to Private Sector Development of the 45 Responding, Active Projects

This section reports on the disaggregated results from the 1436H ADER survey at the output level (increases in access to financing) and outcome level (development results), as well as outlining steps ICD has taken to enhance organizational efficiency. It thus encompasses all the elements from ICD’s proposed Scorecard (Section 2.4).

4.3.1 Banking Equity Finance

As a leading Islamic Equity Finance provider, ICD helps support the Islamic banking industry in Member Countries through equity participation. Its extensive experience in carrying out transactions and its knowledge of the Islamic banking industry allows it to provide differentiated, value-added insights. That experience also informs the quality of its work providing investments to the MCs looking to expand their Islamic banking industry.

In the 2016 ADER survey, seven partners (all are Banks; two in Asia and five in Africa) reported on the results of the equity financing provided to them by ICD. The total assets of these Banks had increased by 836% at the end of 2015 as compared to their values prior to receiving ICD financing (from US$ 94.503 million to US$ 884.4 million). As a result, total financing and investments rose by 848%, from US$ 65.617 million to US$ 621.9 million. Moreover, in six of the seven cases, the increases in financing and investment were entirely during the period of ICD financing.

The major development results flowing from this increased access to financing were increases in credit to enterprises and investments with significant multiplier effects on poverty reduction (Figure 4.1).

Table 4.1 Development Results from Provision of Equity Financing

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Number of financing before ICD Intervention</th>
<th>Number of financing in 31/12/2015</th>
<th>Amount of financing before ICD Intervention (in US$ M)</th>
<th>Amount of financing 31/12/2015 (in US$ M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SME financing</td>
<td>13</td>
<td>638</td>
<td>2.526</td>
<td>196.6</td>
</tr>
<tr>
<td>Micro/Individual financing</td>
<td>N/A</td>
<td>5,236</td>
<td>0</td>
<td>30.3</td>
</tr>
<tr>
<td>Housing financing</td>
<td>10</td>
<td>224</td>
<td>4.666</td>
<td>25.093</td>
</tr>
<tr>
<td>Agri-Business financing</td>
<td>4</td>
<td>45</td>
<td>0.313</td>
<td>15.5</td>
</tr>
<tr>
<td>Consumer financing</td>
<td>23</td>
<td>3,828</td>
<td>N/A</td>
<td>8.360</td>
</tr>
<tr>
<td>Financing to women</td>
<td>2</td>
<td>5,880</td>
<td>0.019</td>
<td>67.621</td>
</tr>
</tbody>
</table>
One of ICD’s main objectives is to reach potential clients in its MCs through financial instruments appropriate for their specific needs. This applies in particular to the SMEs and retail sectors as they are often the primary employment generators for the poor and play an important role in the socio-economic development of the MCs. ICD does this through instruments such as ijara (leasing), mortgages, investments and specialized companies tailored to the needs of Member Countries. Seven partners providing ijara facilities to Member Countries responded to the survey. Their total assets increased from US$ 5.23 million to US$ 71.65 million. In six of the seven cases, the increases in asset values were entirely during the period of the provision of ICD financing.

Figure 4.2 details the output and outcome level results of ICD’s contributions to the development of the MCs. It shows that financing in all areas increased significantly. While the payments to the government increased significantly, the same magnitude of increase was not evident in total direct employment or direct employment for women.
4. RESULTS

Figure 4.2 Development Results from Provision of Ijara Financing

Table 4.2 (a) Increases in Access to Financing

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Number of financing before ICD intervention</th>
<th>Number of financing in 31/12/2015</th>
<th>Amount of financing before ICD intervention (in US$ M)</th>
<th>Amount of financing 31/12/2015 (in US$ M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SME financing</td>
<td>64</td>
<td>334</td>
<td>5.665</td>
<td>24.301</td>
</tr>
<tr>
<td>Micro/Individual financing</td>
<td>29</td>
<td>468</td>
<td>0.558</td>
<td>6.473</td>
</tr>
<tr>
<td>Housing financing</td>
<td>-</td>
<td>60</td>
<td>-</td>
<td>1.396</td>
</tr>
<tr>
<td>Agri-Business financing</td>
<td>2</td>
<td>13</td>
<td>0.222</td>
<td>0.888</td>
</tr>
<tr>
<td>Financing to women</td>
<td>8</td>
<td>87</td>
<td>0.083</td>
<td>0.795</td>
</tr>
</tbody>
</table>

Figure 4.2 (b) Development Outcomes

<table>
<thead>
<tr>
<th></th>
<th>Number of new Businesses Created</th>
<th>Payments to Governments (US$ M)</th>
<th>Direct Employment Overall</th>
<th>Direct Employment for Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before ICD Financing</td>
<td>1</td>
<td>0</td>
<td>22</td>
<td>7</td>
</tr>
<tr>
<td>As of 31/12/2015</td>
<td>10</td>
<td>1.094</td>
<td>80</td>
<td>29</td>
</tr>
</tbody>
</table>
4.3.3 Direct Investment and Financing

ICD provides, on a Shari’ah-compliant basis:

- Equity to non-financial institutions;
- Mezzanine, i.e. debt that gives the lender the rights to convert to an ownership or equity interest in the company if the financing is not paid back on time and in full;
- Senior debt financing, i.e. debt that takes priority over other unsecured debt owed by the issuer to green field investments (foreign direct investment where the investor starts a new venture in a foreign country by constructing new operational facilities) and for expansion of private enterprises across a wide-range of sectors and regions.

In 1436H, new project approvals for Direct Investment and Financing (DIF) were concentrated in sectors such as energy, manufacturing, agriculture, healthcare and social services, and transportation. ICD supported 14 term finance and 3 corporate equity projects, amounting to US$ 192 million. For the first time, ICD partnered with the European Bank for Reconstruction and Development (EBRD) and the Arab International Bank (AIB) to provide a syndicated facility to Advanced Energy Systems (ADES) in Egypt.

