معاً لمكافحة الفقر
REDUCING POVERTY
ISFD
صندوق التضامن الإسلامي للتنمية
Islamic Solidarity Fund for Development

ANNUAL REPORT
2023

Contents

List of Abbreviations

ACG	Arab Coordination Group
ADFD	Abu Dhabi Fund for Development
AFAB	Alliance to Fight Avoidable Blindness Programme
ASD	Administrative Service Department
BED	Board of Executive Directors
BMGF	Bill & Melinda Gates Foundation
BOD	Board of Directors of the ISFD
BOG	Board of Governors of the ISFD
COVID-19	Coronavirus Disease 2019
CSO	Civil Society Organisation
CUCs	Cumulative Undisbursed Commitments
DCA	Donor Contribution Agreements
EAA	Education Above All
EEFU	Economic Empowerment Fund for Uzbekistan
FCD	Financial Control Department
FDP	Forcibly Displaced Population
GDP	Gross Domestic Product
GIFR	Global Islamic Fund for Refugees
GPE	Global Partnership for Education
HRMD	Human Resources Management Department
ICERI	ICIEC-ISFD COVID-19 Emergency Response Initiative
ICIEC	Islamic Corporation for the Insurance of Investment and Export Credit
IDP	Internally Displaced Persons
IMDT	Information Management and Disruptive Technology
ISFD	Islamic Solidarity Fund for Development
IT	Information Technology
IsDB	Islamic Development Bank
KSADP	Kano State Agro-Pastoral Development Project
KSrelief	King Salman Humanitarian Aid and Relief Centre
LDMCs	Least Developed Member Countries
LLF	Lives and Livelihoods Fund
MCs	Member Countries
MENA	Middle East and North Africa

MFSP	Microfinance Support Programme
MSCI	Morgan Stanley Capital International Index
MSMEs	Micro, Small, and Medium Enterprises
MVP	Millennium Villages Programme
NGOs	Non-Governmental Organisations
OF	Obstetric Fistula
OIC	Organisation of Islamic Cooperation
OOSC	Out-of-School Children Programme
PPP	Purchasing Power Parity
QFFD	Qatar Fund for Development
RSFMP	Regional Soil Fertility Mapping Programme of West Africa
SAPE	Smallholders Agricultural Productivity Enhancement Programme
SDGs	Sustainable Development Goals
SERVE	Strengthening the Economic Resilience of Vulnerable Enterprises
SESRIC	Statistical, Economic and Social Research and Training Centre for Islamic Countries
SLAs	Service Level Agreements
SMEs	Small and Medium Enterprises
SOPs	Standard Operating Procedures
STEP	Skills, Training, and Education Programme
STI	Science, Technology, and Innovation
SVP	Sustainable Villages Programme
TVET	Technical and Vocational Education and Training
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees
URE	Uncorrected Refractive Errors
US	United States
VOLIP	Vocational Literacy Programme
Y/E	Year/End

List of Tables, Figures, and Boxes

Letter of Transmittal

In the name of Allah, the Beneficent, the Merciful

The Chairman, ISFD Board of Governors,
Dear Mr. Chair,

Assalamu Alaikum Warahmatullah Wabarakatuh.

In accordance with the Regulations of the Islamic Solidarity Fund for Development, and in my capacity as Chairman of the Board of Directors, I have the honour to submit for the kind attention of the esteemed Board of Governors, the Annual Report of the Islamic Solidary Fund for Development for 1445-1444H (2023).

The report covers the operations and activities as well as the audited financial statements of the ISFD for the year ending 31 December 2023.

Please accept, Mr. Chair, the assurances of my highest consideration.

Dr. Muhammad Al Jasser

President, Islamic Development Bank
Chairman of the Board of Directors,
Islamic Solidarity Fund for Development

Board of Directors

H.E. Dr. Muhammad Al Jasser
President, Islamic Development Bank
Chairman of the Board of Directors

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Overview of the Islamic Solidarity Fund for Development

Establishment

The Islamic Solidarity Fund for Development (ISFD) was established in 2007 as a special fund within the Islamic Development Bank (IsDB) with the aim of:

Fighting poverty and promoting pro-poor economic growth in member countries.

Providing financial support to enhance the productive capacity and sustainable means of income generation for the poor.

Advancing human development, especially reducing illiteracy and eradicating diseases/ epidemics.

Vision

Reduced poverty in the Organisation of Islamic Cooperation (OIC) member countries.

Mission

Lead innovative poverty reduction programmes focusing on the least developed OIC member countries (LDMCs) by developing strong partnerships with IsDB, donors, and key stakeholders. These programmes are to fight poverty through **education, women and youth economic empowerment, community development, and health.**

Human Capital Development Priority Areas

- Education
- Women & Youth Economic Empowerment
- Health

Membership

All 57 IsDB member countries

Understanding Poverty's Many Faces

For the ISFD and the IsDB at large, poverty is not simply a matter of insufficient income. It also involves acute deprivations in health, education, and living standards, including decent housing, clean water, and proper sanitation.

Capital

Target: US$10 billion

Committed: US$2.6 billion

Paid-up: US$2.53 billion

Joining forces with OIC member countries, the ISFD is mobilising resources to combat poverty. As of 31 December 2023, US$2.6 billion committed and US$2.53 billion already paid up, the ISFD is building momentum towards its US$10 billion target.

Message of the Chairman

Millions across the member countries of the Islamic Development Bank (IsDB) face immense challenges, including displacement from war, conflict, and environmental disasters. These pose threats to both lives and livelihoods, jeopardising hard-won progress in the fight against poverty, a core focus of the Islamic Solidarity Fund for Development (ISFD). At the same time, the global food crisis intensifies, with nearly 735 million grappling with hunger.

In response to these pressing concerns, ISFD played an important role in 2023 by tackling these interconnected challenges head-on, supporting vulnerable communities and fostering resilience.

Guided by its mandate, which aligns seamlessly with IsDB's mission and Realigned Strategy 2023-2025, ISFD demonstrated unwavering commitment to poverty alleviation throughout 2023. This dedication materialised through the deployment of US$213.57 million, directed towards a carefully curated portfolio of diverse programmes and projects. ISFD's impact was manifested in three critical areas: economic empowerment, human capital development, and community development. Each funded project and programme tangibly impacted lives across several least-developed member countries of IsDB.

In addition, ISFD disbursed in 2023 US$105 million in loans, directly impacting communities. This included a US$50 million commitment to LLF 2.0 and four targeted loan operations totaling US$50.5 million, empowering MSMEs in Uzbekistan, fueling job creation in Morocco, addressing out-of-school children in Nigeria, and improving the learning environment in Tajikistan. This multifaceted deployment exemplifies ISFD's dedication to long-term development.

Building upon its successful interventions in poverty alleviation within IsDB's least developed member countries in 2023, the Fund now embarks on a strategic and multifaceted course of action centered on achieving excellence in poverty reduction. This path prioritises fostering inclusive access to education and healthcare, catalysing sustainable economic growth and job creation, solidifying financial sustainability, and mobilising resources through robust partnerships.

As we celebrate IsDB's Golden Jubilee anniversary this year, it is a moment to reflect on its collective journey of progress and impact with ISFD since its inception in 2007. ISFD has been a key instrument in advancing the Bank's mission of reducing poverty and fostering development across member countries. However, achieving a substantial poverty reduction requires the mobilisation of adequate resources.

Therefore, I invite all member countries that have yet to announce or fulfill their expected contributions to the Fund to do so expeditiously. I also call upon member countries that have already contributed to consider increasing their commitments, recognising the transformative potential of such contributions in empowering communities and driving sustainable development.

I extend my profound gratitude to our member countries, the esteemed Board of Directors, and the honorable governors for their support for ISFD. Their steadfast dedication is the cornerstone of our collective mission to reduce poverty across IsDB member countries.

In conclusion, I would like to express my sincere gratitude to Dr. Hiba Ahmed, ISFD Director General, and her dedicated team. Their commitment and outstanding efforts were instrumental in achieving the Fund's 2023 objectives of assisting our member countries in their fight against poverty.

Dr. Muhammad Al Jasser

President, IsDB
Chairman, ISFD Board of Directors

Building upon its successful interventions in poverty alleviation within IsDB's least developed member countries in 2023, the Fund now embarks on a strategic and multifaceted course of action centered on achieving excellence in poverty reduction.

Message of the Director General

In 2023, the global fight against poverty experienced further setbacks with the gap between the poor and the rich widening not only within countries but also among countries. As the year went by, it became apparent that most, if not all, poor countries will not meet their SDG targets, especially those related to goal one that calls for an end to poverty in all its manifestations by 2030. Ensuring social protection for the poor and vulnerable, increasing access to basic services, and supporting people's resilience to extreme events is now a global challenge. The compounding effects of climate-related extreme events and other economic, social, and environmental shocks and disasters not only left many forcibly displaced but also extended the ramifications of the COVID-19 pandemic and exacerbated the failures in supply chains especially in poor countries. Conflicts, inflation, high debt servicing cost, and high prices of food and energy took a toll on the lives of millions of people in IsDB Member Countries (MCs).

Within this environment, the ISFD was committed to achieving its mandate and intensified its efforts to meet the needs of its MCs. Addressing the additional demand for funding social sectors in our MCs and providing more affordable financing and grants had to be reconciled with the ISFD's spending capacity and the need to be mindful of ISFD's own financial sustainability in the long term. This called for effective financial management in all aspects. The ISFD registered its best financial year since inception with a net income of US$176 million. This was achieved through a rebalancing exercise of ISFD investments resulting in more significant exposure to growth and long dated assets at a time when rates reached high levels, thereby ensuring higher average profit rates for some time.

Moreover, the cancelation of the Science, Technology, and Innovation (STI) Grant and positive asset valuation led to a significant jump in retained earnings by almost US$251 million and net total assets by US$313 million. ISFD's accumulated surplus (retained earnings) went from US$453 million in year/end 2022 to US$704 million in year/end 2023 and if we include equity preservation fund and reserves, the figures become US$504 million and US$815 million, respectively. Net assets in 2023 year/end are US$3.358 billion compared to US$2.535 billion in paid up capital and in-kind contributions. Through collective efforts and with a dose of good fortune, the ISFD is now firmly on a more sustainable financial footing. This comes at a time when the Fund has continued its steady support to IsDB MCs in health, education, and economic empowerment through impactful and innovative programmes amidst renewed dynamism and innovation in its resource mobilisation endeavors.

Three years ago, ISFD embarked on a bold transformation programme to significantly increase its footprint on poverty reduction across the Organisation of Islamic Cooperation (OIC) Member Countries by 2030. This pursuit of tangible impact and sustainable development was underscored by the ISFD's approval of US$213.57 million in programme and project contributions in 2023, which significantly mobilised additional funding from other donors and partners. Indeed, for direct project funding in 2023, US$55.22 million of ISFD funding was matched by US$376 million contributions from partners, achieving an impressive leverage ratio of 1:5.78.

Recognising the importance of re-enforcing strategic priorities, total loan approvals of US$105 million were mostly directed towards empowering micro-entrepreneurs, fostering jobs and livelihoods, and fueling advancements in education. The US$100 million Uzbek Economic Empowerment Fund, the first of its kind for the country, is another significant ISFD intervention. This fund targets strategic sectors within the Uzbek market, aiming at fostering the development and sustainability of inclusive value chains. Its primary focus is to support small and medium-sized enterprises (SMEs) and creating long-term employment opportunities and livelihoods especially for youth and women.

Our interventions were aligned with the IsDB Group's new strategy and priorities, ensuring a unified and impactful approach. We identified the second strategic objective of the IsDB Group's strategy – "tackling poverty and building resilience" – as an area of strategic focus and leadership, fostering a consolidated and coordinated impact.

As the Islamic Development Bank celebrates its Golden Jubilee this year, marking five decades of dedicated service to the development of OIC Member Countries, the ISFD takes immense pride in being a strategic partner on this journey ever since its inception.

At the heart of our strategy exists a bridge on the pillars of human capital development and economic empowerment. By investing in education, healthcare, and essential services, we lay the foundation for a healthier, more educated, and productive population. Simultaneously, we nurture sustainable livelihoods and social development through initiatives in economic empowerment including microfinance and community development such as providing access to basic services including clean water and clean energy. Our portfolio, a tapestry of impactful flagship programmes and 323 active projects, stands as a testament to this transformative drive.

The Global Islamic Fund for Refugees (GIFR) saw significant progress in 2023. Through the leadership of the ISFD, the fund secured a confirmed US$110 million in donor commitments, while other donors will soon follow. This crucial investment paves the way for impactful projects that address the immediate needs of refugees while fostering long-term economic and social development. Furthermore, 2023 marked a turning point for the Al-Quds Empowerment Fund. The year saw the launch of the Fund's first wave of impactful projects, totaling a strategic investment of US$6.64 million. This critical injection of resources, including a US$1.342 million grant from ISFD, targeted key areas like education, community development, and housing, youth employment, and entrepreneurship support. The Fund managed to attract a remarkable US$7.7 million in fresh contributions from generous donors throughout the year.

We are not alone on this journey of development and poverty reduction. The invaluable collaboration with the IsDB Member Countries, and other donors has resulted in a cumulative force to alleviate poverty through funding programmes and initiatives at scale. This spirit of collaboration has amplified our reach and impact, maximising our potential to be agents of positive change. In this spirit, I extend a heartfelt call to Member Countries to augment their contributions to the ISFD's capital, empowering us to collectively pursue the noble goal of poverty reduction in the IsDB's Least Developed Member Countries (LDMCs).

I would like to take this opportunity to express my profound gratitude for the immense support we received in 2023 from His Excellency Dr. Mohammad Al Jasser, the President of the IsDB Group and the Chairman of the ISFD's Board of Directors, as well as each member of the Board. Their insightful guidance and support have been the compass guiding us on our mission throughout the year.

The ISFD's journey is far from over. With unwavering dedication and strategic partnerships, we remain committed to empowering communities and alleviating poverty across the IsDB Member Countries. As we chart out our course through the unknown of the future, we do so with determination, knowing that even small actions can create positive ripples of change.

Dr. Hiba Ahmed

Director General
Islamic Solidarity Fund for Development

Executive Summary

Poverty Context

The global fight against poverty was further affected in 2023 due to adverse global economic conditions post COVID-19. The aftershocks of the COVID-19 pandemic since 2020, due to high inflation, especially food and energy, were further accentuated in 2023, as yields soared, and the cost of debt servicing ballooned. LDMCs and middle-income countries now face a much higher bill to service their debt, leaving them with scant fiscal resources to spend on social sectors. Globally, it is estimated that 165 million fell into poverty in 2023 as a consequence of this.

- Another major threat to the fight against poverty in 2023 is the forcible displacement of populations in IsDB MCs due to wars, conflicts, and environmental catastrophes. The situation in many MCs is dire, needing immediate interventions at scale to address this human tragedy. Accounting for 25% of the world population, 46% of forcibly displaced populations originate in IsDB MCs, while these countries are a host to 48% of the displaced populations globally. The problem of forcible displacement is especially acute for women and children, as more children are impacted depriving them of their present and future.

- Food security is also a major problem worldwide posing significant risk to the fight against poverty and the attainment of the SDGs. An estimated 735 million people were experiencing hunger in 2022 and potentially reaching 1 billion by 2028.

Financials

- The volume of ISFD approvals for 2023 were relatively moderate, however the financial performance in 2023 is the best since the inception of the ISFD. Net income for the year is US$176 million, mainly due to higher market rates and a strong performance of global equity markets. Externally managed funds (comprising mainly global equity and public real estate and infrastructure securities) which the ISFD rebalanced in mid-2022 have achieved a return of US$70 million and were essential in boosting the Fund's return on investment.

