

**REPORT AND RECOMMENDATIONS OF THE IDB PRESIDENT ON THE FIRST FIVE-YEAR STRATEGY (2008-2012) FOR THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT (ISFD).**

I submit to the esteemed Board of Directors of the ISFD for its consideration and guidance the Report and Recommendations on the First Five-Year Strategy (2008-2012) for the Islamic Solidarity Fund for Development (ISFD).

**I. PREAMBLE**

**i. Objective of the Document**

1. The objective of this document is to draw up a strategy which will guide the operations of the Islamic Solidarity Fund for Development (ISFD) during the next five years (2008-2012). The Strategy emphasises poverty reduction as an overarching objective of the IDB Group, with ISFD as an important leverage to the various windows and instruments of the Group for achieving this objective. In line with this overarching theme, and the need for urgent actions to speed up achievement of MDGs as core commitments for the international development community, the strategy will be aimed to position the IDB Group *en route* to becoming the premier institution for fighting poverty in its member countries. It will also be aimed to support the IDB's *Special Programme for the Development of Africa* in line with the OIC Ten-Year Programme of Action for the Ummah.

2. As this will be the first Five-Year Strategy for the ISFD since its establishment in May 2007, it is hoped that this document will stimulate further thinking so that the *proposed strategy* can be finalized after incorporation of the comments and observations of the Board of Directors.

**ii. Poverty Reduction as an Overarching Mission of the IDB**

3. As an institution whose purpose is the social and economic development of its member countries, the IDB has been concerned with poverty reduction since its inception in 1975. The Bank has since provided concessional financing to its member countries with a cumulative volume of more than US\$ 4.2 billion, half of which was for pro-poor activities. At the same time, the Bank has been exploring ways whereby its capacity to meet this challenge could be further improved by adopting strategies that would support employment generation and sustained economic growth as a pre-requisite to reducing poverty. Taking up this challenge, the Bank has developed its 1440 Vision, entitled 'A Vision for Human Dignity,' which presents a unique vision of its role "to be a leader in fostering socio-economic development" and its mission to *alleviate poverty and promote human development*. This mission makes 'alleviating poverty' on top of the IDB's strategic objectives<sup>1</sup>. Two overarching themes define this focus: (a) the need to make

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<sup>1</sup> These are namely: *alleviate poverty, promote health, universalize education, prosper the people, and empower women.*

projects/programmes to be pro-poor, ensuring that the additional jobs and employment reach the target groups of poor and disadvantaged people; (b) to promote the development of human capital by boosting education, training and health support. In line with the IDB Strategy Framework, this focus will be carried over in the proposed Five-Year Strategy of the ISFD which represents an additional leverage to the various windows and instruments of the IDB for addressing poverty in member countries.

### iii. Establishment of ISFD

4. In light of the IDB vision 1440H and the overarching objective of poverty alleviation, the Islamic Solidarity Fund for Development (ISFD) was formally established in accordance with the **Makkah Declaration** as proclaimed by the Third Extraordinary OIC Summit as one of IDB's tools for achieving this objective. The Summit underlined the need for "*cooperation in the fields of poverty alleviation, capacity building, elimination of illiteracy and eradication of diseases and epidemics such as AIDS, Malaria, Tuberculosis, and the need to mobilize the necessary resources to this end by establishing a special fund within the IDB*". The Fund has been established as a "Waqf" with an initial capital of US\$10.0 billion.

### iv. Poverty in IDB Member Countries

5. The total population of the IDB member countries was estimated at 1.42 billion in 2005, of which 429 million lived below the poverty line of US\$1 per capita per day<sup>2</sup>. Presently, it is estimated that "*more than one billion people in the world live on less than one dollar a day*"<sup>3</sup>. This implies that the absolute poor in the IDB member countries constitute nearly 43 percent of the global total. Twenty-eight of the 56 IDB member countries have more than 30% of their population living under the poverty line.

6. Region-wise, the situation is roughly as follows:

- *Sub-Saharan Africa*: 46.4% of the population is absolutely poor, representing an increase of nearly 2 percentage points from the benchmark year of 1990 (44.6% then).
- *Southern Asia*: 30.0% (down from 39.4% in 1990; representing a reduction by about a quarter).