A total of 14 ICD DIF clients participated in the 2016 ADER survey, with representation from Subsaharan Africa, Middle East and North Africa and Central Asia. These companies operated in a number of sectors including housing, agriculture, pharmaceuticals, cement, steel and energy.

The results (Table 4.3) suggest that MCs’ clients enjoyed enhanced access to financing as a result of ICD interventions. The development results were also significant, with large increases in employment and domestic purchases.
4.3.4  Asset Managemnet Businesses

In order to mobilize resources for private sector development in Member Countries, ICD structures, launches and manages three types of funds: SME funds, private equity funds, and income funds. These Funds enable ICD to leverage its own resources, and establish ICD as an important asset manager for its MCs. In terms of development impact, the SME funds program has proven to be very effective in enhancing access to finance for SMEs in its MCs. By the end of 1436H, assets under management (AUM) SMEs funds are expected to reach US$ 965 million, of which US$ 595 million was mobilized from third party sources.

The results (Figure 4.4) suggest that MCs’ clients enjoyed enhanced resources as a result of ICD interventions. The development results were not available in terms of employment created.

**Figure 4.4  Development Outcomes from Provision of Asset Management Operations**

- **Total resources made available to portfolio companies (US$ M)**: 340.7
- **ICD share in the resources mobilised (US$ M)**: 191.5
- **Number of companies assisted**: 46

As of December 2014: 538.5 M, 191.5 M, 46
As of 31/12/2015: 538.5 M, 200.2 M, 63

**Sukuk (Islamic bond) in Cote d’Ivoire**

ICD was mandated by the Republic of Côte d’Ivoire to structure a Sukuk Program. Moreover, with the assistance of ICD, Senegal issued the first West African Economic and Monetary Union Sovereign Sukuk to the regional market. This paved the way for other West African countries to consider Sukuk as an alternative financing tool. The Sukuk, valued at US$ 244 million, has a five-year maturity period and was subscribed to by regional and international institutional investors. This transaction won two awards, both of which are presented by Islamic Finance News: “Sukuk Deal of the Year (2015)” and “Africa deal of the year (2015)”.
4.4 Improvements in Organizational Efficiency

Chapter 3 and sections 4.2 and 4.3 underlined that ICD has achieved considerable development and financial results. This section considers whether there has been similar progress in improving organizational efficiency, by analyzing ICD’s internal processes, its managing of portfolio and financial risks, its introducing of new products, policies and practices, and finally its learning growth.

Internal Processes
Improve Operational Efficiency: Decentralization

One major aspect of ICD’s plans to achieve greater operational efficiency has been to set in motion a plan to decentralize its operations, at least to the extent possible. This move is aimed at helping ICD to improve its deal sourcing and execution, engage in enhanced dialogue with its key stakeholders, and achieve better alignment with MCs priorities. The overall result sought is greater development impact.

The ICD decentralization plan is consistent with the actions of other MDBs. It is expected that greater proximity to clients, coupled with empowered field offices, will result in better program and project design and delivery. The key to the success of the decentralization plan will be the devolution of some authority to source and execute projects to the regional and country gateway offices. Regional offices have been set up in Rabat, Morocco; Almaty, Kazakhstan; Kuala Lumpur, Malaysia and Dakar, Senegal. Other decentralized country gateway offices such as the one in Bangladesh are in the process of being set up.

In order to assist the process, ICD will implement a capacity-building program to equip the staff designated to serve in the regional and country gateway offices with the requisite tools and skills. In addition, there are plans to invest in technical capacity development of the decentralized bureau’s offices in order to ensure the smooth implementation of this initiative.

Business Processes

There have been noticeable improvements in business processes. For example, in 1436H, ICD not only met its target of lowering the average time between approval and first disbursement for LoF and Term Finance projects to less than 180 days, but it actually succeeded in lowering it to 142 days (Table 4.4). Similar improvements were observable in the case of the information technology (IT) projects and the percentage of deals rejected by the various business units.
4. RESULTS

Table 4.5: Improvements in Business Processes

<table>
<thead>
<tr>
<th>Measures</th>
<th>1436H Target</th>
<th>1436H Achievement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average time between approval and first disbursement for LoF and Term Finance projects</td>
<td>&lt;180 days</td>
<td>142 Days</td>
</tr>
<tr>
<td>Number of IT projects implemented on time and within budget</td>
<td>90%</td>
<td>100%</td>
</tr>
<tr>
<td>% of Deals submitted to the business units and rejected by them</td>
<td>&lt; 45%</td>
<td>22%</td>
</tr>
</tbody>
</table>

Managing Portfolio and Financial Risks

One indicator and acknowledgement of ICD’s ability to manage its portfolio and achieve development results was the approval of the Corporation’s Second Capital increase in 1436H. ICD authorized capital rose from US$ 2 billion to US$ 4 billion, and capital available for subscription from US$ 1 billion to US$ 2 billion.

The capital increase will make ICD better able to respond to challenges faced by Member Countries in accessing finance. In addition, it will provide the Corporation with the resources required to achieve its strategic targets over the next three years.

In terms of business processes, the targets for developing risk related mechanisms were met and those for credit notes and risk management reports were exceeded. However, there was room for improvement in the preparation of monitoring notes.

Table 4.6 Improvements in Managing Portfolio and Financial Risks

<table>
<thead>
<tr>
<th>Measures</th>
<th>1436H Target</th>
<th>1436H Achievement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of risk policies, process and methodologies developed</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>% of TF, LoF, and equity investments for which the monitoring report is completed and submitted to Islamic capital markets</td>
<td>25%</td>
<td>0%</td>
</tr>
<tr>
<td>% of credit notes and quarterly risk management reports completed on time</td>
<td>&gt;90%</td>
<td>100%</td>
</tr>
</tbody>
</table>
Introducing New Products, Policies, Plans and Processes

ICD was successful in increasing the approval (by the management) of the number of new treasury products by nine. The target for 1436H was six. However, the preparation of plans for dealing with non-performing projects fell slightly short of target (four as opposed to a target of five).