- As the rebalancing is taking shape, in line with the 2020 Investment Policy, the ISFD will further see its assets allocated to higher yielding asset classes with higher long-term investment returns. Furthermore, the termination of the STI Fund resulted in a reversal of US$50 million grant, further improving the financials of the Fund. The high net income and the termination of the STI Fund resulted in a

significant increase in retained earnings from US$453.25 million in 2022 y/e to US$704.15 million in 2023 y/e. The efforts of aligning approvals with net income (with the cancelation of the multiplier) and the solid financial performance set the ISFD on a firm and sustainable trajectory.

Approvals and Disbursements

- Loan approvals for 2023 were US$105 million, comprising a multi-year allocation of US$50 million to LLF 2.0 and four loan operations amounting to US$50.5 million. The latter compromised a US$20 million loan to the Economic Empowerment Fund of Uzbekistan for MSMEs financing, US$10 million loan under the SERVE programme to support job creation in Morocco, US$10.5 million loan under the Out-of-School Programme for Nigeria, and a US$10 million loan for Tajikistan aimed at improving the learning environment.

- In addition, the ISFD set aside US$100 million from its capital of which returns will be direct grant contributions to LLF 2.0. Finally, **US$13.07 million** worth of grants supporting **31 projects and 2 programmes** were approved in 2023 in multiple sectors. Total disbursements in 2023 reached **US$81 million in 91 operations.**

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Resource Mobilisation

- The ISFD continued its advocacy and outreach efforts to bring in additional contributions to its principal amounts from MCs. The total mobilised amount for 2023 stood at US$8.47 million. Cognizant of the limitation of its approach towards mobilising funds from its MCs, ISFD has engaged with some MCs to create mutually beneficial arrangements that will allow a more robust partnership between ISFD and donor MCs. The Country Programmes as defined in the Transformation Study are tools that align the interest of the ISFD with a donor country to scale up the grant money going towards poverty alleviation interventions in LDMCs.

- In addition, the ISFD managed to attract additional resources for the Al-Quds Empowerment Fund and the Global Islamic Fund for Refugees, whereas its contribution to LLF 2.0 was instrumental in generating interest from other donors. Finally, the ISFD ensures that its loans and grants commitments to poverty alleviation and empowerment projects come with a significant leveraging effect. In 2023, ISFD commitments leveraged 5.44 US dollar for each US dollar of its contribution from other donors and partners.

Corporate Affairs and Organisational Structure

- The ISFD reached major milestones in its transformation plan in 2023. The Fund is now equipped with a more focused structure with three organisational units, comprising a Resource Mobilisation Division and a Poverty Alleviation and Empowerment Division and a Technical Support Section. This will better streamline the mandate and functions of the ISFD of resource mobilisation, the fiduciary management of its resources and the management of its programmes and projects. As part of the new structure, the ISFD acquired a team to undertake economic empowerment programmes and completed the hiring of several professional staff under the three organisational units.

- Furthermore, the ISFD put into effect the ISFD Financial Management Committee as a tool for financial planning and oversight. This will further institutionalise the business of the ISFD and create a collaborative process for making key decisions on the financial management aspects of the Fund. This comes on the top of several policies, including the Financial Management Policy, the Loans and Grants Policies, and the Risk Management policy to encourage a more systematic approach to ensuring the long-term sustainability of the ISFD.

POVERTY SITUATION IN OIC MEMBER COUNTRIES IN 2023

01

01 Poverty in OIC Member Countries

Global Concerns and Poverty Trends

Poverty threats in 2023

- **First, higher yields have emerged as a significant threat to the global fight against poverty. Tight fiscal space and an increasing proportion of government expenditure in countries with significant vulnerable and poverty-stricken populations is going towards servicing mounting and more expensive debt. This leaves governments with fewer budgetary resources to channel towards safeguarding vulnerable populations. Second, 2023 saw record levels of forcibly displaced populations due to wars, conflicts, climate, and environmental catastrophes. A significant number of our MCs are categorised as fragile or in state of conflict. Third, the concern over food security is stark. Increasing food prices in 2021 and 2022 have been a warning shot to MCs, climate change is an ever-increasing concern to MCs whose populations live in zones with high risk of climate risk (with increasing flooding and droughts). In all, threats to the effort of eradicating extreme poverty abound and resources to counter their impact are limited.**

High Debt Servicing

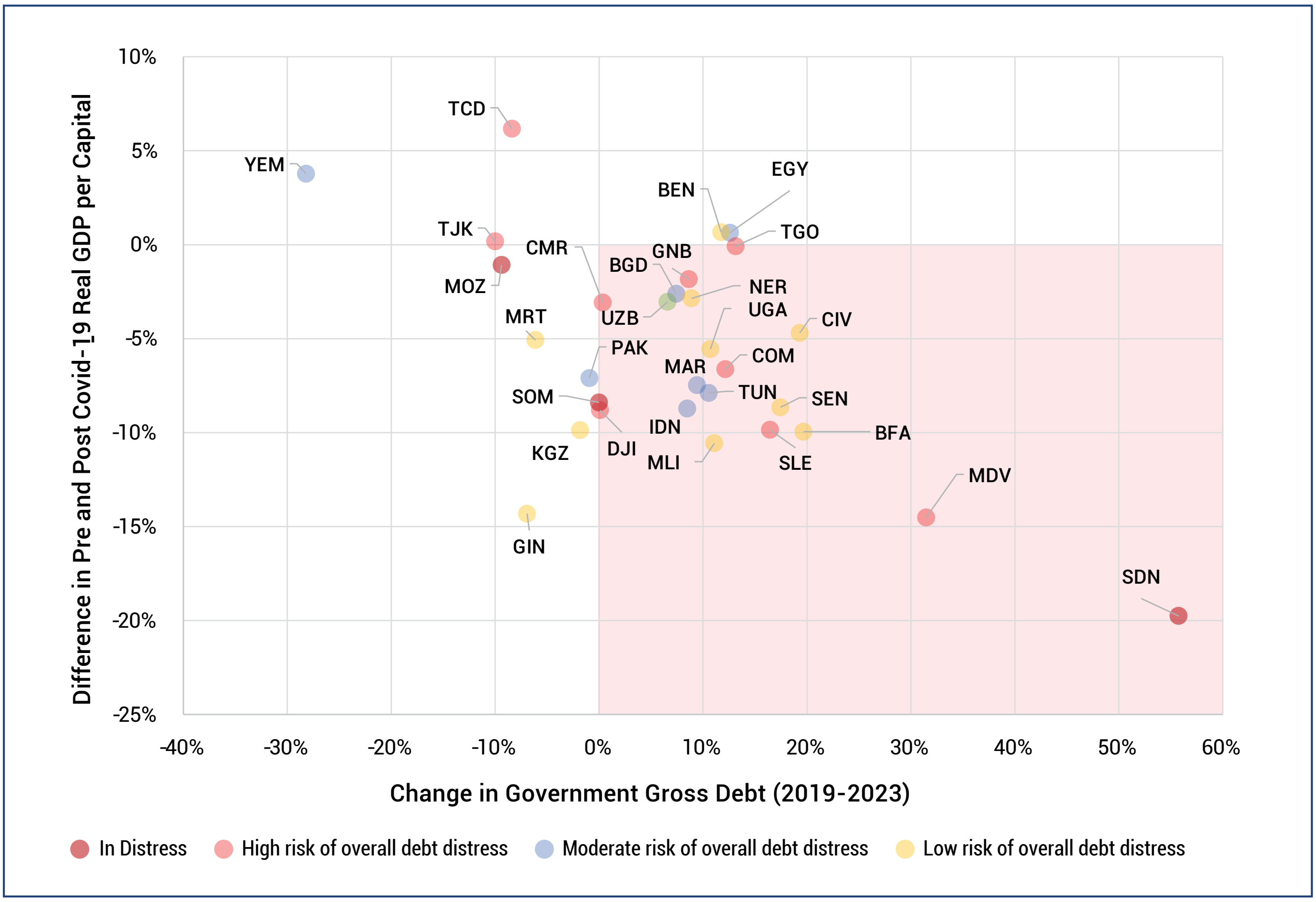
- The global fight against poverty has experienced a significant setback in recent years. The COVID-19 pandemic has had a lasting impact on the fight against poverty. A consequence of soaring global inflation and the ensuing soaring borrowing costs in low-income countries seeing their debt servicing bill significantly increase, leaving them with less resources to channel towards social sectors. The initial response to the health crisis was to safeguard vulnerable populations through generous government spending. As the debt mounted and the cost of servicing them increased, expenditure on social protection and basic services was crowded out. A UNDP study estimated that 165 million people fell into poverty (individuals living on less than US$3.65 a day) in low and lower-middle income countries by 2023 as more countries are diverting budgetary resources away from social spending to service their debt. Alarmingly, the study finds that 46 countries pay more than 10% of their general government revenue on net interest payment.[1]

1. https://www.undp.org/press-releases/165-million-people-fell-poverty-between-2020-2023-debt-servicing-crowded-out-social-protection-health-and-education-expenditures

- Comparing the change in government gross debt to the difference in pre (2015-2019) and post (2019-2023) COVID-19, real GDP per capita growth shows that many of the ISFD borrowing countries have experienced a significant adverse outcome. Of the 30 MCs in the sample, 19 countries have experienced growing gross government debt and a lower average GDP per capita growth. Of these countries 6 are in high overall debt distress, 2 are already in distress and 6 have a moderate risk of overall debt distress. Vulnerable countries are Sudan, Maldives, Burkina Faso, Senegal, and Sierra Leone. The overall picture that emerges given the mounting government debt and rising cost of debt servicing, in addition to the slow recovery from COVID-19 is that vulnerable population in ISFD MCs are at a heightened risk of falling further into poverty. This puts into sharp relief the need for highly concessional financing to safeguard these populations and continue investing in health, education, and basic social services.

A UNDP study estimated that **165 million people** fell into poverty (individuals living on less than **US$3.65** a day) in low and lower-middle income countries by 2023 as more countries are diverting budgetary resources away from social spending to service their debt.

Figure 1.1 MCs change in gross debt vs. MCs recovery from COVID-19 pandemic



Source: IMF WEO Oct. 2023

Note: Most IsDB borrowing MCs have seen a relatively weak recovery from COVID-19 with mounting debt and debt servicing bills. GDP per capita is measured using international PPP 2017 dollars.

Forcibly Displaced Populations in MCs

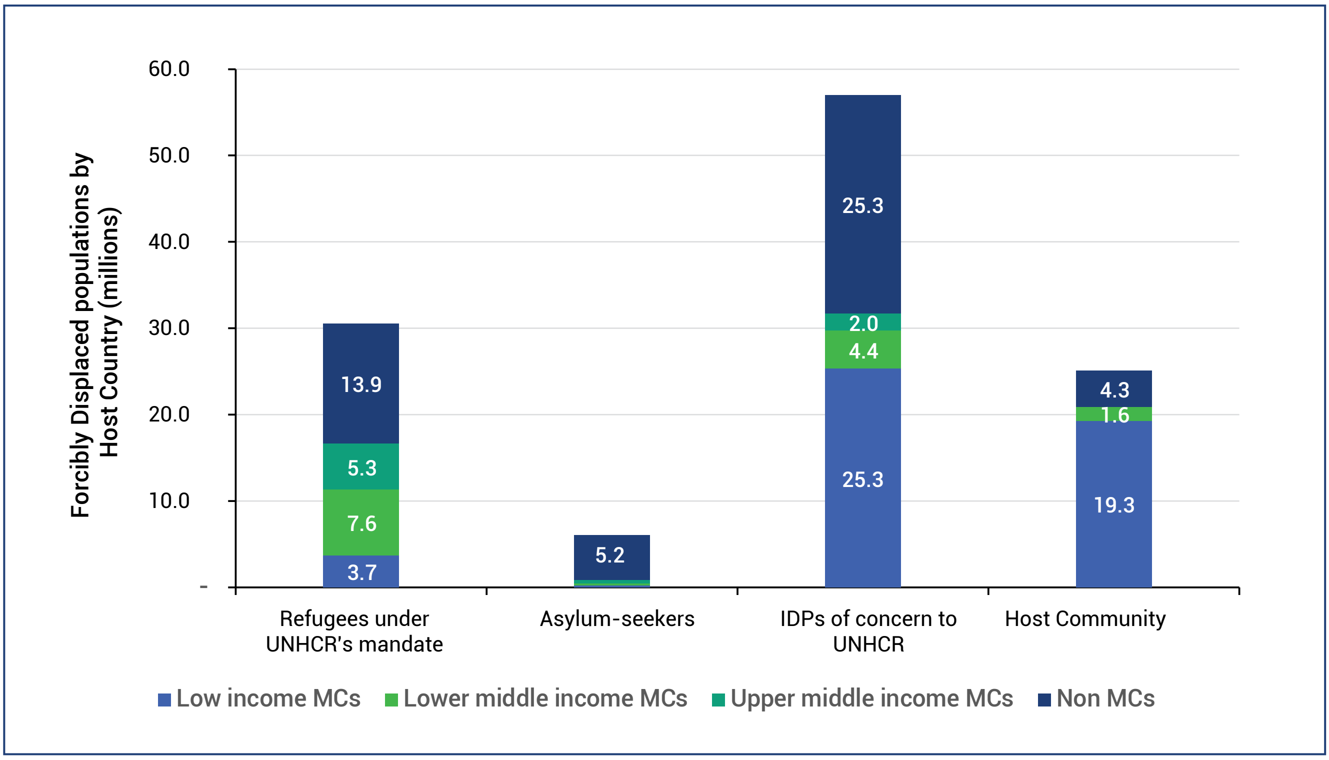
- According to the latest UNHCR data, of the 109 million forcibly displaced people globally, 46% originate from OIC MCs, while their share of the global population is only 25%. Thus, disproportionately the brunt of this human tragedy befalls individuals and communities living in our MCs. Similarly, only a small number of these countries are host to a disproportionate number of forcibly displaced populations with 48% (52 million) of all forcibly displaced people worldwide are currently hosted in our MCs. This is in addition to 20 million people in host communities who are also affected by the refugee situation. For example, Türkiye, Iran, Pakistan, Uganda, and Sudan are hosts to 38.4% of all refugees under UNHCR mandate. That is a significant 11.3 million refugees out of a total of 30.5 million. The magnitude of the challenge facing some of our MCs is immense and by far exceeds their ability to cope, both due to limited budgetary resources and the social pressures and tension refugees tend to create in host countries.

- The trend in the numbers of forcibly displaced populations in the last twenty years is alarming. There was a threefold increase in the numbers of forcibly displaced populations in the last 10 years and a sixfold increase in the last 20

years. Ever increasing numbers of armed conflicts, wars, climate hazards and natural disasters will certainly result in many more million refugees and IDPs. Growing populations, especially in our member countries, climate change, and stiff competition for scarce resources will push more countries and communities into fragility and conflicts.

- Although forcible displacement affects all ages, more than 40% of refugees and IDPs are children below the age of 17. The prospect for these children is, by and large, a life of poverty and deprivation, devoid of opportunities and hope, thus, wasting a "youth dividend opportunity" and replacing it by a "youth burden problem". The displacement of a young generation cultivates the grounds for suffering, destitution, and lifelong scars, trapping them in a vicious cycle of poverty and deprivation, unless smart policies and interventions are put in place to provide them and sometimes their host communities with basic services, education, health, enhanced training, livelihood opportunities, and jobs.

Figure 1.2 Forcibly displaced populations by host county



Source: UNHCR Forcibly Displaced Population Database. FDP by host countries
Note: The burden of forcibly displaced on MCs (who account for 25% of the world population) is massive as over half of IDPs are in MCs, especially low-income countries, while a significant number of refugees flee to low and lower mid income MCs.