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<sup>2</sup> *The one-dollar-a-day the poverty line, defined as the minimum level of income needed to buy the very basic necessities of life. Living on a dollar or less a day is regarded as being in an absolute or extreme poverty situation (a person living on two dollars a day is reckoned as being relatively poor or in a relative poverty situation).*

<sup>3</sup> *The UN Development Report, "Investing in Development: A Practical Plan to Achieve the Millennium Development Goals", January 2005*

- *East Asia*: 15.0% (down from 30% in 1990, which represents a 50.0% reduction).
- *CIS Countries*: 5.3% (up from 0.4% in 1990). The CIS incidence of poverty remains the lowest in the IDB membership, excluding MENA Region.
- The *Middle East and North Africa* (MENA): 2.7% (having increased marginally from 2.2% in 1990). However, the share of *relative poverty* is much higher, taking the threshold of 2 dollars a day as a base. The proportion of population below this threshold is estimated at 23%, up from 21% in 1990.

### **Progress in Meeting the Millennium Development Goals**

7. Sub-Saharan Africa has experienced slow progress in many of the MDGs. Among a multitude of factors, slow economic growth, deteriorating terms of trade, low agricultural productivity, civil strife, the burden of diseases and low investment flows have contributed to the region's increased poverty incidence. However, the progress towards achieving the MDGs is uneven among countries, with some having sustained remarkable progress in poverty reduction and other MDGs (e.g. Mozambique and Uganda).

8. The countries of **East Asia** (*Brunei, Indonesia, and Malaysia*) are advancing quickly to meet the MDGs, having performed well in reducing poverty, universal primary education and bridging the gender gap. These countries are likely to reach the goal by 2015 or even earlier (except for Indonesia with regard to achieving girls' full enrolment in primary schools). In **South Asia**, countries such as *Bangladesh* and *Maldives* have registered reduction in poverty over the period, except for *Pakistan* where poverty has stagnated at around 33 percent (despite high economic growth achieved in the last few years). There has also been substantial reduction in infant mortality, especially in Bangladesh (from 144 to 69 deaths per 1,000 live births between 1990 and 2003). Major gains have also been made in school enrolments at primary and secondary levels.

9. On the other hand, most of the countries in the **Middle East and North Africa Region** are on track to achieving the MDGs, having first succeeded in reducing poverty, thanks to the economic growth and substantial investments in the social sectors. About 85 percent of the total population has access to safe drinking water. However, *unemployment*, particularly among the youth, is a serious problem. Overall, the **CIS** region (including countries in Eastern Europe) has higher social and human development indicators. The abolition of a comprehensive social welfare system, reminiscent of the Soviet era, has been the main reason for the re-emergence of poverty.

#### (iv) Resource Requirements for Poverty Reduction

10. The estimated financial resources required to implement the MDG-framework range from US\$130 billion per year, at least by the year 2010 (*OECD's estimates*), to US\$180 billion a year (*United Nations estimates*). This is a far outcry from the 2004 level of US\$79 billion. On the basis of previous trends of aid flows to developing countries, the IDB member countries account for roughly 35-40 percent of the total aid flows. This works out to US\$45-72 billion of aid a year, if the OECD's and UN's estimates are taken as benchmarks.

11. Other estimates can be made on the basis of the total investments needed to bring the population living below the poverty line to the US\$1 per day mark. Barring income redistribution, and assuming an incremental capital-output ratio 4 of 1, total additional investment of **US\$250 billion** would be needed to attain this target. Under a more ambitious scenario where all the population below the poverty line will have an additional income of US\$ 1 per day, the corresponding amount of investment would be US\$626 billion. To achieve the US\$2 per day target, considerably more resources would be required.

#### (ii) Challenges facing the IDB

12. In view of the above, it is clear that the challenges facing the IDB are:-

- First, the enormity of the problem of poverty in member countries and the slow progress in achieving the *MDGs* by most of the LDMCs.
- Second, limitation in concessionary resources. Only US\$350 million is set to be allocated each year in the Bank's annual Operations Plan as concessionary financing, which is far less than member countries' actual needs.
- Third, the catalytic role to be played to augment the magnitude of the financial resources that are required to make any significant inroads into poverty reduction.