Learning and Growth: Skills Development

Building a competent human resource base, developing a climate for motivating employees and disseminating knowledge are high priorities for ICD.

In 1436H, several events were organized and coordinated by the IDBG Business Forum (Thiqah), including IDBG participation in several international and regional conferences. Thiqah also organized and/or assisted in the promotion of various events, including the Global Islamic Investment Gateway, the 11th World Islamic Economic Forum, the 8th Astana Economic Forum, the Kazan Summit 2015, the Maldives Investment Forum, the IDB Group-AUC Joint Private Sector Forum, the Egypt Economic Development Conference, the 2015 Annual Investment Meeting, the Turkmenistan International Investment Forum, the Sarajevo Business Forum, the 15th Industrial Gulf Conference for GCC countries, and the Sarajevo Business Forum. Participation in these fora allowed IDBG to expose its staff to the latest business techniques and to share its own experiences with others.

ICD staff also had access to two outstanding academic programs, the ICD Corporate MBA and the Masters in Islamic Finance and Leadership Development Program. Both are degree-awarding programs from IE Business School, one of the highest ranked Business Schools in Europe and globally. The programs are designed so that they have a clear practical bias, enabling attendees to readily transfer what they are learning to the work place. Those programs are not only restricted to ICD staff but also offered to private sector employees in order to make the student body and student experience even more diverse. At the same time, the participation of ICD staff attests to the fact that the development of human capital is a high priority at ICD.

Finally, ICD has launched a talent management program to provide high performing, mid-career individuals with two years of training in Islamic finance. These individuals can be from ICD or from the broader private sector.
4. RESULTS

Case Study: Murabaha with Leading Force, Uzbekistan

ICD Project

Leading Force and ICD have been collaborating together since 2012. The success of the first collaboration led to Leading Force receiving US$ 4 million from ICD in 2014 to purchase equipment for a new stone crushing plant. The rationale for investing in the plant was the increasing unmet demand for raw materials used to produce concrete due to a boom in Uzbekistan’s construction sector.

Development Outcomes

The main development results of the Leading Force Stone Crushing Plant project include:

- Excellent economic performance contributing to an enhanced local economy, through:
  - Direct employment of 150 full time workers of which 12.5% were women, including 80 staff in the new plant;
  - Having a high production level of quality products at low prices;
  - Contributing to increased government revenues via tax payments.
- Engagement in Islamic transactions – ICD Murahaba agreement was the first Islamic finance operation for Leading Force;
- Introduction of new technology in Uzbekistan’s stone crushing field through the use of modern Metso Company equipment, which allows for the production of high quality products that contribute to the development of local private companies by enhancing their ability to produce better quality products;
- Adoption of an environmentally-friendly production process through the use of natural stones, environmental training for staff, and the conduct of annual environmental assessments.

Context

The construction sector in Uzbekistan is promising for both domestic and foreign investment. The country possesses significant reserves of construction materials, as well as significant reserves of stone, construction sand, gypsum, chocks, talcum among others. A recent boom in the construction sector in Uzbekistan has led to an increase in demand for raw materials used to produce concrete such as crushed stone, sand and gravel. Recognizing that the existing companies could not meet the surge in demand, the management of Leading Force saw an opportunity and so invested in a new stone crushing plant.

Company

Leading Force is an Uzbekistan-based construction equipment trading company that was established in 1997. Since its creation, the company has expanded its activities from equipment and machinery for the production of raw construction materials to producing packaging materials.
5. A SPECIAL REPORT ON LINES OF FINANCE

5.1 Overview

Lines of Finance (LoF) are emerging as the main financial instrument for ICD in promoting private sector development and Islamic financing practices in its MCs; indeed, over the next three years they will account for 43% of all planned modes of finance. LoFs are generally provided to a financial institution in a MC to lend to the private sector in that country in a Shari’ah compliant manner, often to the SMEs. LoFs can also serve an entire region; they allow ICD to expand its reach by taking advantage of the knowledge of the local financial institutions. In 1435H, ICD’s LoFs were mostly concentrated in the ECA region. Future plans include strengthening the use of this flexible financial instrument in Sub-Saharan Africa.

The challenges to expanding the reach of the LoF include questions surrounding its applications from a Shari’ah perspective, perceived internal inability to handle large transactions in LoFs and external constraints such as weak capacity in the financial institutions of MCs and political and other fragilities in the member regions.
5.2 LoF Definition and Rationale

Lines of Finance are an arrangement through which ICD approves Shari’ah compliant financing for a specified amount to a financial institution operating in a Member Country. LoFs are especially meant to promote private sector development by strengthening the ability of financial institutions to improve access of private sector enterprises to term financing.

The use of LoFs allows ICD to expand its reach and enhance its development impact. By supporting financial institutions, ICD enhances its own capacity to serve larger number of enterprises. This is because in so doing, it is able to take advantage of the financial institutions’ greater understanding of the local market in their particular MC, as well as their ability to reach a larger number of recipients/beneficiaries. At the same time, ICD minimizes its risk exposure by leveraging the local knowledge of financial institutions and by having borrowing occur through those financial institutions. LoFs can be awarded to Islamic banks as well as to conventional banks in Member Countries where there are no Islamic financial institutions.

The benefits of LoFs include, but are not limited to:

- Promotion of Islamic finance;
- Increasing access of private sector enterprises in MCs to medium and long term financing;
- Strengthening financial position of the financial institutions; and,
- Supporting subsidiary/affiliate financial institutions of ICD that may have limited access to Shari’ah-compliant financing.

5.3 LoF Structures

5.3.1 Arrangements with Islamic Banks and Leasing Companies

ICD can enter to a Murabaha arrangement with an intermediary bank in which ICD can sell specific commodities to a MC local bank with the understanding that the local intermediary bank will sell or lease the same commodity to an SME in MCs. A Murabaha arrangement is a form of a credit sale under the Shari’ah. It is structured like a rent to own arrangement under which the intermediary retains ownership of the property until the financing is paid in full. The profit or rental payment between the local intermediary bank and the SME will not be less than the ICD mark-up, which is consistent with the agreement between the SME and the local intermediary bank.