The Current Food Crisis and Its Impact on the Global Development and IsDB MCs

- The world confronts a looming food crisis driven by economic struggles and geopolitical tensions. The pandemic's lasting effects, rising food and energy prices, and increasing poverty pose significant challenges, notably affecting vulnerable communities. Hunger rates have tragically surged, with an estimated 735 million people experiencing hunger in 2022 and potentially reaching 1 billion by 2028.[2 3]
- Women, youth, and rural communities face the harshest consequences of the crisis. Women, already disproportionately burdened by hunger, struggle further and young people, hindered by limited opportunities and resources, are particularly vulnerable. Sub-Saharan Africa and the MENA regions see escalating hunger rates, demanding immediate interventions to prevent a wider humanitarian crisis.[4]
- While progress towards global food security is expected, low- and middle-income countries, especially within the OIC, face significant challenges. Many OIC members rely heavily on food imports, increasing their vulnerability to price fluctuations and disruptions. Further compounding the issue are widespread undernourishment and the rising cost of healthy diets.[5]

2. The State of the Food Security and Nutrition in the World 2023
3. World Bank October 2023 World Food Security Outlook
4. The State of the Food Security and Nutrition in the World 2023
5. The Global Report on Food Crises 2022 and Agriculture and Food Security in OIC Member Countries in 2023 (SESERIC)

THE ROLE OF THE ISFD IN POVERTY REDUCTION IN OIC MEMBER COUNTRIES

02

02 The Role of the ISFD in Poverty Reduction in OIC Member Countries

Poverty Reduction Focus: Article 14 of the ISFD Regulations stipulates that poverty reduction considerations shall be reflected in all activities of the Fund by targeting interventions in, inter alia, social, and human development, basic infrastructure, capacity building, agricultural and rural development, and other activities deemed pro-poor with a view to:

- providing income and employment,
- generating opportunities for the poor,
- enhancing the role of women in socio-economic development, and
- providing the poor and the vulnerable with social safety nets and other enablers of poverty reduction.

A Vision of Empowerment: In 2020, the ISFD embarked on a bold vision-based chapter, driven by a new transformation strategy to significantly reduce poverty across OIC MCs by 2030. This ambitious goal represents a pivotal shift in the ISFD's approach, making a commitment to tangible impact and sustainable development. Guiding this vision is a clear and focussed mission: to lead innovative poverty reduction programmes focusing on the least developed OIC member countries (LDMCs) by developing strong partnerships with IsDB, donors, and key stakeholders. These programmes are to fight poverty through education, women and youth economic empowerment, community development, and health.

As the Fund's capital is an endowment (Waqf), operations which are for the essential grants and concessional loans

Fund to invest directly with the poor and enhance their employment and income-generation opportunities

are funded from the retained income. In 2017, the BOD has authorised the ISFD to fund some programmes in the Development Waqf and Economic Empowerment from the Fund's capital resources. This new approach will allow the Fund to invest directly with the poor and enhance their employment and income-generation opportunities.

Operations since Inception

Since its launch in 2007, the ISFD has cumulatively approved US$1.23 billion[6] sourced from its net income (concessional loans and grants), and from its capital (investments) to finance projects, programmes, and funds for poverty alleviation. The cumulative financing through grants have reached US$135.3 million, while the financing through loans have reached US$974.3 million. Furthermore, the ISFD through IsDB PPP operations contributed US$98 million to projects that have a developmental impact. In addition, the ISFD invested from capital US$25.7 million in two projects for Awqaf development in Guinea and Benin. The ISFD has currently 323 active projects in its portfolio with expected good results in terms of impact.

The Fund's financing went to standalone projects, flagship programmes, and joint initiatives with the IsDB. The ISFD cumulative financing contributed to US$9.301 billion worth of relevant projects in partnership with the IsDB, MCs, and other donors.

6. The ISFD's cumulative approvals have been adjusted from last year to reflect project-based approvals, which is excluding the allocation approvals for programmes and double counting for repurposed projects.

ISFD HAS CUMULATIVELY APPROVED

US$1.23 BILLION

SOURCED FROM ITS NET INCOME AND FROM ITS CAPITAL TO FINANCE PROJECTS, PROGRAMMES, AND FUNDS FOR POVERTY ALLEVIATION.

THE CUMULATIVE FINANCING THROUGH GRANTS HAVE REACHED

US$135.3 MILLION,

WHILE THE FINANCING THROUGH LOANS HAVE REACHED

US$974.3 MILLION,

FURTHERMORE, THE ISFD THROUGH IsDB PPP OPERATIONS CONTRIBUTED

US$98 MILLION

TO PROJECTS THAT HAVE A DEVELOPMENTAL IMPACT.

IN ADDITION, THE ISFD INVESTED FROM CAPITAL

US$25.7 MILLION

IN TWO PROJECTS FOR AWQAF DEVELOPMENT IN GUINEA AND BENIN. THE ISFD HAS CURRENTLY

323

ACTIVE PROJECTS IN ITS PORTFOLIO WITH EXPECTED GOOD RESULTS IN TERMS OF IMPACT.

The chart below shows the ISFD approvals for projects since inception and their distribution by year and by source of financing.

Figure 2.1 ISFD approvals since inception by year

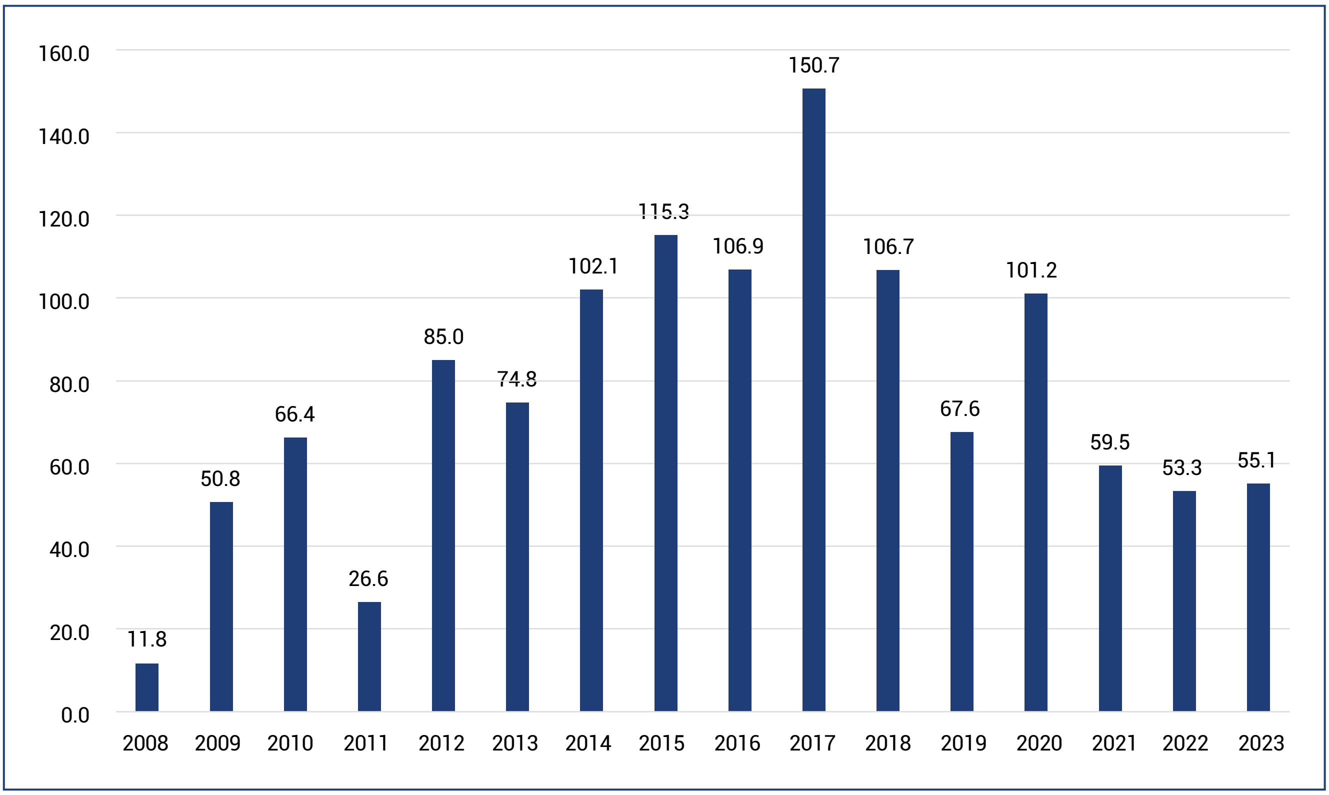
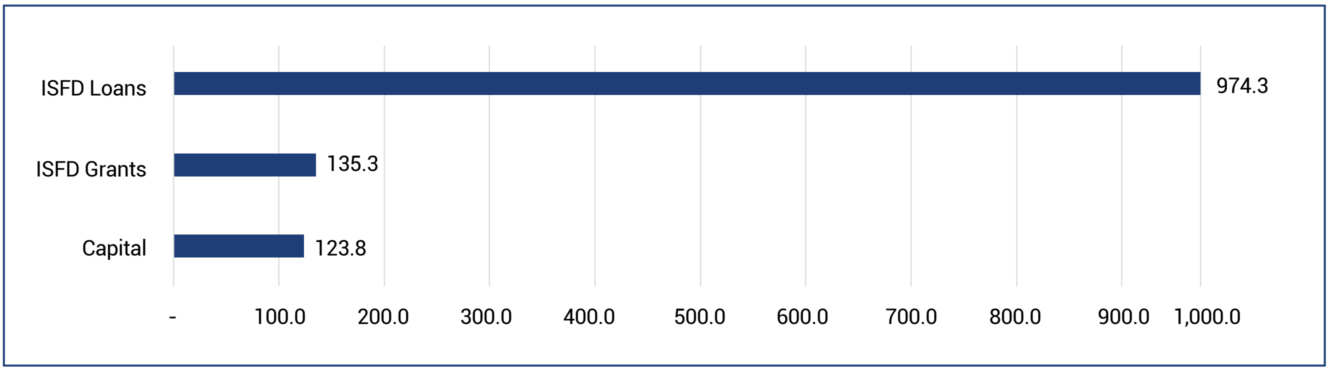


Figure 2.2 ISFD approvals by source of financing since inception



Geographic Coverage

Based on the ISFD's new strategy 2030 for poverty reduction, a minimum of 70% of the ISFD portfolio should be allocated to the LDMCs, and a minimum of 10% should be allocated to lower middle income member countries; the remaining should be allocated to non-LDMCs.

The Fund's current portfolio breakdown is as follows:

70%

70% of current portfolio is allocated to the LDMCs, ensuring their critical needs are met first. This translates to a significant portion of the current portfolio, amounting to US$858.6 million.

20%

20% is currently directed towards lower middle income member countries. Combined with the LDMCs allocation, this brings the total focus on priority countries to 90% (US$1.1 billion).

10.44%

Remaining 10.44%: Goes to non-LDMCs (US$128.9 million).

Focussing impact: 20 of 49 IsDB member countries **receive 80% of ISFD funding,** maximising impact where it matters most.

The top beneficiaries are Senegal 6.6% of total approvals (US$81 million), Mali 5.8%, Guinea 5.7%, Chad 5.2%, and Pakistan 5%

Figure 2.3 ISFD approvals since inception by category of countries

Category 1: LDMC — 70%

Category 2: Non-LDMC Low — 20%

Category 3: Non-LDMC — 10%

Senegal 6.60%

Mali 5.80%

Guinea 5.70%

Chad 5.20%

Pakistan 5.00%

Kyrgyzstan 4.60%

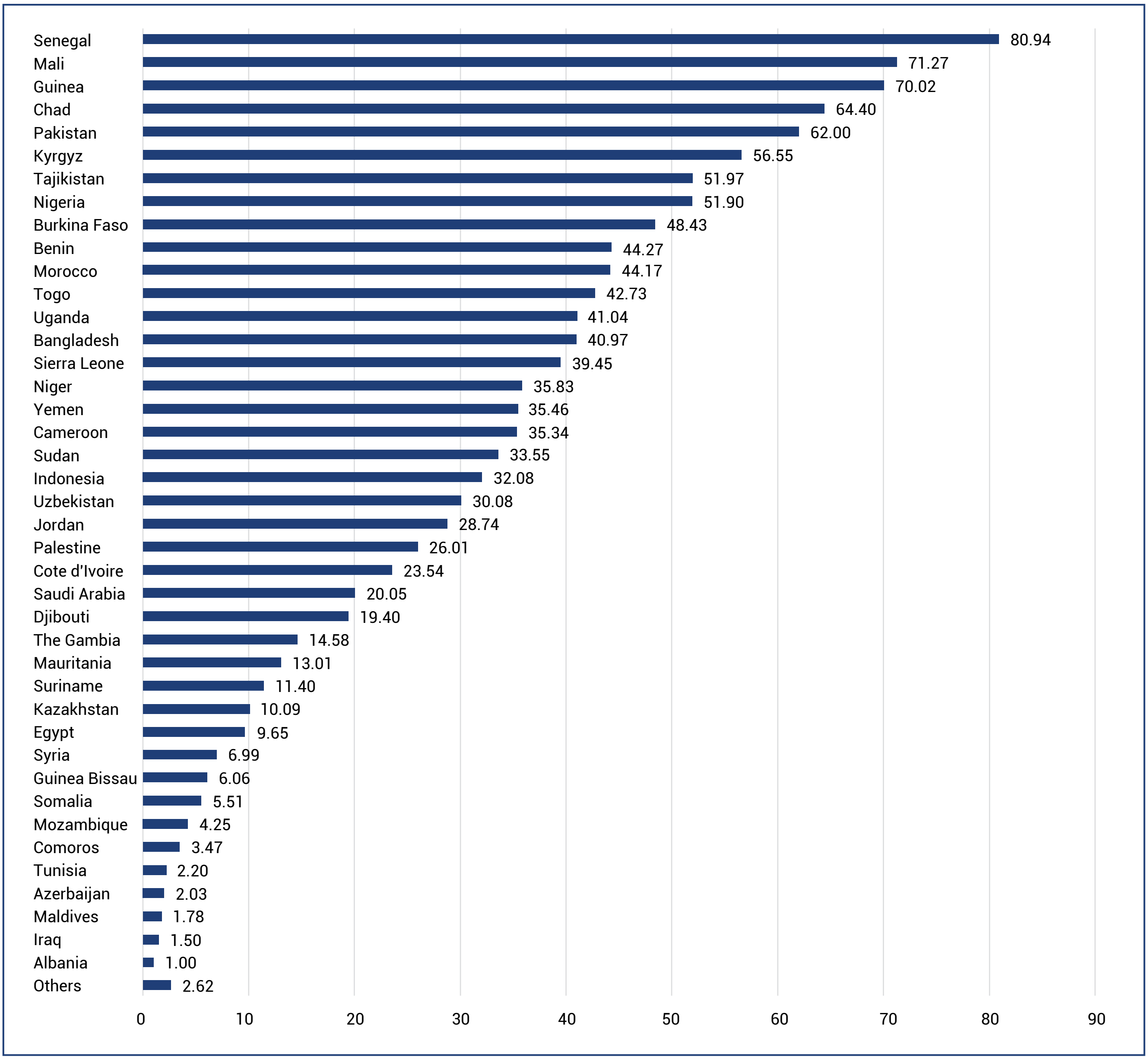
Tajikistan 4.20%

Nigeria 3.90%

Burkina Faso 3.60%

Benin 3.60%

Figure 2.4 ISFD approvals since inception by country



Sector Distribution

The ISFD focuses on poverty reduction with a new, strategic approach of two core pillars:

Human Capital Development:

- Education
- Health
- Water & Sanitation

Economic Empowerment:

- Agriculture
- Microfinance
- Clean Energy
- Trade Finance
- Credit Insurance

Figure 2.5 ISFD approvals for projects since inception by Main Pillars

Economic Empowerment Total	Human Capital Development Total	Others Total
50.1%	44.4%	5.5%

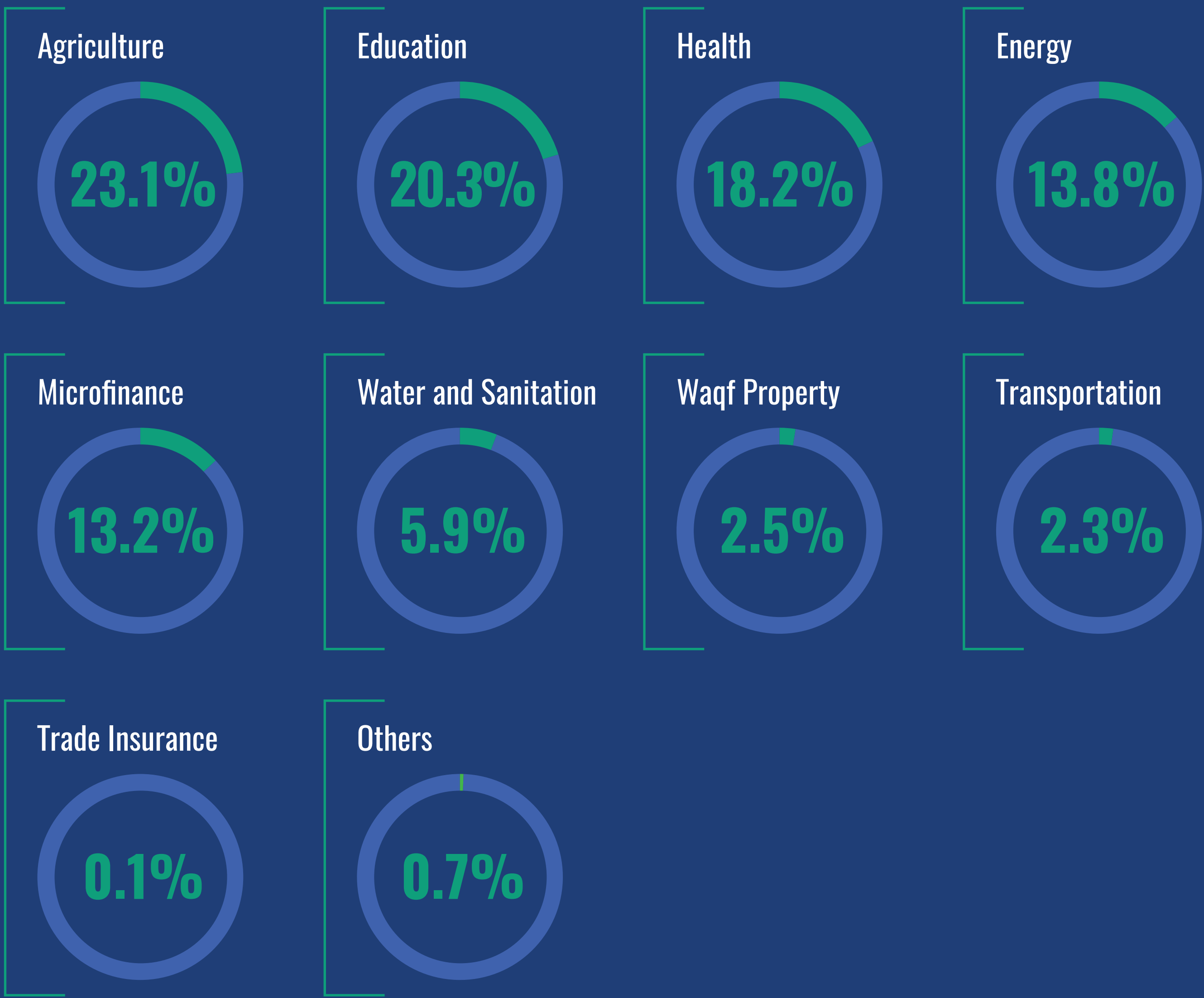
ISFD Portfolio Allocation

Economic Empowerment (50.1%): Led by Agriculture **(23.1%)**, Energy **(13.8%)**, and Microfinance **(13.2%).** Agriculture is a strategic sector for many MCs recipient of ISFD financing, particularly at a time of food security crisis.

Human Capital Development (44.4%): Education **(20.3%)** tops this pillar, followed by Health **(18.2%)**, and Water & Sanitation **(5.9%)**. The health sector has largely benefited from ISFD financing, particularly during the COVID-19 period.

Other Sectors (5.5%): Waqf Property Development **(2.5%)** and Transportation **(2.3%)**.

Figure 2.6 ISFD approvals for projects since inception by sector



ISFD Shifts Focus to Flagship Programmes

ISFD prioritises flagship programmes for maximising its impact, aiming to reach 80% portfolio allocation by 2030. These flagship initiatives, currently led by the Lives and Livelihoods Fund, represent only 59.8% of the approved projects under ISFD portfolio, compared to 40.2% of approved standalone projects.

Top Flagship Programmes

Lives and Livelihoods Fund (LLF)
10.4%

Microfinance Support Programme (MFSP)
7.3%

Renewable Energy
5.6%

Vocational Literacy Programme (VOLIP)
5.0%

Out-of-School Children Programme (OOSC)
4.4%

Bilingual Education
4.0%

Strengthening the Economic Resilience of Vulnerable Enterprises Programme (SERVE)
5.6%

Sustainable Villages Programme (SVP)
3.6%

Other programmes
13.9%

ISFD prioritises flagship programmes for maximising its impact, aiming to reach **80%** portfolio allocation by 2030.

The following table shows the list of ISFD programmes, the amount of ISFD contributions to projects approved under each programme and their shares in ISFD portfolio:

Table 2.1 ISFD programmes and ISFD contributions to projects

Programme	ISFD Approvals US$	ISFD Approvals %
Standalone Projects	495,080,495	40.10%
LLF - Lives and Livelihoods Fund	128,343,130	10.40%
MFSP - Microfinance Support	89,400,000	7.20%
Renewable Energy	69,150,000	5.60%
SERVE - for MSMEs	69,000,000	5.60%
VOLIP - Vocational Literacy	61,075,738	5.00%
OOSC - Out-of-School Children	53,800,000	4.40%
Bilingual Education	49,520,000	4.00%
SVP - Sustainable Villages	43,936,428	3.60%
Development Waqf / Waqf property Development	30,700,000	2.50%
TVET - Training Vocational Education	25,500,000	2.10%
Polio Programme	22,000,000	1.80%
Development Waqf / Economic Empowerment	20,000,000	1.60%
Dryland East Africa	15,000,000	1.20%
SAPE - Smallholders Agriculture	10,010,000	0.80%
MVP - Millennium Villages	10,000,000	0.80%
OOSC GPE ACG Programme	10,000,000	0.80%
Education for Syrian Refugees	6,990,000	0.60%
Tadamon CSOs Accelerator	4,880,296	0.40%
NGOs Empowerment	4,688,783	0.40%
RSFMP - Soil Fertility Mapping	4,250,000	0.30%
AFAB 2 - Avoidable Blindness	4,179,450	0.30%
STI - Science, Technology, and Innovation	2,635,829	0.20%
Al-Quds Empowerment Fund	2,013,063	0.20%
STEP	360,000	0.00%
ICERI - Insurance COVID Response	326,929	0.00%
OF 2 - Obstetric Fistula	320,000	0.00%
Scholarships LDMCs	128,583	0.00%
Tadamon Food Security Accelerator	100,000	0.00%
Grand Total	**1,233,388,724**	**100.00%**

Operations in 2023

IN 2023, THE ISFD APPROVED

US$213.57 MILLION

AS CONTRIBUTIONS TO PROGRAMMES AND PROJECTS.

A SIGNIFICANT PORTION,

US$150 MILLION,

WAS ALLOCATED TO THE PHASE-2 OF THE LIVES AND LIVELIHOODS FUND (LLF). THIS STRATEGIC CONTRIBUTION AIMS TO ATTRACT OTHER DONORS TO SUPPORT THE LAUNCH OF THE SECOND PHASE OF THE LLF.

ISFD's CONTRIBUTION TO LLF 2.0 IS STRUCTURED IN TWO PARTS:

1. US$50 MILLION

IN HIGHLY CONCESSIONAL LOANS, PROVIDING FLEXIBLE FUNDING OPTIONS.

2. US$100 MILLION

IS DESIGNATED AS A TEMPORARY CASH WAQF WHERE INVESTMENT RETURNS ARE EXCLUSIVELY DIRECTED TOWARDS LLF 2.0 INITIATIVES.

Box 2.1 Laraba Muhammad's success story

ISFD was there!

A Flourishing Harvest: How Laraba Muhammad Beat the Pests and Boosted Her Farm

Climate change is reshaping agricultural landscapes, with rising temperatures and unpredictable rainfall paving the way for invasive crop pests. In Nigeria, these relentless invaders threaten food security and livelihoods, particularly in Kano State. However, a beacon of hope has emerged in the form of the Kano State Agro-Pastoral Development (KSADP) Project - a US$90 million crop value chain intervention funded by the Islamic Solidarity Fund for Development in addition to IsDB and other partners through the Phase-1 of the Lives and Livelihoods Fund in 44 local government areas.

Launched in 2019 in collaboration with the Government of Nigeria, the 5-year KSADP has empowered farmers like Laraba Muhammad to reclaim their fields and secure their futures.

Laraba Muhammad, a 40-year-old rice farmer, had long witnessed the devastation wrought by pests on her small farm. Traditional methods and ineffective chemical pesticides offered little respite. With KSADP's arrival, hope, however, blossomed. Laraba enrolled in a specialised Integrated Pest Management (IPM) training programme, opening her eyes to a holistic approach that prioritised environmental sustainability while effectively controlling pests.

Empowered with new knowledge, Laraba meticulously monitored her crops, proactively employing natural pest control methods. When necessary, she opted for minimal-impact options like Neem Extract, minimising environmental contamination and safeguarding her family's health. The results were transformative. Infestation rates plummeted, yielding healthier and more bountiful harvests. Laraba's production doubled, bringing financial stability and revitalising her community.

Laraba's journey is not an isolated one. As more farmers in KSADP-targeted areas embrace IPM practices, the collective impact is undeniable. Crops flourish, the environment thrives, and livelihoods prosper. Laraba's story serves as a testament to the collaboration the Lives and Livelihoods in overcoming adversity. In the face of a changing climate, KSADP and its IPM programme are showing Nigerian farmers the path towards a resilient and sustainable future.

The Lives and Livelihoods Fund (LLF) is the biggest flagship programme contributed to by ISFD to reduce poverty in LDMCs through projects in Agriculture, Health, and Social Infrastructure. LLF is a US$2.5 billion development initiative launched in 2016 and funded by an unprecedented global coalition including the Abu Dhabi Fund for Development (ADFD), the Bill & Melinda Gates Foundation (BMGF), the Islamic Development Bank (IsDB), the Islamic Solidarity Fund for Development (ISFD), King Salman Humanitarian Aid and Relief Centre (KSrelief), and the Qatar Fund for Development (QFFD). As the largest development initiative in the Middle East, its goal is to lift the poorest out of poverty across 33 IsDB member countries by addressing nine Sustainable Development Goals (SDGs).

US$10.5 million
to Nigeria's Out-of-School Children Programme in Kaduna State, in partnership with Education Above All (EAA) of Qatar and Kuwait Fund for Development.

ISFD Bolsters Development in 2023 through Loans and Grants

Investing in Economic Empowerment and Education
US$50.5 million in loans for four key projects:

US$20 million
to the Economic Empowerment Fund of Uzbekistan, supporting MSMEs in partnership with the Government of Uzbekistan, Government of Saudi Arabia, and other Saudi private sector investors.

US$10.5 million
to Nigeria's Out-of-School Children Programme in Kaduna State, in partnership with Education Above All (EAA) of Qatar and Kuwait Fund for Development.

US$10 million
to strengthen the resilience of vulnerable enterprises and support job creation in Morocco.

US$10 million
to improve learning environments and foster an inclusive and competency-based education system in Tajikistan, in partnership with GPE.

Enhancing Health, Food Security, and Education

US$13.07 million in grants supporting 30 projects and two programmes:

Health

US$70K
in scholarships for ophthalmologists from Guinea and Chad.

US$806K
for Cataract Treatment Campaigns in Niger, Burkina Faso, Guinea, Chad, Mali, Côte d'Ivoire, and Mozambique under AFAB programme.

US$3.5 million
in AFAB-3, a new Programme to reduce Uncorrected Refractive Errors (URE) in primary and secondary schools by 25% in Africa by the end of 2029.

Local NGOs

US$484K
for 7 projects by local NGOs in MCs under Tadamon Programme, the NGOs Empowerment for Poverty Reduction Programme.

Food Security

US$100K
for one project under Tadamon Food Security Accelerator to support food security in Yemen.

US$4.85 million
allocation for Food Security Response Accelerator under Tadamon Programme.

Emergency Response

US$1.25 million
for emergency response in support of population affected by the conflict in Sudan and these floods in Libya.

Al-Quds Empowerment Fund

US$2.013 million
for ten projects to support people in Al-Quds in the education, health, economic empowerment, and community development sectors.

ISFD Expands Reach and Focus in 2023

Broad Impact:

In 2023, **19 member countries** benefited from ISFD financing supporting **35 projects and three new regional programmes** spread over

Burkina Faso, Chad, Côte d'Ivoire, Guinea, Indonesia, Kazakhstan, Lebanon, Libya, Mali, Morocco, Mozambique, Niger, Nigeria, Palestine, Somalia, Sudan, Tajikistan, Tunisia, Uzbekistan

Strategic Prioritisation: In line with its new strategy, ISFD focussed on key sectors:

Education
38.6%
US$21.273 million

Economic Empowerment Funds
36.3%
US$20 million

Microfinance
19.7%
US$10.83 million

Health
3.8%
US$2.104 million

Agriculture
0.3%
US$165K

Other Sectors
1.36%
US$750K

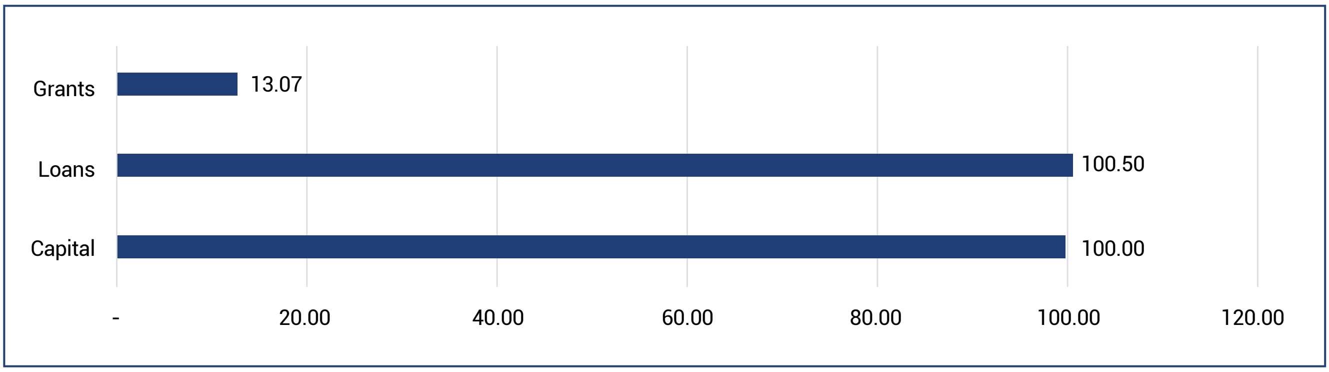
Diverse Sources for Financing Approvals in 2023