## **II. PRIORITY AREAS OF THE FUND DURING 2008-2012**

### **i. Guiding Principles**

13. The IDB's BED has adopted a comprehensive Policy Paper on Poverty Reduction which has drawn on the Bank's own experience and that of other institutions engaged in the same endeavour. The principles underlying the adopted approach are that the poverty

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<sup>4</sup> Simply put, an incremental capital-output ratio is a measure of productivity – i.e. the capital required to yield an 'x' level of productivity or 'x' amount of income. An incremental capital-output ratio of 4 implies "US\$4 of additional investment in order to get a steady income stream of US\$1". The ratio of 4:1 is typical in many developing countries. Similar ratios in the middle and high income countries are between 3 and 2.

reduction programmes should be country-driven, result-oriented, community-based and actionable. It emphasizes impact and effectiveness, paying attention to the ability to replicate projects/programmes on a multi-year, multi-sector basis.

14. Given the multi-dimensional nature of poverty, the fight against poverty will require both multi-sector and thematic approaches that would address the various causes of poverty. In this respect, the Fund supports strategies that would address sustained economic growth as a pre-requisite to reducing poverty through generation of employment and growth. This would require labour intensive income-generating growth strategies, investment in human capital, and safety nets for the vulnerable groups.

## ii. Priority Areas

15. A project/programme is considered pro-poor if poor people benefit in absolute terms. If these beneficiaries support and sustain the local economy, then this will create a direct link between economic growth and poverty reduction. It also implies that the projects/programmes which will be targeted by the Fund must have clear and direct impact on the poor. This broad-based pro-poor growth approach will constitute the basis of the Fund's intervention in member countries with a view to achieve the following:

- Help the poor to break away from poverty with a special focus on the absolute poor.
- Achieve sustainability in the poverty reduction activities of the Fund with a view not only to help member countries achieve the MDGs, but also to create opportunities for growth and employment for the poor.

16. Given this objective, and consistent with the Strategic Framework of the IDB, the proposed five-year strategy will focus on the following priority areas:

- (i) **Agriculture:** Since poverty is still predominantly a rural phenomenon in IDB member countries, investment in the **agricultural sector**, on which the bulk of the population depends for its livelihood, would be an obvious target for the ISFD. The need for revitalization of agriculture is apparent. In Africa, as well as in many other parts of the world, poverty is mainly a result of having insufficient food to eat, the basic and barest necessity of life. To support economic growth, in addition to food security, investment in this sector will be targeted in high-value addition sub-sectors, such as agro-processing, land development, animal health facilities, irrigation, crop development, marketing, storage facilities, micro-finance schemes, rural tracks and feeder roads, etc. The Fund will ensure that investments in this sector are compatible with present-day environmental standards and also have a facility for moving goods, not just people. It will also improve information for farmers and their ability to market their products, specifically computer literacy training and rural telecommunications, to facilitate trade by allowing communication between buyers and sellers and disseminating price and market information.

- (ii) **Human Development:** In addition to agriculture, other broad-based growth sectors are **health** and **education**. These two sectors are collectively referred to as human development sector, ultimate goal of the development process. To the extent that greater capabilities and skills development improve economic performance, human development will have an important effect on growth. Obviously, a sick or uneducated person would have fewer choices than a healthy, educated person. Illiteracy reduction and vocational training will mean improved human capital and enhanced ability to be engaged in gainful activities. Improving health will mean higher quality of life for the poor, and fewer sick days will translate into higher productivity. The cumulative impact of these benefits on the poor will be significant and represent a crucial synergy with the IDB poverty reduction strategy. Taking into account the specific needs of the individual member countries, the Fund will broadly focus on illiteracy, vocational training, and basic education in the education sector. Research and technology will also be considered, particularly when these are related to health needs. In the health sector, the Fund operations will focus on fighting of epidemics and communicable diseases, mainly malaria, HIV/AIDS, tuberculosis and polio depending on the needs of specific countries.
- (iii) **Basic Infrastructure:** Essential services of water and sanitation, transport and power supply fall under the thematic group of **infrastructure**. Poor infrastructure is one of the most binding constraint to growth and poverty reduction throughout the IDB member countries. Some empirical estimates show that the rate of return of infrastructure on economic growth can be in excess of 100% per annum (World Bank Development Report, 1994). Moreover, infrastructure has a direct bearing on the well-being of the population and hence its positive contribution to poverty reduction. Improved irrigation efficiencies will mean better use of scarce land resources and will allow land to be more productive. Opportunities will be gained through time saved in accessing **clean water** and being put to productive use. Similarly, efficient transportation services will facilitate the movement of goods and services within and between the production and market centres, and hence are of great importance to economic growth. Power supply offers a variety of production and employment opportunities which are essential for economic growth and raising living standards. Similarly, empirical evidence confirms the strong positive impact of telecommunications on economic growth in developing countries. Improved telecommunications dramatically improves individuals' lives and incomes by improving information flow, broadening markets, substituting for physical travel and transport and reducing transaction costs. Thus, while all these infrastructural sectors will be targeted by the Fund, depending on individual countries' specific requirements, specific focus will be made on the sub-sector of water and sanitation during the strategy period. The details Fund's programme on this sub-sector will be prepared in due time.