5.3.2 Arrangements with Conventional Banks

ICD can enter into a Wakala - a Shari’ah compliant contract in which a customer can authorize the Wakil (the Bank) to invest funds in Shari’ah-approved activities for profits – with a local MC bank serving as the intermediary. The purpose of this arrangement is for ICD to finance reliable local SMEs. The Wakala agreement between the parties is based on ICD Sharia’ah approved conditions of Wakala agreement. The selected SMEs enter into financing agreements with ICD through Ijara-Montahiyyah-Bial-Tamlik (a leasing arrangement ending with ownership) or Murabaha using ICD Shari’ah approved conditions of ijarah and Murabaha. The intermediary bank, as a third party, can provide a guarantee securing the obligation of the SME financed provided on the basis of its advice and recommendation. The local bank is entitled to a nominal agency fee plus an incentive that is the difference between total markup charged to the client and ICD markup.
5.4 LoF Operating Principles

The operating principles of LoFs are stated in the Guidelines for Utilization of Lines of Financing extended by the ICD to Banks and Non-Bank Financial Institutions recommended by the Audit Committee and approved by the Board of Directors of ICD on April 29, 2014.

The following is a summary of the general principles:

• LoFs can be extended to a financial institution that is registered and licensed and is authorized to operate in a MC of the ICD, and where the Corporation aims to support private sector development through LoF facilities.

• The financing is to be used solely for the ultimate benefit of eligible projects promoted by eligible companies. No company involved in any business not approved under the Shari’ah, including the manufacturing, selling or offering of liquors, pork, non-halal meat, as well as involvement in gambling, night club activities or pornography, is eligible for funding. LoFs cannot be used for companies involved in defense-related activities.

• An eligible project company can be:
  • A small enterprise: An enterprise with total annual turnover up to US$ 10 million or an enterprise that can be classified as a small enterprise according to the definition provided by local authorities or market practices acceptable to a majority of financial institutions and industry experts in the target country.
  • A medium sized corporation: A corporation with total annual turnover between US$ 10 million to US$ 25 million or a corporation that can be classified as a medium corporation according to the definition provided by local authorities or market practices acceptable to a majority of financial institutions and industry experts in the target country. For a medium sized corporation, the financing amount shall not be more than 75% of the total LoF amount extended to the financial institution.
  • A large corporation: A corporation with total annual turnover of more than US$ 25 million or a corporation that can be classified as a large corporation according to the definition provided by local authorities or market practices acceptable to a majority of financial institutions and industry experts in the target country. For a large corporation, the financing amount can be up to 100% of the total LoF amount extended to the financial institution.

• An eligible project company must also meet the following criteria:
  • The majority voting power is held by investors from Member Countries of the ICD (individuals who are citizens of one of ICD’s Member Countries and/or institutions whose ultimate majority shareholders are citizens of one of ICD’s Member Countries);
  • Share participation by governments or public entities does not exceed 49% of the voting stock;
  • Have no or minimal negative environmental impact:

• The financial institutions receiving ICD funding will be responsible for the identification, preparation and approval of the eligible projects, as well as for monitoring progress. The financial institutions will collect and give to ICD any rental/instalment and sales proceeds of assets from the eligible project company.
5.5 ICD’s LoFs Portfolio

Between 2003 and 2015 the total value of LoFs approved by ICD was about US$ 1.216 billion, of which about US$ 1.090 billion or 90% of the approved amount has been allocated. The disbursed amount was about US$ 439 million (40% of the allocated amount).

In 1436H, ICD Lines of Finance project approvals amounted to US$ 343 million, exceeding the annual target. During that year, ICD approved a US$ 50 million LoF to selected financial institutions in Bahrain to support a wide range of private sector entities. The objective of the LoF is to assist in diversifying the Bahraini economy and to promote Islamic Finance. ICD has also adopted a similar approach in other Member Countries, including Cameroon (US$ 45 million approved); Uganda (US$ 40 million approved); Mozambique (US$ 30 million approved); Chad (US$ 28 million approved); Turkey (US$ 70 million approved); Kazakhstan (US$ 25 million approved); Kenya (US$ 25 million approved) and, Bangladesh (US$ 20 million approved). In addition, ICD extended a number of LoFs to selected banks and financial institutions, including KazAgro Finance (US$ 25 million approved) in Kazakhstan and Unibank (US$ 10 million approved) in Azerbaijan.

Most of the LoFs were concentrated in specific countries in SSA (48%) during 1436H, followed by regional LoFs that serviced all the Member Countries in a geographic region.

Figure 5.1 LoFs Regional Breakdown in 1436H
LoF Pipeline

ICD’s Three-Year Business Plan (1437H – 1439H) aims to increase the LoFs share in ICD’s portfolio from 19% in 1436H to 43% in 1439H. ICD also aims to achieve a more regionally diversified portfolio, as well as to increase the share of the Sub-Saharan Africa Region in LoFs operations. In general, the Business Plan aims to concentrate on credit products, and to ensure that the share of term finance and LoFs in total approvals will be 68% in 1437H, increasing to 81% in 1438H and 1439H, as shown in Figure 5.2 below.

Figure 5.2  Planned Mode of Finance 1437H – 1439H

5.6  LoF Development Impact

The ADER survey provided data on LoFs from 12 MC banks that resulted in the financing of 116 sub-projects worth US$ 173.5 million. Figure 5.3 reports on the development results of these ICD interventions. It shows that the sub-projects resulted in increased employment and contributed substantially to government revenue.

Figure 5.3  Lines of Financing: Development Impact

Number of Sub-Projects occurring due to ICD financing
Contribution to government revenue (US$ M)
Direct Employment
Sales (US$ M)
Goods and Services purchased Locally (US$ M)
5.7 The Challenges Facing LoFs

While LoFs have become the principal and most favoured financial instrument at ICD, it does face a number of constraints that may limit their attractiveness as a flexible instrument able to be used in diverse circumstances. These constraints are related to internal processing challenges and external constraints.