Loans:
US$100.5 million
47.1%

Waqf Capital:
US$100 million
46.8%

Grants:
US$13.07 million
6.1%

Figure 2.7 Approvals by source of financing in 2023



Regional Distribution of Financing Approvals in 2023

Asia
US$30.13 million
54%

MENA
US$13.617 million
25%

Africa
US$11.376 million
21%

Figure 2.8 Approvals for projects by region in 2023

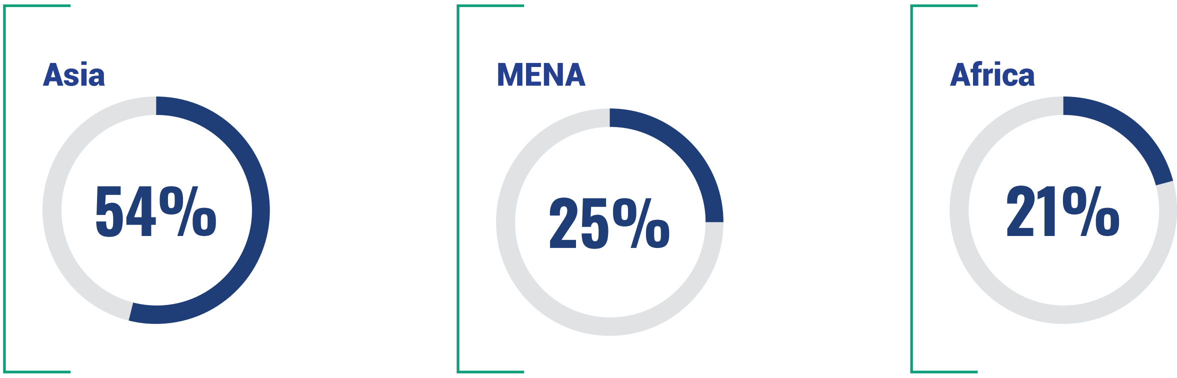
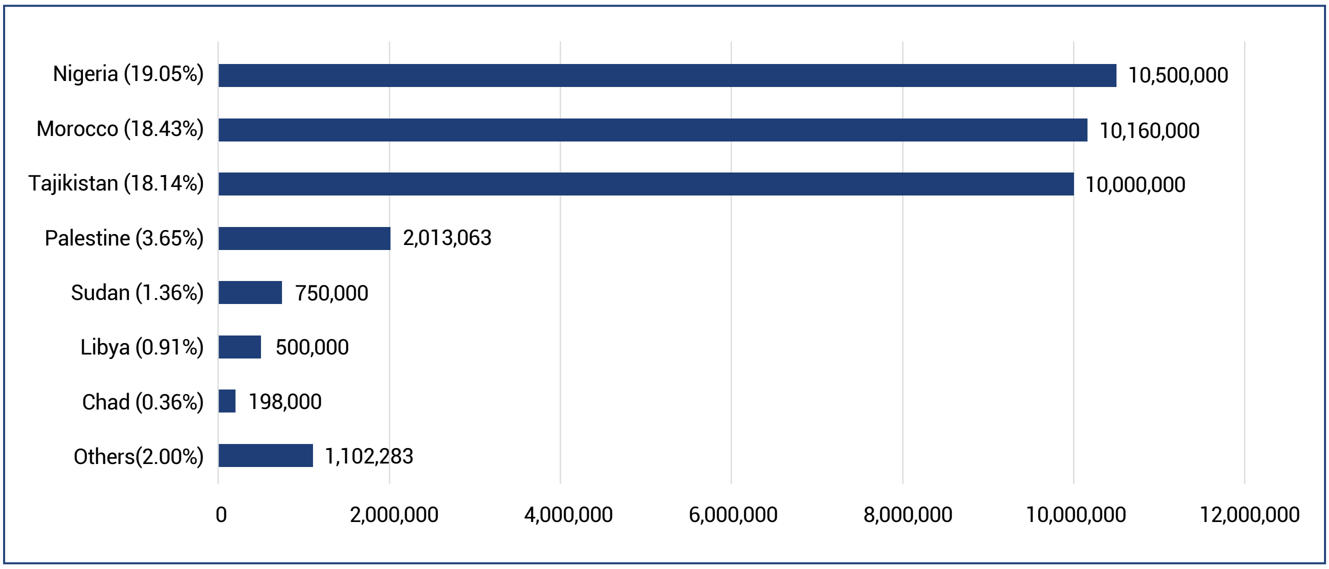


Figure 2.9 Approvals for projects by country in 2023



In 2023, the programme achieved **76,000** cataract surgeries, representing **76%** of the target set for completion by 2024.

Main ISFD Programmes under Implementation

During 2023, ISFD maintained its central role to coordinate the implementation of its flagship programmes, which include among others:

The Alliance to Fight Avoidable Blindness Programme (AFAB)

Driven by the resolute objective of eradicating avoidable blindness, the AFAB Programme serves as a catalyst for empowering national ophthalmological initiatives in Africa. The programme addresses both cataract and Uncorrected Refractive Errors (URE), thereby illuminating a brighter future for individuals and communities.

Demonstrating Remarkable Progress

In 2023, the programme achieved 76,000 cataract surgeries, representing 76% of the target set for completion by 2024.

Investing in the Future of Vision Care

The AFAB Programme fosters sustainable solutions by investing in the human capital of ophthalmologists. and nurses. Through scholarship and equipment grant initiatives, the programme empowers these vital professionals with the tools and knowledge to become beacons of vision care within their communities.

Expanding Horizons

Recognising the broader impact of eye health on education and development, the AFAB Programme broadened its scope in 2023 to include a special “Eyecare for Empowering Children in Africa”. This dedicated initiative specifically treats URE in children, aiming to combat it. With an ambitious goal of achieving a 25% reduction in school dropouts across 13 beneficiary member countries by 2030, the programme seeks to illuminate not only vision, but also a brighter future for countless children.

Out-of-School Children Programme (OOSC)

The OOSC Programme deploys accelerated alternative learning modules to reach out, enrol and retain out-of-school children. It recognises the diverse backgrounds and challenges faced by these children, including those in hard-to-reach communities, conflict situations, and children with mild special needs or disabilities.

Programme Extension

Due to its success, the OOSC Programme’s duration has been extended by two years, **running until 2025**. This extension will enable the implementation of additional projects in the pipeline, which include potentially **Benin** and **Pakistan**.

OOSC Key Outcomes

Enrolling and retaining 2.4 million out-of-school children in school.

Training 250,000 teachers and government officials.

Facilitating the construction of 8,860 new schools.

Currently, the programme is being implemented through three projects in **Mali, Burkina Faso, and Nigeria**.

Tadamon Programme aims to empower national civil society organisations (CSOs) in OIC member countries.

ISFD-IsDB NGOs Empowerment for Poverty Reduction Programme "Tadamon"

Tadamon Programme aims to empower national civil society organisations (CSOs) in OIC member countries. Through this initiative, Tadamon seeks to:

- **Enhance the capabilities of CSOs:** Equip them with skills and resources to effectively address poverty.
- **Mobilise resources:** Secure funding and support networks for impactful projects.
- **Leverage expertise and knowledge:** Facilitate collaboration and knowledge sharing among CSOs.

Tadamon's achievements to date include:

- Endorsement by **33 OIC member countries.**
- Participation of over **28 development partners and 19 crowdfunding platforms.**
- Registration of more than **3,500 CSOs** on the Tadamon Platform, with **1,668 verified.**
- Active **project implementation in 21 countries, with initiation underway in 10 more.**

Tadamon's geographic reach encompasses Algeria, Azerbaijan, Brunei Darussalam, Burkina Faso, Chad, Cameroon, Comoros, Djibouti, Guinea, Indonesia, Iraq, Jordan, Kazakhstan, Lebanon, Libya, Maldives, Mauritania, Morocco, Niger, Nigeria, Pakistan, Palestine, Saudi Arabia, Senegal, Somalia, Sudan, Togo, Tunisia, Türkiye, Uzbekistan, and Yemen.

The Programme Highlights in 2023

Successful Call for Proposals: A call for proposals was conducted in 2023, attracting a competitive pool of submissions. Following a rigorous process by the Programme Steering Committee, **7 projects were approved** out of 14 shortlisted proposals. These projects represent diverse and innovative solutions addressing critical social challenges exacerbated by the pandemic.

The Tadamon Food Security Response Programme

In 2023, the scope of the Tadamon programme broadened its scope to include a crucial food security component. This initiative seeks to mitigate food insecurity in 12 member countries grappling with fragility and conflict. By leveraging the vital roles of civil society and partners, this initiative is expected to positively impact 500,000 people and 20,000 will have access to agricultural resources and seeds provision.

Strengthening the Economic Resilience of Vulnerable Enterprises Programme (SERVE)

The SERVE programme aims at strengthening resilience of vulnerable Small and Medium Enterprises (SMEs) in member countries, enhancing their capacity to sustain business and jobs through providing the needed funds. It achieves this by:

Providing lines of finance: SERVE partners with Islamic microfinance institutions by injecting crucial liquidity and promoting job creation.

Project audit and monitoring: Beyond financial assistance, SERVE implements robust project audit and monitoring systems to ensure effective utilisation of funds and optimise programmes impact.

The SERVE Programme has remarkably contributed to growth and development in seven member countries: Chad, Djibouti, Jordan, Morocco, Palestine, Uganda, and Uzbekistan. To date, the programme has disbursed funding for projects with a total value of **US$539.7 million**, broken down as follows:

US$69 million allocated by the ISFD.

US$62.53 million provided by the IsDB.

US$408.2 million successfully mobilised through partnerships with various organisations, achieving a significant leverage ratio of US$1 to US$6.82 for ISFD resources.

Global Islamic Fund for Refugees (GIFR)

The GIFR is a joint initiative by the IsDB, ISFD, and UNHCR to address the needs of refugees and hosting communities in OIC member countries.

GIFR Mission

The GIFR aims to provide sustainable financing for essential projects addressing the needs of both refugees and their hosting communities. These projects prioritise sectors with a strong development focus, including:

Health: Ensuring access to vital healthcare services for refugees.

Water, Sanitation and Hygiene: Improving hygiene and sanitation facilities in refugee camps and host communities.

Cash Assistance: Providing direct financial support to empower refugees and alleviate hardships.

Shelter: Building or renovating shelters for safe and secure accommodation.

Climate Action and Green Energy: Promoting sustainable solutions and environmental protection.

Livelihoods: Creating income-generating opportunities for refugees and contributing to economic development.

2023 Milestones

The past year saw significant progress for the GIFR:

Donor Commitments: The IsDB, the trustee of GIFR, signed two Donor Contribution Agreements (DCA) with both UNHCR and ISFD, securing a combined **US$100**: a contribution of **US$50 million** by each to GIFR.

Advocacy and Engagement: Two high-profile events were held in London and New York on the margins of UN General Assembly 78, generating widespread awareness and interest in the GIFR's mission.

Founders Board Meeting: The first meeting of the GIFR Founders Board, co-chaired by H.E. Muhammad Al Jasser, IsDB President, and Mr. Filippo Grandi, the United Nations High Commissioner for Refugees, took place in Dubai during COP28. This crucial meeting saw **the approval the GIFR Operations Manual and Investment Guidelines**.

Donor Commitments: The IsDB, the trustee of GIFR, signed two Donor Contribution Agreements (DCA) with both UNHCR and ISFD, securing a combined **US$100:** a contribution of **US$50 million** by each to GIFR.

GIFR Resource Mobilisation

Advocacy efforts yielded promising results, with **King Salman Centre for Relief and Humanitarian Assistance pledging US$10 million** to the Waqf Account, **Rahma International Society of Kuwait** initiating discussions for **a US$1 million** contribution to the trust fund, and **the Royal Humanitarian Foundation of Bahrain** expressing interest in contributing **US$1 million** to the trust fund.

Al-Quds Empowerment Fund

The Fund aims to support projects in Al-Quds in the education, health, economic empowerment, and community development sectors. In 2023, the Fund made significant strides towards its mission:

Project Approvals: 2023 witnessed the approval of the first package of development projects, totalling **US$6.640 million**. This strategic investment included **a grant contribution of US$1.342 million from ISFD**. The approved projects aim to empower Al-Quds population through interventions in vital sectors such as education, community development, housing, youth employment, and entrepreneurship support.

The Fund's Resource Mobilisation

Building upon on its strong foundation, the Al-Quds Empowerment Fund successfully attracted **US$7.7 million** in new contributions from prominent donors throughout 2023. These significant commitments came from partner organisations such as the STF5 Establishment, the Kuwait Chamber of Commerce and Industry, the Na'mat and Tawfiq Al-Fakhouri Establishment, and the Al-Quds Fund and Endowment.

Strengthening Governance: Marking a pivotal moment in the Fund's trajectory, Al-Quds Empowerment Fund held its inaugural Board of Trustees meeting, chaired by His Royal Highness Prince Turki Al Faisal at the headquarters of the Islamic Development Bank in Jeddah. The board comprises business leaders and representatives of developmental and charitable institutions in the Arab world.

Lives and Livelihoods Fund (LLF)

In 2015, the ISFD Board of Directors made a significant commitment to poverty reduction and development. The Board approved **an annual contribution of US$20 million in grant funding to the LLF 1.0, totalling US$100 million over five years**. This was further bolstered by **concessional loans of US$28 million**, demonstrating ISFD's dedication to leveraging its resources to maximum impact.

LLF 1.0 Structure and Objectives

The LLF 1.0 combines resources from IsDB's ordinary capital, ISFD contributions, and other donor grant funds. This pooled structure, administered by IsDB, enables a unified approach to addressing **poverty, infectious diseases, primary healthcare, agriculture and food security, and rural infrastructure development**, especially in the least developed member countries.

LLF has approved 37 projects in 22 member countries.

Demonstrating Impact

Since its inception, the LLF has approved **37 projects in 22 member countries**. The following table provides a detailed breakdown of the country distribution of LLF projects and ISFD contributions:

Table 2.2 Breakdown of the country distribution of LLF projects and ISFD contributions

Country	ISFD Approvals	Size of Projects
Bangladesh	5,040,457	66,000,000
Benin	7,088,438	71,200,000
Burkina Faso	6,992,870	74,489,523
Cameroon	6,741,443	98,416,000
Chad	4,046,852	48,449,780
Côte d'Ivoire	8,425,594	132,210,000
Djibouti	1,033,007	27,260,000
Gambia	3,872,300	36,850,000
Guinea	8,747,642	88,450,000
Indonesia	4,567,374	164,990,000
Maldives	1,782,050	13,610,000
Mali	5,279,396	59,286,757
Mauritania	2,528,498	20,790,000
Morocco	2,190,632	154,110,000
Niger	7,528,806	63,440,000
Nigeria	20,344,044	444,693,657
Pakistan	6,983,831	407,700,000
Senegal	8,381,532	118,459,000
Sierra Leone	3,872,300	34,120,000
Tajikistan	1,408,964	26,000,000
Togo	8,440,011	103,170,000
Uganda	3,047,089	47,800,000
Grand Total	**128,343,130**	**2,301,494,717**

Building upon LLF 1.0 Success: Expanding Impact through LLF 2.0

Recognising the positive impact of LLF 1.0 on poverty alleviation and the strategic importance in leveraging contributions from other donors, the ISFD Board of Directors approved in 2023 a two-pronged approach to support the next phase, LLF 2.0:

US$50 million concessional loan: This significant financial commitment directly contributes to LLF 2.0 resources, furthering its reach and impact.

Temporary allocation of Waqf Investment Returns: On a temporary basis for five years (2024-2028), the ISFD earmarked resources generated by **US$100 million** of its Waqf capital specifically for LLF 2.0. The generated return on investment will be donated as an annual grant to LLF 2.0, providing a sustainable and impactful funding stream.