- (iv) **Micro-enterprises** are a source of income and *employment creation* for millions of people in member countries. It is widely accepted that support for these enterprises is key to poverty reduction and economic growth. Micro-enterprise support programs are effective because they help the poor help themselves based on a bottom-up approach distinct from the top-down strategies. Although statistics are not available, it is clear that a low percentage of low-income households in the member countries have access to financial services. Yet these services are now considered critical to small business development and income and employment growth in all countries. Consequently, the Fund will target support to the financial services and micro-finance for small-scale enterprises, as one of its main tools for fighting poverty in member countries.

**Cross-cutting themes:** *Capacity-building* and programmes supporting *women* will constitute cross-cutting themes in all these sectors. The Fund accepts that no poverty reduction strategy would be successful without addressing the women dimension explicitly. Studies show that although a number of LDMCs have produced PRSPs as a requirement for securing funds from international financial institutions, often these lack analysis of the women dimension of poverty.

### **III. PROPOSED OPERATIONAL TARGETS DURING THE STRATEGY PERIOD**

#### **Assumptions and Criteria**

17. Operations of the Fund during the Plan period will emphasise key aspects of pro-poor growth and employment generation activities. The selected programmes will be utilized to combat poverty in the least developed member countries (LDMCs) and poverty pockets in the non-LDMCs. Given the challenges highlighted above, it is clear that the main assumption for the success of the strategy is the ability of the IDB to *mobilize the resources* which are required to implement the proposed projects and programmes. As will be shown below, these are estimated at US\$ 13.500 billion (*US\$ 11.500 billion with ordinary terms and US\$ 2.000 billion as concessional*). Obviously, this cannot be attained without strong commitment and support from the member countries.

18. Specific and general criteria as elaborated in the Operational Guidelines will be applied by the Fund to help select the projects/programmes it would support. These programmes will follow one or more of the following approaches:

- Thematic Approach
- Multi-Year/Multi-Sector Approach
- Individual Projects

19. General criteria will be; (i) the project/programme is accorded high in the priorities of the beneficiary countries; (ii) existence of a satisfactory sponsor/partner; (iii) meeting the ISFD's priorities and appraisal standards.

**(a) Thematic Programmes**

20. The thematic approach will be followed to address, in a more comprehensive manner, specific issues which have great impact on the poor in several member countries. During the Strategy period, these include (but not limited to):

- Vocational Literacy Program for Poverty Reduction
- Microfinance Support Program (MFSP)
- Controlling Malaria and AIDS
- Water and Sanitation

**i. Vocational Literacy Program for Poverty Reduction**

21. A full programme for *Vocational Literacy Program for Poverty Reduction* is being developed by the Bank for implementation starting 1429H (2008). The total cost of this programme is estimated at US\$ 500 million. Given the catalyst/facilitator role of the Bank, the programme is expected to attract resources from other development partners and stakeholders.

22. The scope and main characteristics of the programme will be:

- (1) Multiyear
- (2) Geographically focused
- (3) It will reach about 4 million people in IDB MCs.
- (4) It will provide non-formal education to about 1.1 million people including 365,000 out of school children – 9-15 years old; 300,000 teenagers and young adults- 16-24 years old-; and 435,000 women workers.
- (5) It will provide functional literacy programs to about 1.8 million adults.
- (6) About one million people will have access to microfinance through local associations in small businesses in agriculture, stockbreeding, mining, fishing and informal sector.