- **Internal processing challenges**
  
The successful implementation of LoFs requires that ICD interact closely with, or sometimes competes with, other international financial institutions. However, internal processing challenges such as ICD’s ability to handle large transactions and implement appropriate security arrangements consistent with market practices can act as deterrents to achieving scale not only in individual transactions but also as an institution.

- **External constraints**
  
ICD sometimes lacks financing solutions for all the requirements of MCs’ financial institutions and private enterprises such as provision of working capital, financing for software, general expenses, and human resources capacity building. In addition, the challenging global economic environment and the uncertainty particularly in the MENA and the Central Asia region constrain the use of LoFs. Finally, there is often a lack of local currency funding.

Addressing these challenges will require changes in ICD’s operating principles and structures. For example, in some cases ICD may have to provide working capital support for private enterprises, perhaps through local financial institutions. The provisions of working capital may also have to be strengthened with systematic technical assistance to increase the capacity of the financial institutions and private enterprises in the MCs, particularly in Shari’ah-based financing structures. Individual LoF sizes may have to be increased as well as the implementation period. Finally, ICD may have to adjust its risk-return philosophy to introduce flexibility in order to operate in MCs with different levels of financial sophistication.
Case Study: Line of Finance with Hamkorbank, Uzbekistan

Context

The economy of Uzbekistan is highly dependent on the SME sector as a key driver for economic growth, job creation and reduction of poverty; indeed, the SME sector employed 8.9 million people and contributed 54% of the country’s GDP over the last few years. The lack of access to finance (including credit, cash, and foreign exchange) is a major challenge facing Uzbekistan in this sector.

Company

Hamkorbank is a commercial bank established in 1991. It serves entrepreneurs in remote areas of Uzbekistan and seeks to contribute to inclusive growth. SMEs represent 85% of the Bank’s portfolio. Hamkorbank partners with 12 International Finance Institutions, including ICD. One key strategy of IFIs working with Hamkorbank is technical assistance combined with funding which can potentially maximize the impact of interventions.

ICD Project

In 2010, Hamkorbank signed a Line of Finance Agreement with ICD. Given the satisfactory performance of the Bank, LoFs were increased in 2012 and 2013 to reach US$ 9 million. The funding was channelled through Lines of Finance with a total mark-up of US$ 2 million.

Development Outcomes

- The project has provided access to finance to 21 SMEs in eight different regions, including Karakalpaskstan, one of the poorest areas in Uzbekistan, and in three key sectors: energy, industry and services. The credit provided allowed the SMEs to procure equipment and machinery for their expansion.
- It has supported the creation of 980 jobs through the 21 SMEs financed.
- The project has contributed to the development of the local market as the SMEs have purchased up to 80% of raw materials from domestic suppliers.
- Since 2010, Hamkorbank has seen its profitability indicators quadruple.
- The return on asset of ICD’s lines of finance reached 7.5% in 2014.
- 60 Hamkorbank staff were trained in Murahaba Financing. Training sessions have raised awareness on best practices of Islamic finance, but work remains to be done in terms of implementation.

*Source: ICD XPSR Report for Hamkorbank, 2015*
Case Study: LoF with Azeri Banks, Azerbaijan

Context

A US$ 40 million global LoF facility for Azerbaijan was approved by ICD in November 2010. The main objective of the intervention was to support the development of the SME sector in the Republic of Azerbaijan. The four major banks that have benefited from the LoF are: Amrahbank, Munganbank, Turanbank and Unibank.

Development Results

The LoF project with the four Azeri banks was an effective mechanism for channeling funds to productive investments. Indeed, the banks have disbursed a total of US$ 36 million to finance 36 SME projects in three different regions: Ganja, Absheron and Aran.

This LoF reached six different sectors of the economy, including agribusiness, industry, construction, transportation, health and services. The development results at the SMEs projects level include:

- 500 new jobs created
- Benefits for domestic suppliers of the participating SMEs multiplied by 2.5
- Productivity of the participating SMEs multiplied by 2.5
- Government revenues from the participating SMEs multiplied by 3.5

Success Story 1: Komment (Healthcare) financed by ICD through Amrahbank

Komment LLC is a private clinic that opened in 1999. At that time, it had only six employees. In 2012, Komment received US$ 500,000 from ICD to acquire new medical equipment from Germany. The purpose was to extend its operating capacity by increasing the number of clinical care services. Today, the clinic has 56 employees including 30 women and serves around 100 patients per day.

The Komment clinic cooperates with SOS Children’s village, an orphanage in Baku. The clinic provides various medical services to children free of charge, and every year provides free check-ups on June 1st, Universal Children’s Day.

*Source: ICD XPSR Report, 2016
Success Story 2: Fireland (Bakery) financed by ICD through Muganbank

Fireland LLC is a family business established in 2011 in Baku that produces bread and flour. It started with only four employees and a few types of products. In 2014, following the ICD LoF, the number of staff increased to 56, out of which 24 are women.

In September 2014, Fireland received US$ 1.5 million that resulted in:

- 39% increase in sales (from US$ 0.95M to US$ 1.32M)
- Creation of 17 full time jobs
- 45% increase in payment to government
- Development of four new products
- Increased number of distribution sales points to 500

Success Story 3: Investment Group (Greenhouse) financed by ICD through Muganbank

Investment Group was established in 2010 with 35 permanent employees. The company produces mainly organic tomatoes and cucumbers that are exported to Russia. In March 2015, Investment Group received US$ 1M from ICD LoF to acquire greenhouse equipment. As a result, its capacity and production has increased. Today it has 64 employees, 90% of whom are women. In addition, it increased its annual sales by 50% (from US$ 322,100 to US$ 481,300).
6. THE WAY FORWARD

6.1 Overview

ICD has the building blocks in place to become an effective development organization, from a corporate strategy and targets to departmental KPIs and project-specific DIMS. It has adopted the private sector development measurement framework endorsed by the Multilateral Development Bank Evaluation Cooperation Group’s Good Practice Standards for Private Sector Operations. The way forward would be for ICD to build on this excellent base by integrating together its design, delivery and assessment components.
6. THE WAY FORWARD

6.2 Context

A development effectiveness framework generally comprises three complementary elements:

- Policies that define expected goals/objectives;
- Program and project design and implementation to achieve the policy goals; and,
- Measurement of the efficiency of the delivery process and results through monitoring and evaluation.