Project-based Resource Mobilisation

IN 2023, ISFD ACTIVELY CONTRIBUTED TO POVERTY REDUCTION AND DEVELOPMENT EFFORTS BY PROVIDING PROJECTS FUNDING OF

US$55.22 MILLION TO 35 PROJECTS,

REPRESENTING **13%** OF THE TOTAL COST OF PROJECTS, WHICH AMOUNTED TO

US$431 MILLION.

THROUGH ITS STRATEGIC PARTNERSHIPS, ISFD SUCCESSFULLY MOBILISED

US$376 MILLION,

INCLUDING A CONTRIBUTION OF

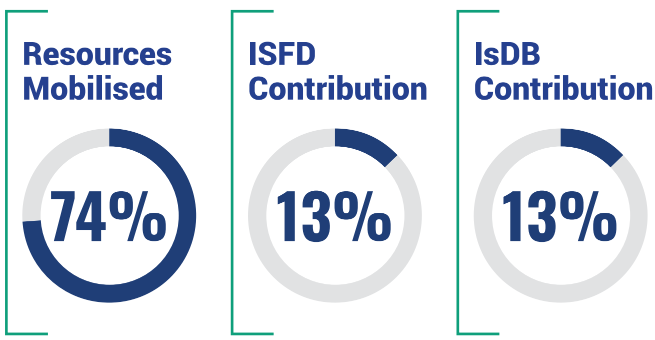
US$56.9 MILLION

FROM IsDB. THIS RESULTED IN A

REMARKABLE LEVERAGE RATIO OF 1: 5.78 FOR THE YEAR,

EXCLUDING IsDB CONTRIBUTION.

Figure 2.10 Resource mobilisation by project



Implementation of the 2030 Strategy

Background

The ISFD undertook an important transformational journey which would result in a more conducive structure to achieve its long-term objectives. The transformation comprises three phases and 10 important initiatives which are currently at an advanced stage of progress.

Three-Phased Strategy

Phase 1: Fixing the basics (2020-2021):

Included 10 key initiatives.

Each initiative had clear ownership, action plans, deliverables, and dependencies.

Phase 2: Transitioning into a strong focus on making the strategy a reality (2022-2024):

This is the current phase that focusses on realising strategic objectives and maximising poverty reduction impact.

Phase 3: Realisation of excellence in poverty reduction (2025-2030):

Aims to strengthen ISFD's position in poverty reduction by 2030.

Progress in 2023

All 10 key initiatives have seen significant progress in 2023 as detailed in the following overview.

Table 2.3 Progress in the Implementation of the ISFD's 10 Initiatives

Progress in the Implementation of the ISFD's 10 Initiatives	
(1)	**Policy Framework & Policy Review**
	• Financial Management Policy approved by ISFD BOD. • Risk Management, Loans, and Grants Policies are finalised for ISFD BOD approval.
(2)	**Business Process Architecture**
	• Standard Operating Procedures (SOPs) were developed for ISFD key functions: 1. Poverty Alleviation & Empowerment, 2. Resource Mobilisation, and 3. Technical Support. • SLA Framework IsDB/ISFD: Five Service Level Agreements (SLAs) signed with relevant IsDB departments: Investment Department, Financial Control Department, Information Management and Disruptive Technology Department, Human Resources Management Department, and Administrative Support Department.
(3)	**Organisational Transformation & Expert Hiring**
	• Established ISFD Financial Management Committee and ISFD Technical Committee. • Approved organisational structure. • Filled some vacant positions and others are in the process for 2024.
(4)	**Poverty Alleviation Strategy Operationalisation and Impact**
	• 40% to 60% of ISFD operations portfolio is allocated to projects and programmes within two main focused poverty reduction themes: Human Capital Development and Economic Empowerment. • Minimum 85% of ISFD resources allocated to LDMCs.
(5)	**Pipeline & Work Programme Review**
	• Review of ISFD pipeline and work programme completed.
(6)	**Resource Mobilisation Operationalisation**
	• New strategic framework for Resource Mobilisation is finalised for approval by ISFD BOD.
(7)	**Country Funds Pilot**
	• Joint programme approach retained as a key strategy for ISFD's new strategic framework of Resource Mobilisation. • Discussions underway with three member countries for pilot Country Funds.
(8)	**Review of Brand Communications**
	• Developed and launched ISFD brand identity, new logo, communication strategy, and website.
(9)	**Financial Management**
	• Financial Management Policy was approved by ISFD BOD. • Financial Management Committee established. • Risk Management Policy finalised for BOD approval.
(10)	**Data & IT Enablement**
	• Detailed plan of ISFD business requirements completed. • Coordination underway with Information Management and Disruptive Technology Department for implementation.

CORPORATE GOVERNANCE

03

03 Corporate Governance

Activities of the Board of Governors

The Board of Governors (BOG) of the ISFD held its 16th Annual Meeting in Jeddah, Kingdom of Saudi Arabia, on 13 May 2023 (23 Shawwal 1444). The BOG listened to the report of the Procedures Committee and consequently:

The ISFD participation for an amount of **US$20 million** in the Economic Empowerment Fund for Uzbekistan (EEFU)

i) took note of the Annual Report of the ISFD for the year 2022 and approved the audited financial statements of accounts for the financial year 1443/1444 (2022),

ii) approved the appointment of Deloitte and Touche & Co.– Chartered Accountants as Auditors for the ISFD Accounts for the Financial Year 1445/1446 (2024), and

iii) adopted the recommendation that the 17th Annual Meeting of the Board of Governors of the ISFD will be held in conjunction with the 49th Annual Meeting of the IsDB Board of Governors in 1445 (2024).

Activities of the Board of Directors

As per ISFD Regulations, the Board of Executive Directors (BED) of the IsDB is the Board of Directors (BOD) of the ISFD. H.E. the President of the IsDB is the Chairman of the BOD. The BOD manages and administers the business and affairs of the Fund. It approves the annual work programme, financing operations and policies and makes decisions on strategic matters in accordance with the powers delegated by the BOG.

In 2023, the ISFD BOD approved several programmes and projects that addressed critical needs across the sectors of Education, Healthcare as well as Economic Empowerment and Community Development as follows:

The Economic Empowerment Fund for Uzbekistan, with **US$20 million** as an ISFD contribution.

The Economic Resilience of the Vulnerable Enterprises (SERVE), with **US$10 million** as ISFD loan.

The project of Support to Implementation of the National Education Development Strategy of Tajikistan, with **US$10 million** as an ISFD loan.

The Lives and Livelihoods Fund 2.0, with **US$50 million** as an ISFD contribution and an additional **US$100 million** contribution to the Fund over 5 years (2024-2028).

Eyecare for Empowering Children in Africa programme in 13 countries, with **US$3.5 million** as an ISFD grant.

Tadamon Accelerator for Food Security Response Programme in 12 countries, with **US$4.85 million** as an ISFD grant.

Extension of the "Out-of-School Children Programme" until 2025.

In addition, the ISFD BOD approved the ISFD Financial Management Policy, the recommendations of the 17th, 18th, 19th, and 20th of the Audit Committee, the payment plan proposed by the Government of Maldives for the remaining committed amount, and the nomination of Messrs Deloitte and Touché & Co. (Deloitte) as the external auditors for the ISFD and Al-Quds Empowerment Trust Fund for the year 2024.

Approval of the ISFD 3-Year Work Programme (2024-2026) and Budget (2024)

In pursuit of its mission to foster sustainable development in member countries, ISFD has formulated a three-year work programme, spanning the period 2024-2026.

This programme aims to strategically reposition ISFD to elevate its relevance to the IsDB, its member countries, and the overarching goals of the Global Agenda 2030.

The programme is structured around three key pillars:

- **Resource Mobilisation:** This pillar focuses on securing sustainable financial resources to support ISFD's development initiatives.
- **ISFD Operation Financing Plan:** This pillar outlines the financial strategy for operationalising ISFD's activities, including a cumulative budget of US$155 million allocated as follows: US$5 million for grants, US$50 million for loans, and US$100 million for capital.
- **ISFD Transformation:** This pillar emphasises the continuous improvement to ensure greater efficiency and effectiveness in achieving its poverty reduction and development goals.

The ISFD BOD approved the 3-year work programme on December 10, 2023, alongside the operational financing budget and a separate administrative budget of US$5.015 million for 2024.

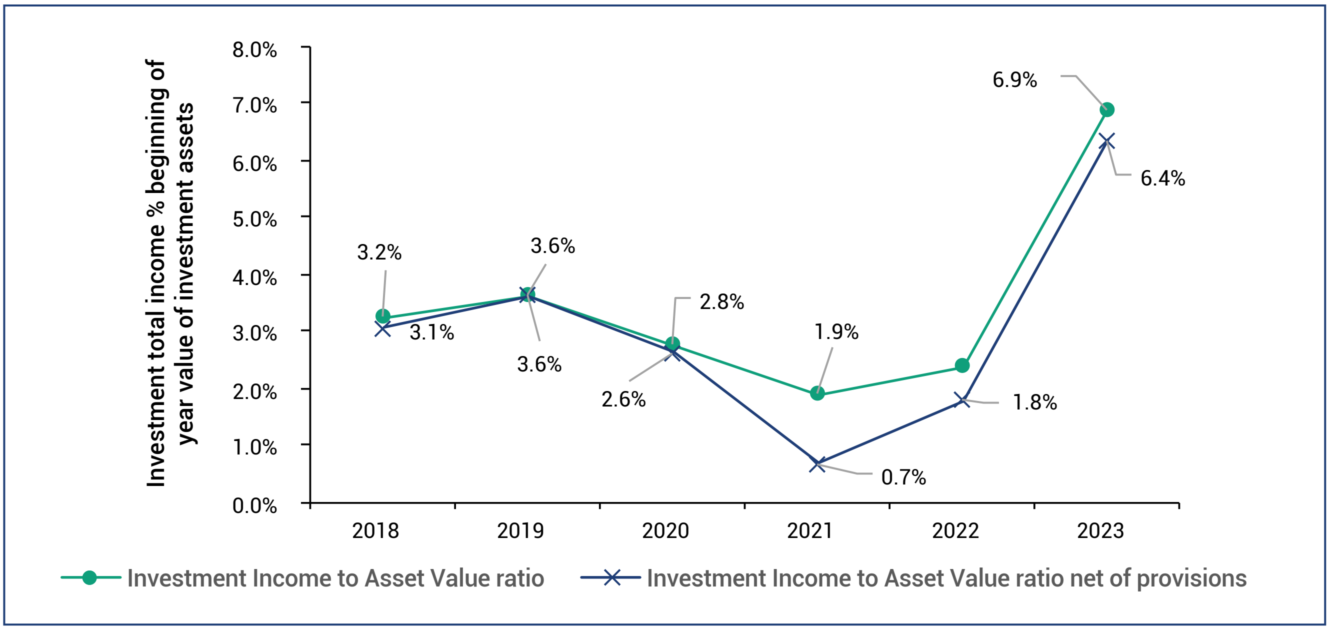
ISFD Operation Financing Plan: This pillar outlines the financial strategy for operationalising ISFD's activities, including a cumulative budget of US$155 million allocated as follows: **US$5 million** for grants, **US$50 million** for loans, and **US$100 million** for capital.

FINANCIAL OVERVIEW

04

04 Financial Overview

In 2023, the ISFD achieved its highest net income of US$176 million since inception. The development in global capital markets were favourable in 2023 as benchmark US$ yields increased significantly, while global stock markets experienced significant rebounds from the bear market environment of 2022. The Federal Fund effective rate increased from 4.1% in December 2022 to 5.33% in December 2023, while 5-year Treasury yields averaged 4.05% in 2023 against 3% in 2022.The MSCI Islamic All Country World Index, representing global stock markets, recorded an annual performance of 22.52% in 2023 against -12.8% in 2022. Overall, the ratio of gross investment income to beginning of the year investment assets is 6.9% for 2023, whereas it averaged 2.8% in the previous 5 years.



In 2023, the ISFD achieved its highest net income **of US$176 million** since inception. The development in global capital markets were favourable in 2023 as benchmark US$ yields increased significantly, while global stock markets experienced significant rebounds from the bear market environment of 2022.

THE OVERALL FINANCIAL HEALTH OF THE ISFD WAS BOOSTED FURTHER BY THE TERMINATION OF THE STI FUND AND THE RETURN OF

US$52.9 MILLION

AS WELL AS THE CANCELLATION OF THE SECOND STI TRANCHE OF

US$50 MILLION

WHICH WAS A LIABILITY IN THE ISFD BOOKS.

AS A RESULT, ACCUMULATED SURPLUS (RETAINED EARNINGS) WENT FROM

US$453 MILLION

IN Y/E 2022 TO

US$704 MILLION

IN Y/E 2023, AND IF WE INCLUDE EQUITY PRESERVATION FUND AND RESERVES, THE FIGURES BECOME

US$504 MILLION

AND

US$815 MILLION,

RESPECTIVELY.

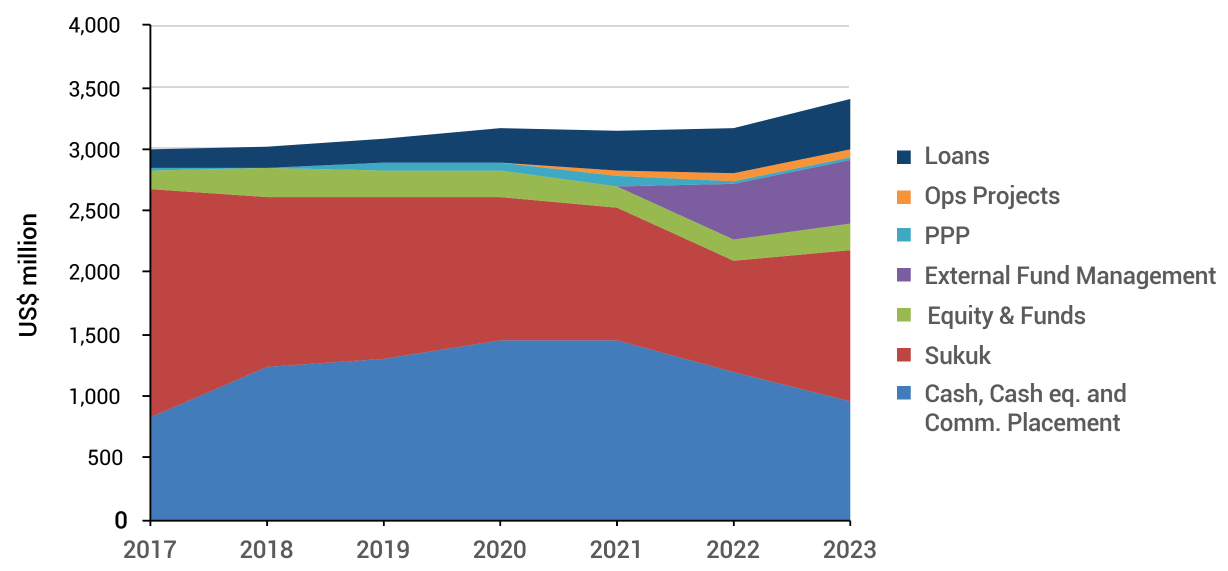
NET ASSETS IN 2023 Y/E ARE

US$3.358 BILLION

COMPARED TO

US$2.535 BILLION

IN PAID UP CAPITAL AND IN-KIND CONTRIBUTIONS.