23. The total cost of Vocational Literacy Program (VOCALPROG) is roughly estimated at US\$ 500 million over the Plan period, including US\$ 100 million for micro-finance and US\$ 25 million for the program management and training. In identifying and appraising these programmes, special consideration will be given to qualifying ones from the New Special Programme for the Development of Africa. The table below indicates the allocations for this programme over the five years period.

*Vocational Literacy Program for Poverty Reduction (Estimated Cost in US\$m)*

<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Total</b>
50.00	75.00	100.00	125.00	150.00	500.00

**ii. Microfinance Support Program (MFSP)**

24. Microfinance Support Program initiative is proposed to reinforce its poverty alleviation strategy through promoting access of the economically active poor to financial resources and means to reduce vulnerability, create employment opportunities and improve living conditions of the poor.

25. The scope of the Microfinance Support Program comprises the following main components:

- i. Extending lines of financing and equity capital to selected Banks and Micro Finance Institutions (MFIs) in order to ensure access to a wide range of financial services to massive numbers of poor productive people on a sustainable basis.
- ii. Provide technical assistance capacity building to microfinance institutions (MFIs), banks, and Vocational Training Institutions for promoting a comprehensive Shariah compatible financial and support systems able to reach poor households on a sustainable basis, reasonable compatible cost and better serve the unemployed youth.
- iii. Provide market oriented training for the economically active poor in order to improve their technical capabilities and skills for small business development.
- iv. Promote and assist in establishing guarantee funds to enhance Banks financing capacities, through their cooperative guarantee schemes, in providing MF services/products in favour of the poor.
- v. Promote and assist in establishing Social Safety Net Funds to provide resources to rebuild livelihoods, replace lost assets, overcome social isolation and gain productive skills for high-risk groups:
  - In immediate conflicts and post conflicts environments
  - In severely disadvantaged rural areas
  - In intervention situation for the chronically destitute

26. The proposed Microfinance Support Program will adopt Sustainable Livelihood Approach emphasizing “human development” and integration of technical and financial assistance in favour all categories of needy people. The application of such approach will stimulate the ISFD ability to mobilize significant resources from its main development partners during the first five years strategy of the ISFD.

27. The total cost of the envisaged Microfinance Five Years Support Program is estimated at US\$500 million which is expected to be utilized for the above mentioned components. The amount is divided evenly over the five year period i.e. US\$ 100.00 million annually. ISFD will play the role of catalyst by providing US\$ 20.00 million each year as seed money from its own resources and mobilizing the remaining amounts from other partners and key players including MDBs, private sector, Islamic Banks/Institutions, Awqaf and Zakat institutions, etc.

### iii. Communicable Diseases Prevention and Control

28. Although, depending on countries' circumstances, the Fund is mandated consider financing of projects/programmes for any types of communicable diseases, such as malaria, HIV/AIDS, tuberculosis, polio, etc., special focus will be made on the first two, i.e. malaria and HIV/AIDS during the programme period.

29. **Malaria:** Of the IDB member countries, 41 suffer from transmission of malaria and have active malaria control programmes. Among these countries, the malaria burden ranges from "focal and local" to seasonal transmission in parts of northern Africa, the Middle East and Asia, to widespread endemic transmission in countries in Africa south of the Sahara. Inadequate financial support in high-burden, high-transmission IDB member countries has been an impediment to the effective control of malaria. There are too many health priorities chasing too few resources, human as well as financial. Overall, it is estimated that the international funding required in the medium term to fight malaria in all the Less Developed Member Countries of IDB member countries is in the order of **US\$ 500 million** per year, i.e. US\$2.5 billion over the Plan period. Consequently, the Fund will aim to develop a full programme for fighting of malaria in its member countries to address the financial gaps in these resources which pose implementation, monitoring and evaluation challenges in these countries. The Fund's contribution to this programme is envisaged to be about US\$50.0 million annually.

30. **HIV/AIDS:** HIV/AIDS is causing immense human suffering in many IDB member countries, particularly in Africa. The most obvious effect of this crisis has been illness and death, but the impact of the epidemic has certainly not been confined to the health sector; households, schools, workplaces and economies have also been significantly affected. In all affected countries the AIDS epidemic is bringing additional pressure to bear on the health sector. As the epidemic matures, the demand for care for those living with HIV rises, as does the toll of AIDS on health workers. In sub-Saharan Africa, the direct medical costs of AIDS (excluding antiretroviral therapy) have been estimated at about US\$30 per year for every person infected, at a time when overall public health spending is less than US\$10 per year for most African countries. Consequently, the Fund will also aim to develop a programme US\$250 million per year for reducing the incidence of this disease in its member countries over the Plan period.