Typically there are feedback and learning loops running between and within each element, but primarily from the monitoring (PSRs) and the evaluation components (XPSRs, independent evaluations) to the design elements whether they are about corporate policy formulation, individual departmental strategies and programs and project designs.

Figure 2.3 in Section 2 provides a schematic of this process for ICD. It shows that ICD has the basic framework in place from a policy base to the implementation processes, starting with the departmental strategies down to the project designs at the operational level. The measurement process is in development.

6.3 Enhancing Policy Coherence

Of the three elements, the corporate policy aspect is the most developed, especially with the adoption of the 1436H ten-year strategy which aims to utilize ICD’s comparative advantage in promoting private sector development including the promotion of Islamic financing practices. In particular, the goals of creating 400,000 new job opportunities and increasing access to finance for 10,000 small and medium sized enterprises is consistent with the SDGs that are related to inclusive growth, as is placing further emphasis on sub-Saharan Africa as a geographical area of focus.

It is recognized that the link between corporate goals and the departmental strategies and in turn the expected project results will have to be more explicitly established. The primary requirement for doing so will be a re-articulation of ICD’s results framework based on the 1436H strategy. The individual departments will then be able to pursue their own objectives based on this framework. In particular, the development objectives/results will have to be clearly articulated and be strongly linked to the IDBG ten-year strategy.
6.4 Increasing Efficiency in Implementing Programs and Projects

In 2015, ICD’s M&E Department, in collaboration with the Financial Institution Development Department (FIDD) reviewed 26 projects to identify useful lessons for project design and implementation. They isolated a number of factors that can help improve effectiveness, which can be grouped together under the headings of design, implementation, and better measurement and reporting of results.

**Design**

**Clear Country Strategy**

A clear country intervention strategy helps to address Member Countries’ specific needs and market potentials. A systematic country diagnostic (SCD) can help identify the development partnerships ICD can form to address the country’s most important challenges and opportunities as well as ICD’s overall objectives.

- **Consideration of Political Risk**
  
  A thorough analysis and projection of the country’s socio-political development prospects is as important as the financial returns projections for any equity investments. In addition, the political affiliations of the main sponsors of the projects will have to be factored in to the making of decisions about the feasibility of an ICD investment.

**Effective Management Team**

Carefully selecting the top management for a program or a project team is a key success factor. This is particularly because most ICD investments in Members Countries will face various operational risks; thus the management team will need to have the appropriate personnel in place to deal with the possible contingencies.

- **Inclusion of other ICD Units**

  Involvement of other ICD units is vital in order to share professional opinions and is essential for carrying out a rigorous analysis of the potential investments.

**Defined Exit Strategy**

Having a clear and realizable Exit Strategy/Plan in place, one that includes a well-delineated period and a required rate of return, is necessary at the project design stage.
Implementation

**Ensuring a Comprehensive ICD Package**
ICD’s interventions are more effective when investment operations are combined with advisory services. A technical assistance component (training, coaching and monitoring) could be fundamental for project success.

**Considering Conditionality**
When investments are subject to a pending reform, such as a conversion exercise, issuing a “Letter of Intent” to show interest and commitment is more prudent than injecting actual cash.

**Forming Partnerships**
Having a partnership with local shareholders can play a significant role in helping to maintain a strong Board of Directors for the project, and is a key success factor for investment operations.

**IDBG Synergy**
Increasing clients’ access to products and services from other parts of the IDBG increases the effectiveness and efficiency of the project and obviates the need for the clients to look for external providers of similar services and products.

**Networking**
Ensuring that ICD’s new clients have access to its network of other clients creates enhanced networking opportunities for all.

Better Measurement and Reporting of Results

**Representation on the Ground**
To ensure faster processing and higher quality of data, ICD needs to have more representatives in its MCs. This is especially important in countries with high ICD exposure.

**Capturing Unintended Results**
integrating ICD’s development effectiveness framework to its strategy and the Corporate Scorecard system can help make “unintended positive results” into intended results.
6.5 Coherent Performance Measurement and Reporting Systems

ICD has performance measurement systems at various levels of the organization. For example, it is experimenting with an ICD Corporate Scorecard. The KPIs provide indications of the objectives of the various ICD lines of business. The DIMS for preparing and measuring results at the project level are well established.

Framing an ICD Scorecard, similar to the IDBG Scorecard: The IDBG Scorecard has been updated to reflect the new aspirations and objectives of the Group that are reflected in its 1436H strategy and that are consistent with the SDGs. It is now necessary to create an ICD corporate Scorecard in line with the new IDBG Scorecard. This Scorecard could be based on a “traffic light system”. The first step for doing this would be to update the ICD results framework and then to create what would essentially be a log frame for it, including indicators. These indicators would form the building blocks of the ICD Scorecard.

Designing KPIs in line with ICD Scorecard: The next step in the process would be to convert the ICD Scorecard into specific objectives and indicators (the KPIs) for each department within ICD. This would be analytically equivalent to taking the ICD strategy targets and specifying what each Department would expect to contribute to this target. For example, ICD’s job target over the next ten years is to create 400,000 new jobs. Each Department would specify how many jobs they expect to contribute to this target.

Finally, the new KPIs would inform the log frames of new ICD projects through a revision of the current DIMS framework. This would mean that the results of the projects would feed into the Departmental objectives and the indicators for these results would contribute to the Departmental KPIs.