Finally, although some of these results are attributable to developments in global capital markets, the ISFD results for this year and expected results in the mid to long term were boosted by:

a. Significant exposure of the ISFD portfolio to growth assets (Developed Markets and Emerging Markets equity) as well as global public real estate and infrastructure assets due to the rebalancing exercise undertaken in mid-2022.

b. Increased exposure to long dated assets (by investing in longer duration commodity placements and Sukuk) at a time when rates peaked, thereby ensuring higher average profit rates for some time.

ANNEXES

ANNEXES

ANNEX I: List of Approvals in 2023

List of Projects Approved in 2023						
Programme	Project Name	Country	Sector	Size	ISFD Approval	Type
Development Waqf	Economic Empowerment Fund	Uzbekistan	Economic Empowerment	100,000,000	20,000,000	Loan
Out of School Children	Out-of-School Children Programme Kaduna state	Nigeria	Education	62,802,000	10,500,000	Loan
SERVE- for MSMEs	SERVE Project	Morocco	Economic Empowerment	81,000,000	10,000,000	Loan
SmartEd Programme (GPE & ACG)	Support to National Education Development - 2	Tajikistan	Education	86,000,000	10,000,000	Loan
AFAB 2	Screening for Uncorrected Refractive Errors	Somalia	Health	295,000	35,000	Grant
AFAB 2	Cataract Treatment Campaigns	Niger	health	162,000	97,000	Grant
AFAB 2	Cataract Treatment Campaigns	Burkina Faso	Health	234,000	117,000	Grant
AFAB 2	Scholarships for Ophthalmologists	Guinea	Health	18,000	18,000	Grant
AFAB 2	Cataract Treatment Campaigns	Guinea	Health	110,000	110,000	Grant
AFAB 2	Cataract Treatment Campaigns	Chad	Health	45,000	31,000	Grant
AFAB 2	Scholarships for Ophthalmologists	Chad	Health	52,000	52,000	Grant
AFAB 2	Cataract Treatment Campaigns	Chad	Health	115,000	115,000	Grant
AFAB 2	Cataract Treatment Campaigns	Mali	Health	106,000	106,000	Grant
AFAB 2	Cataract Treatment Campaigns	Côte d'Ivoire	Health	85,000	85,000	Grant
AFAB 2	Cataract Treatment Campaigns	Mozambique	Health	168,000	110,000	Grant
Standalone projects	Regional Emergency Response	Sudan	Health	16,500,000	750,000	Grant
Standalone projects	Regional Emergency Response	Libya	Health	4,605,731	500,000	Grant
Tadamon	Bee and Biodiversity Protection, Morocco	Morocco	Agriculture	100,000	85,000	Grant
Tadamon	Enhancing Vocational Education and Training	Tunisia	Education	106,940	80,000	Grant
Tadamon	An Equal Society for Everyone	Kazakhstan	Education	106,812	50,783	Grant
Tadamon	Empowering Youth through a Coding Bootcamp	Lebanon	Education	144,155	65,000	Grant
Tadamon	Empowering Women through Integrated Agricultural	Indonesia	Agriculture	100,000	80,000	Grant
Tadamon	The Upcycling Effect: Turning Waste into Wealth	Lebanon	Health	79,575	48,500	Grant

List of Projects Approved in 2023						
Programme	**Project Name**	**Country**	**Sector**	**Size**	**ISFD Approval**	**Type**
Tadamon	Full Integration of Disabled Young People in Society	Morocco	Economic empowerment	100,412	75,000	Grant
Tadamon Food Security Accelerator	Tadamon Food Security Accelerator in Yemen	Yemen	Health	20,004,472	100,000	Grant
Al-Quds Empowerment Fund	Developing Environmentally Friendly Systems	Palestine	Education	191,660	57,498	Grant
Al-Quds Empowerment Fund	The Educational and Commercial Endowment	Palestine	Education	5,000,000	150,000	Grant
Al-Quds Empowerment Fund	Support Schools in the Directorate of Education	Palestine	Education	200,000	45,000	Grant
Al-Quds Empowerment Fund	Sponsorship of Jerusalem Students	Palestine	Education	2,008,200	180,000	Grant
Al-Quds Empowerment Fund	Support for Housing and Building Permits in Jerusalem	Palestine	Others	2,968,524	300,000	Grant
Al-Quds Empowerment Fund	Reconstruction and Restoration of Properties in the Old City	Palestine	Others	1,080,820	150,000	Grant
Al-Quds Empowerment Fund	Reconstruction of Properties in the Old City	Palestine	Others	1,000,000	150,000	Grant
Al-Quds Empowerment Fund	Building Homes for the Elderly	Palestine	Others	1,000,000	150,000	Grant
Al-Quds Empowerment Fund	Supporter for Empowering Youth and Revitalising Markets	Palestine	Economic Empowerment	1,200,000	345,000	Grant
Al-Quds Empowerment Fund	Building Individuals and Institutions Project	Palestine	Economic Empowerment	1,789,950	485,565	Grant
Sub Total (Projects)				**389,479,251**	**55,223,346**	

List of Programmes Approved in 2023						
Programme	**Programme Name**	**Country**	**Sector**	**Size**	**ISFD Approvals**	**Type**
Tadamon Accelerator	Tadamon Food Security Response Accelerator	Regional	Health	29,100,000	4,850,000	Grant
AFAB 3	AFAB 3- Eyecare for Empowering Children in Africa	Regional	Health	10,000,000	3,500,000	Grant
LLF 2.0	LLF Waqf Capital Contribution	Regional	Health & Agriculture	100,000,000	100,000,000	Capital
LLF 2.0	LLF Concessional Loans	Regional	Health & Agriculture	200,000,000	50,000,000	Loan
Sub Total (Programmes)				**339,100,000**	**158,350,000**	
Grand Total (Projects and Programmes)				**728,579,251**	**213,573,346**	

ANNEX II:
Statement of Contributions to the ISFD Capital as of 31 December 2023

Committed and Fully Paid

No.	Country	Commitments (In US$ 000)	Paid Amount (In US$ 000)	Remarks
1	Saudi Arabia	1,000,000	1,000,000	Fully paid
2	Kuwait	300,000	300,000	Fully paid
3	Algeria	50,000	50,000	Fully paid
4	Qatar	50,000	50,000	Fully paid
5	Malaysia	20,000	20,000	Fully paid
6	Kazakhstan	11,000	11,000	Fully paid
7	Egypt	10,000	10,000	Fully paid
8	Pakistan	10,000	10,000	Fully paid
9	Indonesia	10,000	10,000	Fully paid
10	Mauritania	5,000	5,000	Fully paid
11	Morocco	5,000	5,000	Fully paid
12	Oman	5,000	5,000	Fully paid
13	Türkiye	5,000	5,000	Fully paid
14	Tunisia	5,000	5,000	Fully paid
15	Gabon	4,000	4,000	Fully paid
16	Brunei	3,000	3,000	Fully paid
17	Jordan	3,000	3,000	Fully paid
18	Yemen	3,000	3,000	Fully paid
19	Bahrain	2,000	2,000	Fully paid
20	Syria	2,000	2,000	Fully paid
21	Cameroon	2,000	2,000	Fully paid
22	Nigeria	2,000	2,000	Fully paid
23	Guinea	2,000	2,000	Fully paid
24	Lebanon	1,000	1,000	Fully paid
25	Suriname	500	500	Fully paid
26	Azerbaijan	300	424	Fully paid
27	Uzbekistan	300	300	Fully paid
28	Mozambique	200	200	Fully paid

Committed but Partially Paid

No.	Country	Commitments (In Us$ 000)	Paid Amount (In Us$ 000)	Remarks
1	Sudan	36,100	944	1st Instalment
2	Bangladesh	13,000	12,000	1st-12th Instalments
3	Burkina Faso	7,570	2,238	
4	Benin	6,920	1,553	1st-3rd Instalments
5	Iraq	6,000	1,000	
6	Côte d'Ivoire	5,000	1,980	1st-2nd Instalment
7	Mali	4,000	2,000	1st Instalment
8	Togo	2,000	1,000	1st Instalment
9	The Gambia	1,220	12	1st Instalment
10	Maldives	1,000	200	1st Instalment
11	Sierra Leone	1,000	300	1st Instalment
12	Palestine	500	186	1st Instalment
13	Turkmenistan	300	100	1st Instalment

Committed but Not Paid

No.	Country	Commitments (In US$ 000)	Paid Amount (In US$ 000)	Remarks
1	Senegal	10,000	-	No payment
2	Chad	2,000	-	No payment
3	Niger	2,000	-	No payment
4	Comoros	650	-	No payment
5	Guinea-Bissau	200	-	No payment
6	Uganda	100	-	No payment
7	Albania	10	-	No payment

Islamic Development Bank

IsDB	Commitments (In US$ 000)	Paid Amount (In US$ 000)	Remarks
	1,000,000	1,000,000	Fully paid
Grand Total	**2,610,870**	**2,534,937**	

ISFD Resources in Kind		(in US$ 000)
1	Benin Waqf Land	5,542
2	Burkina Faso Waqf Land	1,896

ANNEX III:
Audited Financial Statements of the ISFD for the Year 1444H–1445H (2023)

Reducing Poverty معاً لمكافحة الفقر

ISFD

صندوق التضامن الإسلامي للتنمية

Islamic Solidarity Fund for Development

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT

Financial Statements and Independent Auditor's Report
For the year ended 31 December 2023

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
YEAR ENDED 31 DECEMBER 2023

Contents **Page**

Deloitte.

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Ash Shati District,
P.O. Box: 442, Jeddah 21411
Kingdom of Saudi Arabia
CR 4030297049
www.deloitte.com

INDEPENDENT AUDITOR'S REPORT

Your Excellencies the Chairman and Members of the Board of Governors
Islamic Development Bank – The Islamic Solidarity Fund for Development
Jeddah, Kingdom of Saudi Arabia

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Islamic Development Bank – The Islamic Solidarity Fund for Development ("the Fund") which comprise the statement of financial position as of December 31, 2023, and the related statement of financial activities, statement of waqf equity, statement of cash flows and statement of ghallah for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2023, and the results of its activities and its cash flows for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI").

In our opinion, the Fund has also complied with the Islamic Shari'ah Rules and Principles as determined by the Group Shari'ah Board of the Islamic Development Bank Group during the year under audit.

Basis for Opinion

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by AAOIFI. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements'* section of our report. We are independent of the Fund in accordance with the AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions ("AAOIFI Code"), and we have fulfilled our other ethical responsibilities in accordance with the AAOIFI Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information included in the Fund's 2023 Financial Statements

Other information consists of the statement of service performance appended to the Fund's financial statements for the year ended December 31, 2023, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Deloitte.

Deloitte and Touche & Co.
Chartered Accountants

INDEPENDENT AUDITOR'S REPORT - CONTINUED

Your Excellencies the Chairman and Members of the Board of Governors
Islamic Development Bank – The Islamic Solidarity Fund for Development
Jeddah, Kingdom of Saudi Arabia

Responsibilities of Management and Those Charged with Governance for the Financial Statements

These financial statements and the Fund's undertaking to operate in accordance with Shari'ah Rules and Principles are the responsibility of the Fund's management and those charged with governance.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Financial Accounting Standards issued by AAOIFI and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Auditing Standards for Islamic Financial Institutions issued by AAOIFI will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Auditing Standards for Islamic Financial Institutions issued by AAOIFI, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Deloitte.

Deloitte and Touche & Co.
Chartered Accountants

INDEPENDENT AUDITOR'S REPORT - CONTINUED

Your Excellencies the Chairman and Members of the Board of Governors
Islamic Development Bank – The Islamic Solidarity Fund for Development
Jeddah, Kingdom of Saudi Arabia

Auditor's Responsibilities for the Audit of the Financial Statements - continued

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte and Touche & Co.
Chartered Accountants

Waleed Bin Moha'd. Sobahi
Certified Public Accountant
License No. 378

8 Ramadan, 1445
March 18, 2024

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

	Notes	2023	2022
ASSETS			
Cash and cash equivalents	4	**40,869**	503,631
Commodity murabaha placements	5	**909,725**	681,440
Sukuk investments	6	**1,222,428**	904,724
Treasury assets		**2,173,022**	2,089,795
Instalment sale	7	**25,508**	29,556
Istisna'a asset	8	**5,301**	-
Loans (Qard)	9	**418,929**	366,166
Loan and project assets		**449,738**	395,722
Istisna'a investment	10	**22,153**	17,937
Ijarah investment	11	**36,001**	39,014
Investment in musharaka fund	12	**5,000**	5,000
Investment in an associate	13	**-**	257
Equity investments	14	**47,360**	49,807
Investments in funds	15	**171,959**	131,100
Wakala investments	16	**512,358**	441,921
Investment in real estate	17	**8,686**	7,439
Investment assets		**803,517**	692,475
Other Assets			
Other assets and other receivables	18	**6,052**	2,044
TOTAL ASSETS		**3,432,329**	3,180,036
LIABILITIES			
Accrued expenses and other liabilities	19	**3,300**	6,743
Grants payable	20	**70,738**	128,610
TOTAL LIABILITIES		**74,038**	135,353
WAQF EQUITY			
Waqf corpus – cash	1	**2,535,313**	2,532,947
Waqf corpus – in-kind	17	**7,439**	7,439
Accumulated surplus		**704,146**	453,254
Equity preservation fund	21	**48,839**	33,486
Fair value reserve		**62,162**	17,443
Pension fund reserve		**392**	114
TOTAL WAQF EQUITY		**3,358,291**	3,044,683
TOTAL LIABILITIES AND WAQF EQUITY		**3,432,329**	3,180,036

The notes from 1 to 32 form an integral part of these financial statements.

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
STATEMENT OF FINANCIAL ACTIVITIES
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

	Notes	2023	2022
Income from:			
Treasury assets			
Commodity murabaha placements		**64,538**	19,278
Sukuk investments	6	**40,131**	23,271
Loans and projects assets			
Instalment sale		**502**	505
Loans (Qard)		**3,479**	4,710
Istisna'a asset		**187**	-
Investment assets			
Istisna'a investment		**991**	742
Ijarah investment		**3,591**	3,196
Investment in an associate	13	**-**	4
Equity investments		**6,624**	3,248
Investments in funds		**5,459**	4,875
Wakala investments	16	**69,994**	11,921
		195,496	71,750
Impairment charge for the year	22	**(14,654)**	(16,709)
Total income		**180,842**	55,041
Employee related expenses		**(2,875)**	(2,547)
General and administrative expenses		**(1,935)**	(3,188)
Net surplus for the year		**176,032**	49,306

The notes from 1 to 32 form an integral part of these financial statements.

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
STATEMENT OF CHANGES IN WAQF EQUITY
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

	Waqf corpus – cash	Waqf corpus - in-kind	Accumulated surplus	Equity preservation Fund	Fair value reserve	Pension fund reserve	Total
Balance at 1 January 2022	2,531,664	5,355	421,406	27,140	13,162	27	2,998,754
Net surplus for the year	-	-	49,306	-	-	-	49,306
Change in fair value reserve, net (note 15a)	-	-	-	-	4,117	-	4,117
Movement during the year (note 13)	-	-	-	-	164	-	164
Grants allocation (note 20)	-	-	(11,112)	-	-	-	(11,112)
Transfer to equity preservation fund (note 21)	-	-	(6,346)	6,346	-	-	-
Movement during the year	-	-	-	-	-	87	87
Waqf corpus contribution	1,283	7,439	-	-	-	-	8,722
Return of the in-kind contribution (note 17)	-	(5,355)	-	-	-	-	(5,355)
Balance at 31 December 2022	**2,532,947**	**7,439**	**453,254**	**33,486**	**17,443**	**114**	**3,044,683**
Net surplus for the year	**-**	**-**	**176,032**	**-**	**-**	**-**	**176,032**
Change in fair value reserve, net (note 15a)	**-**	**-**	**-**	**-**	**44,587**	**-**	**44,587**
Movement during the year (note 13)	**-**	**-**	**-**	**-**	**132**	**-**	**132**
Grants allocation (note 20)	**-**	**-**	**(12,750)**	**-**	**-**	**-**	**(12,750)**
Proceeds from STI Fund (note 24)	**-**	**-**	**52,963**	**-**	**-**	**-**	**52,963**
Extinguishment of grant (note 24)	**-**	**-**	**50,000**	**-**	**-**	**-**	**50,000**
Transfer to equity preservation fund (note 21)	**-**	**-**	**(15,353)**	**15,353**	**-**	**-**	**-**
Pension Fund reserve	**-**	**-**	**-**	**-**	**-**	**278**	**278**
Waqf corpus contribution	**2,366**	**-**	**-**	**-**	**-**	**-**	**2,366**
Balance at 31 December 2023	**2,535,313**	**7,439**	**704,146**	**48,839**	**62,162**	**392**	**3,358,291**

The notes from 1 to 32 form an integral part of these financial statements.