#### iv. **Water & Sanitation**

31. Water is central to human existence. It is also a key factor in reducing poverty, improving livelihoods, and promoting economic growth. Yet, investments to provide people with safe drinking water and decent toilet facilities, allocate and preserve water resources, and properly manage wastewater in IDB member countries have fallen seriously behind demands. Lives and livelihoods in many of these countries continue to be lost due to floods, conversion of wetlands, or pollution of water resources. To address these challenges, the Fund will develop a programme with strong pipeline of water projects for 2008–2012. The focus of this programme will be on the delivery of substantial investment and capacity development in three key areas:

*Rural water services*: including those for irrigation, water supply and sanitation, and drainage;

*Urban water services*: focusing on investments in water supply, sanitation and wastewater management, and environmental improvement; and

*River basin water management*: to promote healthy rivers through investments in infrastructure and hydropower facilities for rural electrification and flood management.

32. However, experience indicates that water must be prioritized in Fund's operations and to this end, the Fund will aim to target an investment programme of US\$1.0 billion over the Plan period.

#### (b) **Multi-Sector Programmes**

33. Given the multi-dimensional nature of poverty, consideration will be given to multi-year, multi-sector poverty reduction projects that form a programme. Experience shows that small, disconnected and stand-alone operations are not only costly to process and monitor but also have little impact on the ground. Selected countries, depending on the assessed scale and prevalence of poverty, will be targeted by the Fund during the Plan period. In doing so, the Fund expects these programmes to require a greater range of partners, partly as a reflection of their typical multi-sectoral components and partly to reflect their community-based design. In this connection, the Fund will seek out closer links with the private sector and NGOs.

34. Three to four countries will be considered every year during the five-year strategy for intervention by the Fund on a multi-year multi-sector programmes basis. In identifying and appraising these programmes, as set in the **IDB Group Policy for Poverty Reduction**, the following criteria will, inter-alia, be followed by the Fund:

- a) *The different components of the programme has to be Community-based*: where practicable and with the knowledge and approval of the Government, the Fund will explore the possibility to deal with local, community and grass-roots entities – those that truly display ownership of their projects so as to achieve an ‘inclusive’ approach to poverty reduction work.
- b) *Actionable*: the Fund will place top priority on achieving results and will therefore emphasise impact and effectiveness, paying prominent attention to the ability to replicate projects on a multi-year basis with partners (including from the private sector) who could add value and ‘scale-up’ the different components of the programmes.
- c) *Raising awareness*: the Bank will support activities which raise awareness of the needs of the most marginalized and vulnerable groups<sup>5</sup> in society, i.e. women and children, as well as the need to mainstream women.
- d) *Measuring impact*: the Bank will develop appropriate mechanisms for assessing the impact of its poverty reduction activities taking into consideration the experience of other similar institutions.

35. In implementing these programmes, special consideration will be given to the most qualifying ones from the Special Programme for the Development of Africa.

36. Desk work and concept papers have been completed for a number of member countries for Multi-Year/Multi-Sector Programmes to be appraised and implemented in these countries. The total cost for these country programmes is estimated at US\$ 600.00 million for the first year and US\$ 3,000 million for the five-year period.

37. Targeting a leverage ratio of at least 1 to 5 for every US dollar spent under the ISFD on these programmes, the total funds which will be attracted by ISFD from other sources on these country programmes is expected to be in the region of US\$500 million.

38. These programmes are expected to be replicated and followed by another patch of multi-sector projects in another group of countries.

(c) **Individual Projects**

39. In addition to the Thematic/Multi-Sector Programmes, the Fund will consider individual poverty reduction projects in member countries, particularly those which have been concretely identified and included in the Country Operations Departments (CODs) work programmes.

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<sup>5</sup> As an example, the Grameen Bank in Bangladesh gives special priority to the widowed, deserted, divorced women, beggars, messengers, sweepers – the most downtrodden and vulnerable individuals in the Bangladeshi society

40. The ISFD will look for priority projects from this list after further consultations with the member countries. A tentative list of the projects/programs which have already been identified by the CODs in close consultation with the beneficiary countries is provided in Annex 1. The total cost of these projects is estimated at US\$ 5.0 billion.