6.6 Impact Evaluation

It is also vitally important to understand the eventual developmental impact of the ICD’s projects in order to inform and improve its policy and implementation processes. This would likely be challenging, since impacts occur long after project completion and can consist of intended and unintended consequences. In addition, it is extremely difficult to measure impact, especially if the project design process did not establish an initial baseline of the developmental situation in the project catchment area. The impact of private sector development is even more difficult to measure because of the diffusion of potential beneficiaries including the enterprises themselves and in ICD’s case, difficulties in measuring the promotion of Islamic financial services. Research, collaboration and partnership with other research institutions and/or organizations interested in estimating the potential value added of the provision of Islamic financing could contribute to greater understanding of this very important topic. More fundamentally, it could help to gauge whether and to what extent it is possible to conduct impact evaluations of the effectiveness of Islamic Finance.
Case Study: Advisory Services to Nouadhibou Free Zone, Mauritania

Context

Mauritania is located near three strategic regions: West and Central Africa, the Arab Maghreb Region and Europe. Nouadhibou, the second largest city in Mauritania, is viewed as an important pillar of the Mauritanian economy due to the fishing in its coastal waters, as well as its industrial and artisanal fishing port. In 2010, the government developed a 2035 Vision for Nouadhibou and described the city as “a prime location for expanding industrial fishing, hydrocarbons, downstream mining, and tourism activities”.

The overall objective of this intervention was to improve the business environment in the Nouadhibou Bay so that it could serve as an economic hub for the region, and to promote the development of an environmentally friendly fisheries industry.

ICD Project

Between 2011 and 2012, the Industry and Business Environment Support Program of ICD supported the Government of Mauritania through advisory services and studies for the transformation of Nouadhibou into a Special Economic Zone. The studies sponsored by ICD resulted in the recommendations that a legal, regulatory and institutional framework be developed, along with a development strategy for the zone.

A ministerial committee endorsed the outcome of the technical recommendations and adopted the project as a development priority for the Mauritanian national economy. In 2012, the parliament declared the bay to be a free zone which was officially inaugurated in 2013. ICD has been supporting the Nouadhibou Free Zone Authority with a capacity-building program since August 2014. The ICD advisory support project had a cost of US$ 1.5 million from 2010 to 2016.

Development Outcomes

The main development results:

- Mauritania went from being ranked 152nd in the world in 2010 to 70th in 2015 for the ease of its procedures to starting a business;
- There have been US$ 400 million investments from private companies in the free zone;
- So far, 247 companies are established in the free zone;
- Approximately 1,500 jobs have been created, including 743 direct jobs; and,
- There has been a reduction of 40% in the price of certain goods such as cement (from US$ 174 to US$ 110 per ton).
Appendix I
The Sustainable Development Goals

Goal 1  End poverty in all its forms everywhere
Goal 2  End hunger, achieve food security and improved nutrition and promote sustainable agriculture
Goal 3  Ensure healthy lives and promote well-being for all at all ages
Goal 4  Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
Goal 5  Achieve gender equality and empower all women and girls
Goal 6  Ensure availability and sustainable management of water and sanitation for all
Goal 7  Ensure access to affordable, reliable, sustainable and modern energy for all
Goal 8  Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
Goal 9  Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
Goal 10 Reduce inequality within and among countries
Goal 11 Make cities and human settlements inclusive, safe, resilient and sustainable
Goal 12 Ensure sustainable consumption and production patterns
Goal 13 Take urgent action to combat climate change and its impacts*
Goal 14 Conserve and sustainably use the oceans, seas and marine resources for sustainable development
Goal 15 Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
Goal 16 Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
Goal 17 Strengthen the means of implementation and revitalize the global partnership for sustainable development
## Appendix II
### IDBG Ten-Year Strategy Map Involved Areas

<table>
<thead>
<tr>
<th>GOALS</th>
<th>Inclusiveness</th>
<th>Connectivity</th>
<th>Global Islamic Finance Sector Growth</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Percent</td>
<td>Percent</td>
<td>Percent</td>
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<td>Reduction in population living in/near poverty</td>
<td>18%</td>
<td>Increase in Intra-OIC Trade</td>
<td>4%</td>
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<td>Reduction in population living in severe poverty</td>
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<td>Increase in Share of OIC in Global FDI</td>
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<td>RESULTS</td>
<td>Share of Islamic Finance clients (as % of world population with formal accounts)</td>
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<td></td>
<td>Share of Islamic Finance institutions’ assets (as % of world financial assets)</td>
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<thead>
<tr>
<th>COMPREHENSIVE HUMAN DEVELOPMENT</th>
<th>Millions</th>
<th>Cooperation among MCs</th>
<th>$ Billions</th>
<th>ISLAMIC FINANCE SECTOR DEVELOPMENT</th>
<th>Countries</th>
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<td>Intra-OIC trade to be financed</td>
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<td>Countries to have appropriate regulation for Islamic Finance</td>
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<td>People reached with basic social services</td>
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<td>Intra-OIC trade &amp; Investment to be insured</td>
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<td>Countries to have integrated their IFIs with international system</td>
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<td>Financing Facility to Support RCI</td>
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<td>Countries to have 100% of their population able to access IFS</td>
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<td>People to attend training/learning events</td>
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<td>Project Financing for RC</td>
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<thead>
<tr>
<th>PERFORMANCE</th>
<th>Operational Efficiency</th>
<th>Resource Mobilization</th>
<th>Financial Performance</th>
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<td>Percent</td>
<td>Percent</td>
<td>Percent</td>
<td>Percent</td>
</tr>
<tr>
<td>Increase in results per $1 million invested</td>
<td>10%</td>
<td>Resources mobilized through co-financing</td>
<td>1.2</td>
</tr>
<tr>
<td>Reduction in expenses per $1 million disbursed</td>
<td>10%</td>
<td>Resources mobilized through IDBG managed funds</td>
<td>1:10</td>
</tr>
<tr>
<td>Reduction in time from Concept to 1st disbursement</td>
<td>30%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Resource Mobilization Ratio</td>
<td>1:10</td>
<td>Financial Performance</td>
<td>Percent</td>
</tr>
<tr>
<td></td>
<td>Average annual approvals growth</td>
<td>&gt;1%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Disbursement ratio</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Expense-to-Net Income Ratio</td>
<td>≤100%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Average annual growth of net income</td>
<td>&gt;5%</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>RESULTS-BASED MANAGEMENT</th>
<th>People Management</th>
<th>Group Synergy</th>
<th>Percent</th>
<th>Percent</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent</td>
<td>Percent</td>
<td>Percent</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budgeted initiatives linked to Strategy Map targets</td>
<td>80%</td>
<td>Professionals (as % of total workforce)</td>
<td>70%</td>
<td>BED resolution related to strategic areas</td>
<td>70%</td>
</tr>
<tr>
<td>Satisfactory rating of MCPS at completion</td>
<td>70%</td>
<td>Client facing professionals (as % of total professionals)</td>
<td>60%</td>
<td>Joint engagement (Staff Survey)</td>
<td>30%</td>
</tr>
<tr>
<td>Client satisfaction (Client Perception Survey)</td>
<td>70%</td>
<td>Staff in field offices (as % of total workforce)</td>
<td>25%</td>
<td>Quality of corporate services (User Surveys)</td>
<td>60%</td>
</tr>
<tr>
<td>Satisfactory rating of IDBG operations (GOED Rating)</td>
<td>70%</td>
<td>Staff Engagement (Staff Survey)</td>
<td>75%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budgeted initiatives shared lesson learned at closure</td>
<td>70%</td>
<td>Managerial Effectiveness (Staff Survey)</td>
<td>70%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Staff Inclusion (Staff Survey)</td>
<td>70%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Involved but Data Required still not available
- Involved but Data Required is 100% available
- Involved but Data Required is not 100% available
Appendix III
Key Development Effectiveness Indicators in the ADER Survey Questionnaire