#### **IV. MAGNITUDE OF THE FIVE-YEAR PROGRAMME**

41. The total cost of the proposed programmes/projects is estimated at **US\$ 13.50 bn**, as indicated in the following table:

<b>Year</b>	<b>Thematic Programs*</b>	<b>Multi-Sector</b>	<b>Individual Projects</b>	<b>Total Cost in US\$mn</b>	<b>IDB/ISFD Contribution US\$mn (Concessionary)</b>
1	1,000	600	1000	2,600	350
2	1,000	600	1000	2,600	350
3	1,000	600	1000	2,600	400
4	1,200	600	1000	2,800	450
5	1,300	600	1000	2,900	450
<b>Total</b>	<b>5,500</b>	<b>3,000</b>	<b>5,000</b>	<b>13,500</b>	<b>2,000</b>

*\*This table assumes the following costs for the Thematic Programmes: Literacy and Vocational Training (US\$ 0.5 bn), Microfinance Support Program (US\$ 0.5 bn), Water & Sanitation (US\$ 1.0 bn), Malaria & AIDS/HIV (US\$ 3.5 bn).*

#### **V. SUPPORT TO THE SPECIAL PROGRAMME FOR THE DEVELOPMENT OF AFRICA (SPDA)**

42. In line with call of the 3rd Extraordinary Summit of Makkah Al Mukarramah (Dhul Qaada 1426, December 2005), “to develop a Special Program for the Development of Africa,” a Special Programme for the Development of Africa (SPDA) has been prepared for Africa. It aims to assist African countries to mitigate the infrastructure constraints, develop skills for promoting competitive enterprises and stimulate productivity through appropriate modern technologies and investments in the productive sectors, especially in agriculture which remains the sector with the highest employment rate and a substantial contributor to gross national income. Thus, although this programme largely focuses on MDGs and poverty reduction in Africa with the same priority sectors as ISFD, it has many other components which cover a wider range of sectors and activities than the Fund. Nonetheless, Africa is likely to remain the greatest beneficiary of the ISFD resources per capita, given the enormity the poverty scale in this continent (46.4% of the population is absolutely poor). Consequently, once SPDA is operationalized, a number of its projects and programmes will be considered for financing by the ISFD along with the other organs of the IDB Group.

## VI. IMPLEMENTATION OF THE STRATEGY

43. The Plan has two types of operations: individual projects/programmes, which have already been identified in the Country Operations Departments (CODs), and thematic/sector programmes which will be designed and formulated by the ISFD. As for the individual operations, the processing of this category will be following the prevailing IDB procedures. Regarding the thematic/sector programmes which will be designed and formulated by the ISFD to its member countries, the following procedure will be applied:

- A gap assessment will be carried out first at each target country level. The ISFD will be proactive in consulting with the member countries about poverty assessment and actions which need to be taken that will form the basis for its intervention at the country and regional levels. Projects'/programmes will be identified and implemented based on a thorough Country Poverty Assessment (CPA) and an agreed Country Assistance Programme (CAP).
- Based on the above, the Fund will undertake detailed studies, consultations and dialogue to determine the scope and total cost of the programme in each country.
- The Fund will then embark on a resource mobilization campaign to secure the required level of financing for the programme from development partners, private sector, and other stakeholders.
- A close supervision and follow-up mechanism will be conducted on the implementation of projects/programmes.

44. The overall approach which will be followed in the formulation and implementation of the Fund's projects/programmes will be guided by the basic documents governing the ISFD operations, i.e. its "Operational Guidelines" and "The IDB Policy Paper on Poverty Reduction," e.g. 7 Guiding Principles emphasized in the paper<sup>6</sup>.

45. Fund expects poverty reduction projects to require a greater range of partners, partly as a reflection of their typical multi-sectoral components and partly to reflect their community-based design. To optimize its impact, therefore, the Fund will look for opportunities to forge partnerships with governments, development institutions, private sector, NGOs, local communities, and other stakeholders who could add value and scale-up projects/programmes. Private sector participants can be either 'for-profit' companies operating under a privatisation agreement and providing a service to a Government agreed standard (e.g. managing hospitals, supplying schools etc.), or not-for-profit entities providing a service to the poor direct.