1. Financial Institution Development

LoF
- Total Assets of the Bank
- ICD LoF amount
- SMEs financed (# and $) under ICD LoF
- Number of direct employment of the sub-projects under ICD LoF (before and after ICD Intervention)
- Payment to Governments (before and after ICD Intervention)
- Sales of the sub-projects (before and after ICD Intervention)

Equity (Banking and Non-Banking)
- Total Assets of the Bank
- ICD Share
- Access to Finance for SMEs: Outstanding Portfolio (# and $)
- Access to Finance for Women
- New Businesses Created
- Payment to Governments
- Number of direct employment generated by the project (share of Women)

2. DIFD

Energy Projects
- Total Assets of the Client
- Amount of ICD Facility Energy delivered to off-taker (GWh)
- Goods and services purchased locally
- Payment to Governments (before and after ICD Financing)
- Number of direct employment generated by the project (share of Women) (before and after ICD Financing)
  - Operation and maintenance
  - Construction phase

Agribusiness Projects
- Total Assets of the Client
- Amount of ICD Facility
- Farmers reached
- Total sales (gross volume of sales)
- Export sales (gross volume of sales)
- Value of net inflows of foreign currency due to the operation of the project company
- Goods and services purchased locally
- Payment to Governments (before and after ICD Financing)
- Number of direct employment generated by the project (share of Women) (before and after ICD Financing)
  - Operation and maintenance
  - Construction phase
ICT Projects
- Total Assets of the Client
- Amount of ICD Facility
- Mobile subscriptions (number)
- Fixed data subscription (ADSL, Broadband, Fiber, etc.) (number)
- Fixed voice/telephone subscriptions (number)
- Value of net inflows of foreign currency due to the operation of the project company
- Goods and services purchased locally
- Payment to Governments (before and after ICD Financing)
- Number of direct employment generated by the project (share of Women) (before and after ICD Financing)
  - Operation and maintenance
  - Construction phase

EDUCATION Projects
- Total Assets of the Client
- Amount of ICD Facility
- Students enrolled (number)
- Goods and services purchased locally
- Payment to Governments (before and after ICD Financing)
- Number of direct employment generated by the project (share of Women) (before and after ICD Financing)
  - Operation and maintenance
  - Construction phase

HEALTH Projects
- Total Assets of the Client
- Amount of ICD Facility
- Number of Patient consultations provided by the client
- Goods and services purchased locally
- Payment to Governments (before and after ICD Financing)
- Number of direct employment generated by the project (share of Women) (before and after ICD Financing)
  - Operation and maintenance
  - Construction phase

HOUSING Projects
- Total Assets of the Client
- Amount of ICD Facility
- Number of new residential dwellings constructed by the client
- Number of residential dwellings renovated by the client
- Goods and services purchased locally
- Payment to Governments (before and after ICD Financing)
- Number of direct employment generated by the project (share of Women) (before and after ICD Financing)
  - Operation and maintenance
  - Construction phase

INDUSTRIES AND SERVICES Projects
- Total Assets of the Client
- Amount of ICD Facility
- Total sales (gross volume of sales)
- Value of net inflows of foreign currency due to the operation of the project company
- Export sales (gross volume of sales)
- Goods and services purchased locally
- Payment to Governments (before and after ICD Financing)
- Number of direct employment generated by the project (share of Women) (before and after ICD Financing)
  - Operation and maintenance
  - Construction phase

WASTE AND SANITATION Projects
- Total Assets of the Client
- Amount of ICD Facility
- Waste disposed (tons)
- Households with new or improved sanitation (number)
- Wastewater treatment capacity added or improved (cubic meters per day)
- Wastewater treated (cubic meters)
- Goods and services purchased locally
- Payment to Governments (before and after ICD Financing)
- Number of direct employment generated by the project (share of Women) (before and after ICD Financing)
  - Operation and maintenance
  - Construction phase
3. Asset Management

**At ICD Level**
- Resources made available to portfolio companies ($ million)/by sector
  - ICD investment
  - Other investment
- Companies assisted (number of investees)/by sector

**At Investees level**
- Investees Direct Employment - Operations and Maintenance (share of Women)
ICD CLIENTS WHO COMPLETED THE 1437H/2016 ANNUAL DEVELOPMENT EFFECTIVENESS SURVEY