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<sup>6</sup> *These are: Differentiation (avoiding 'one-size-fits-all'), Selectivity, Community-based projects/programmes, embracing specific Islamic characteristics in operations, placing top priority on achieving results, raising awareness, and measuring impact.*

46. The Fund will promote the development of capacity building which is necessary to operate the projects/programmes in the beneficiary countries. In fact, capacity building is needed at various levels, but will be more important at local government and community levels. Creating or enhancing institutional frameworks to support the new programmes constitutes a critical challenge in project/programme implementation.

47. Technical experts will be hired to design and implement the required programmes for achieving this purpose. Specifically, the designed programmes will:

- Propagate and disseminate the programmes via media using a public relations firm.
- Address the capacity building needs to ensure the sustainability of the project/programme.
- Include the establishment of indigenous institutional arrangements for skills development at basic and advanced levels
- Incorporate processes that allow the sharing of sub-regional and/or regional experiences.

48. Internally, the Fund and the Bank will give support to staff training and skills mix to help enhancing its capacity to implement the proposed programmes.

49. Measuring the impact of its programmes using balance score card method.

## **VII. MONITORING AND IMPACT ASSESSMENT**

50. The ISFD places paramount priority on achieving results in member countries. In that context, close monitoring of the implementation of its projects/programmes as well as measuring the impact of completed projects will be crucial, not only to demonstrate the quantitative achievements but also the transparency and accountability with which funds reach the ultimate beneficiaries. In order to demonstrate these results to itself as well as to its member countries, stakeholders and to the aid community, the ISFD will develop a range of monitoring tools that assess results from various policy perspectives.

## **VIII. RESOURCE MOBILIZATION**

51. The IDB will commit to maintain the current level of annual concessionary resources of US\$350-400 million to be available to the Fund for financing over the Plan period.

52. Besides utilizing the income which will be generated from the investment of its Waqf resources, the Fund will also invest its capital resources to support poverty reduction projects/programmes which can be financed on ordinary terms aiming at gaining good return. The Fund will also attempt to market such projects/programmes to the private sector and other stakeholders who could provide their services on commercial terms.

53. Globally, the ISFD will emphasize its catalytic role for resource mobilization through co-financing, partnering and tapping Zakat and Waqf resources. It aims to reach at least a leverage ratio of 1 to 5 for the small programmes and an overall average leverage ratio of about 1 to 8 for all programmes for every US dollar spent under the ISFD on these programmes. This will help to generate a cumulative flow of financing resources of about US\$14.0 billion over the indicated period. Targeted institutions for this support will include: the Coordination Group, donor countries, beneficiary countries, Islamic banks, investment houses, and the private sector in addition to the IDB Group.

54. To supplement the its resources, the Fund will start developing the required modalities and instruments for mobilizing and utilizing non-traditional resources (Zakat and Awqaf) for poverty reduction and to finance economic development. Other potential non-traditional sources include Sukuk (Islamic bonds) and intra-OIC investments.

55. In addition to the above, the IDB will seek to establish a “Matching Fund” to attract contributions from private/philanthropic donors for specific poverty-reduction programmes. Under this arrangement, the IDB will undertake any amounts that would be contributed to these programmes by other donors.

56. The Fund will launch a resource mobilization campaign assisted by a specialized public relations firm and use all means to encourage partners and stakeholders to participated in the programme.

## **IX. BUDGETARY IMPLICATIONS**

57. Implementation of the proposed strategy will no doubt involve additional costs which will be incurred in launching the process of resource mobilization, field missions, consultants, additional staff, training, etc. Therefore, a detailed budget of these costs implications will be developed for the consideration/approval of the Board in due course.

## **X. CONCLUSION**

58. Following the approval of this Strategy, the IDB will commence preparation of the thematic and multi-sector, multi-year integrated poverty reduction programmes to be implemented in member countries over the Plan period. It will also be engaged in a resource mobilization campaign in order to enhance the Fund’s capital base as well as to attract other co-financiers in line with Fund’s objective to play the role of a facilitator in mobilizing funds for member countries to fight poverty. It is clear that the IDB will need great support from the member countries to achieve this objective which is crucial for the success of this strategy.

**Dr. Ahmad Mohamed Ali**  
President, IDB

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