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

	Notes	2023	2022
Cash flows from operations			
Net surplus for the year		**176,032**	49,306
Adjustment for non-cash items:			
Unrealized fair value (gain)/ loss on sukuk investments	6	**(3,682)**	14,159
Realised fair value gain on sukuk investments	6	**(702)**	-
Amortization of discount/(premium) on sukuk investments	6	**212**	(167)
Accrued coupon income on sukuk investments	6	**(3,808)**	702
Share of profit on investment in an associate	13	**-**	(4)
Gain on disposal of equity investments		**(5,377)**	(2,300)
Share of gain on wakala investments	16	**(70,437)**	(11,921)
Impairment charge	22	**14,654**	16,709
Unrealised foreign exchange (gain)/ loss on sukuk investments	6	**(29)**	10
Changes in operating assets and liabilities:			
Instalment sales		**(502)**	(511)
Istisna'a asset		**(5,376)**	-
Loans (Qard)		**(59,227)**	(46,112)
Other assets and other receivables		**(4,008)**	(12,700)
Accrued expenses and other liabilities		**(2,805)**	622
Cash generated from operations		**34,945**	7,793
Ghallah distribution	20	**(20,982)**	(20,583)
Net cash generated from / (used in) operating activities		**13,963**	(12,790)
Cash flows from investing activities			
Commodity murabaha placements		**(228,310)**	403,993
Proceeds from wakala placement with a related party		**-**	362,280
Additions to sukuk investments	6	**(444,842)**	-
Proceeds from redemption of sukuk investments		**136,031**	149,536
Istisna'a investment		**(4,069)**	(6,047)
Ijara investment, net		**2,981**	32,989
Proceeds from sale of equity investments		**25,635**	8,006
Addition to investments in funds	15	**(25,895)**	(20,179)
Proceeds from sale of investments in funds	15	**6,415**	8,818
Additions to wakala investments		**-**	(430,000)
Net cash (used in) / generated from investing activities		**(532,054)**	509,396
Cash flows from financing activity			
Proceeds from STI Fund	24	**52,963**	-
Waqf corpus introduced		**2,366**	1,283
Net cash generated from financing activities		**55,329**	1,283
Net change in cash and cash equivalents		**(462,762)**	497,889
Cash and cash equivalents at beginning of the year		**503,631**	5,742
Cash and cash equivalents at end of the year	4	**40,869**	503,631
Non-cash transactions			
Grant commitments extinguished	20	**50,000**	-
Grant payable transferred from other liabilities	20	**360**	-
Contribution of in-kind asset as waqf corpus		**-**	2,084

The notes from 1 to 32 form an integral part of these financial statements.

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
STATEMENT OF GHALLAH
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

	Notes	2023	2022
Opening balance of unappropriated ghallah		**476,997**	430,994
Ghallah for the year			
Surplus for the year		**176,032**	49,306
Fair value (gains)/ loss on sukuk investments	6	**(3,682)**	14,159
Share of loss on investment in an associate	13	**-**	(4)
Proceeds from termination of STI Fund	24	**52,963**	-
Ghallah attributed to equity preservation fund	21	**(15,353)**	(6,346)
Ghallah for the year		**209,960**	57,115
Total ghallah available for distribution		**686,957**	488,109
Ghallah distributions to beneficiaries		**(20,982)**	(20,583)
Grant commitments of STI Fund extinguished		**(50,000)**	-
Grants reclassed from other liabilities		**360**	-
Opening balance of benefits/grants payable		**128,610**	138,081
Closing balance of benefits/grants payable		**(70,738)**	(128,610)
Benefits/grants allocated as payable	20	**(12,750)**	(11,112)
Closing balance of unappropriated ghallah		**674,207**	476,997

The notes from 1 to 32 form an integral part of these financial statements.

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

1. INCORPORATION, ACTIVITIES AND OTHER

The Islamic Solidarity Fund for Development (ISFD) (the "Fund") is a waqf fund that was established by the decision of the 31st Annual Meeting of the Islamic Development Bank – Ordinary Capital Resource's ("IsDB or Bank") Board of Governors held in Kuwait on 4 Jamad-al-Awwal 1427H (corresponding to May 31, 2006) and was launched as a Waqf during the 32nd Annual Meeting of the IsDB Board of Governors held in Dakar, Senegal, on 13 Jumad-al-Awwal 1428H (corresponding to May 30, 2007).

The Fund's targeted capital (Fund's resources or Waqf Corpus) is USD 10 billion. The Fund has been established within the IsDB Group on the basis of voluntary contributions by all Member Countries (the "Waqifs") of the Bank, irrespective of their development status. The waqf corpus primarily comprises of cash contributions from IsDB and the member countries. Certain member countries have contributed land.

The purpose of the Fund is to help alleviate poverty, enhance development, eliminate illiteracy and eradicate disease and epidemics in the Organization of Islamic Corporation (OIC) member states. ISFD formally began its operations on 1 Muharram 1429H (10 January 2008). In accordance with the Fund's Regulations, the Fund is managed and administered by the Board of Directors of the Fund (the Nazir). As Nazir of the Fund, Board of Directors of ISFD are responsible for its governance and oversight.

The resources of ISFD available for utilization in its activities consist of:

I. income from the ISFD's investments;

II. funds derived from operations or otherwise accruing to the Fund; and

III. other resources received by the Fund.

As a supranational institution, the Fund is not subject to any national Funding regulation, neither is supervised by any external regulatory authority nor is subject to any taxes or tariffs.

The Fund is required to carry out its activities in accordance with the Islamic Shari'ah Rules and Principles as determined by the Shari'ah Board of the Bank.

As a waqf fund of IsDB, which is a multilateral development Bank, the Fund is not subject to any local or foreign external regulatory authorities.

2. BASIS OF PREPARATION

Statement of compliance

The financial statements are prepared in accordance with the Financial Accounting Standards ("FAS") issued by the AAOIFI and the Islamic Shari'ah Rules and Principles as determined by the Shari'ah Board of the IsDB Group. In accordance with the requirements of AAOIFI, for matters for which no AAOIFI standard exists, the Fund seeks guidance from generally accepted accounting principles as per the conceptual framework of AAOIFI provided they do not contradict the Rules and Principles of Islamic Shari'ah.

Basis of measurement

The financial statements are prepared under the historical cost convention except for the following items:

- Investments in funds are measured at fair value through changes in waqf equity;
- Equity investments are measured at fair value through changes in waqf equity;
- Investments in associate and Musharaka fund are accounted for using the equity method of accounting;
- A portion of the sukuk investments is measured at fair value through statement of financial activities designated as such at the time of initial recognition ;
- Wakala investments are accounted for using the equity method of accounting; and
- Pieces of land contributed by the member countries are measured at fair values.

Functional and presentation currency

ISFD conducts most of its operations and makes disbursements in United States Dollar (USD). Therefore, the functional and presentation currency of ISFD is USD. Except as otherwise indicated, financial information presented in USD has been rounded to the nearest thousands.

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES

a) Financial assets and liabilities

Financial assets and liabilities are recognized in the statement of financial position when the Fund becomes a party to the related contractual rights or obligations.

A financial asset is any asset that is cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the Fund.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Fund.

Recognized financial assets and financial liabilities are initially measured at fair value, for concessional loans (Qard) fair value is best evidenced by the transaction amount. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through statement of financial activities) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through statement of financial activities are recognized immediately in statement of financial activities.

Financial assets

On initial recognition, financial assets are classified and measured at either of (i) amortised cost, (ii) fair value through changes in waqf equity or (iii)fair value through statement of financial activities, on the basis of both:

a. the institution's business model for managing the investments; and
b. the expected cash flow characteristics of the investment in line with the nature of the underlying Islamic finance contracts.

Financial assets comprise investments in debt-type, equity-type financial instruments and other investment instruments.

(i) Classification

Debt-type instruments

Categorization
Debt-type instruments are instruments, whereby the transaction structure results in creation of a monetary or non-monetary liability;.

Investments in debt-type instruments are categorized into following a) non-monetary debt-type instruments or b) monetary debt-type instruments.

a) Non-monetary debt-type instruments – these are debt-type instruments whereby the transaction structure results in creation of a non-financial liability or usufruct or services to be delivered in future; and are classified into the following categories: 1) at amortized cost, 2) at fair value through changes in waqf equity or 3) fair value through statement of financial activities

A non-monetary debt-type instrument is classified and measured at amortised cost only if investment is held within a business model whose objective is to hold such investment in order to collect expected cash flows till maturity of the instrument and the investment have a reasonably determinable effective yield.

A non-monetary debt-type instrument classified and measured at fair value through changes in waqf equity only if the investment is held within a business model whose objective is achieved by both collecting expected cash flows and selling the investment and the investment have a reasonably determinable effective yield.

A non-monetary debt-type instrument classified and measured at fair value through statement of financial activities include investments held for trading or designated at fair value through statement of financial activities at inception. At inception, a non-monetary debt-type instrument can only be designated at fair value through statement of financial activities if it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise on measuring the assets or liabilities or quasi equity recognising the gains or losses on them on different bases.

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

b) Monetary debt-type instruments – these are debt-type instruments whereby the transaction structure results in creation of a financial liability / debt; and are classified and measured at cost, till the time the transaction at the back-end is executed: and at amortised cost thereafter.

Equity-type instruments

Equity-type instruments are instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities and quasi-equity balances, including ordinary equity instruments and such other structured investment instruments that classify as equity instrument.

Investments in equity-type instruments are classified into the following categories: 1) at fair value through statement of financial activities or 2) at fair value through changes in waqf equity.

Equity-type investments classified and measured at fair value through statement of financial activities include investments held for trading or designated at fair value through statement of financial activities.

An investment is classified as held for trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Any investments that form part of a portfolio where there is an actual pattern of short-term profit taking are also classified as 'held for trading'.

Investments designated at fair value through statement of financial activities are those which are managed and evaluated internally for performance on a fair value basis.

On initial recognition, the Fund makes an irrevocable election to designate certain equity instruments that are not designated at fair value through statement of financial activities to be classified as investments at fair value through changes in waqf equity.

Other investment instruments

Other investment instruments are investment instruments which do not meet the definition of either debt-type or equity-type instruments.

Other investment instruments are classified into the following categories: 1) at amortized cost, 2) at fair value through changes in waqf equity or 3) fair value through statement of financial activities.

Other investment instrument is classified and measured at amortised cost only if investment is held within a business model whose objective is to hold such investment in order to collect expected cash flows till maturity of the instrument and the investment have a reasonably determinable effective yield.

Other investment instrument classified and measured at fair value through changes in waqf equity only if the investment is held within a business model whose objective is achieved by both collecting expected cash flows and selling the investment and the investment have a reasonably determinable effective yield.

Other investment instrument classified and measured at fair value through statement of financial activities include investments held for trading or designated at fair value through statement of financial activities at inception. At inception, other investment instrument can only be designated at fair value through statement of financial activities if it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise on measuring the assets or liabilities or quasi equity derecognising the gains or losses on them on different bases.

Other investment instruments include the Fund investments with its related parties in various projects through istisna'a and ijarah.

(ii) Recognition and derecognition
Investment securities are derecognised at the trade date i.e., the date that the Fund contracts to purchase or sell the asset, at which date the Fund becomes party to the contractual provisions of the instrument. Investment securities are derecognised when the rights to receive cash flows from the financial assets have expired or where the Fund has transferred substantially all risk and rewards of ownership.

(iii) Measurement

Initial recognition
Investment securities are initially recognised at fair value plus transaction costs, except for transaction costs incurred to acquire investments at fair value through statement of financial activities which are charged to statement of financial activities.

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

Subsequent measurement
Investments at fair value through statement of financial activities are re-measured at fair value at the end of each reporting period and the resultant re-measurement gain or loss is recognised in the statement of financial activities in the period in which they arise. Subsequent to initial recognition, investments classified at amortised cost are measured at amortised cost using the effective profit method less any impairment allowance. All gains or losses arising from the amortisation process and those arising on de-recognition or impairment of the investments, are recognised in the statement of financial activities.

Investments at fair value through changes in waqf equity are re-measured at their fair values at the end of each reporting period and the resultant gain or loss, arising from a change in the fair value of investments is recognized in the statement of changes in waqf equity and presented in a separate fair value reserve within waqf equity. When the investments classified at fair value through changes in waqf equity are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in waqf equity is transferred to the statement of financial activities.

Investments which do not have a quoted market price or other appropriate methods from which to derive a reliable measure of fair value when on a continuous basis cannot be determined, are stated at cost less impairment allowance, if any.

(iv) Measurement principles

Amortised cost measurement
The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus capital repayments, plus or minus the cumulative amortisation using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The calculation of the effective profit rate includes all fee and points paid or received that are an integral part of the effective profit rate.

Fair value measurement
Fair value is the amount for which an asset could be exchanged, or an obligation settled between well informed and willing parties (seller and buyer) in an arm's length transaction. The Fund measures the fair value of quoted investments using the market bid price for that instrument at the close of business on the statement of financial position date. For investment where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument, which is substantially the same or is based on the assessment of future cash flows. The cash equivalent values are determined by the Fund by discounting future cash flows at current profit rates for contracts with similar term and risk characteristics.

The table below summarizes Fund's major financial assets and liabilities and their measurement and recognition principles. Detailed accounting policies are provided in the relevant sections below. Majority of the Fund's financial assets are held in the name of IsDB on behalf of the Fund.

Item	**Recognition principles**
Commodity murabaha placements	Amortized cost less impairment
Sukuk investments classified as either at:	Fair value through statement of financial activities; or amortized cost less impairment
Syndicated Murabaha	Amortized cost less impairment
Installment sale	Amortized cost less impairment
Loans (Qard)	Disbursements plus accrued service fee less impairment
Istisna'a investment	Amortized cost less impairment
Ijarah investment	Amortized cost less impairment
Investment in musharaka fund	Fair value through changes in waqf equity
Equity investments	Fair value through changes in waqf equity
Investments in funds	Fair value through changes in waqf equity
Wakala investments	Equity method of accounting
Investment in real estate	Fair value through changes in waqf equity
Due from related parties	Cost
Due to related party	Cost
Grant payable	Cost

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset only when there is a legally enforceable right to set off the recognized amounts and the Fund intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under Financial Accounting Standards ("FAS") issued by AAOIFI, or for gains and losses arising from a group of similar transactions.

Financial liabilities

The Fund derecognizes financial liabilities when, and only when, its contractual obligations are discharged or cancelled, or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

The Fund also derecognizes a financial liability when its terms are modified and the cash flows under the modified terms are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least ten percent different from the discounted present value of the remaining cash flows of the original financial liability. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in the statement of financial activities and statements of changes in waqf equity.

b) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank balances and commodity murabaha placements through banks having a maturity of three months or less from the date of placement that are subject to an insignificant risk of changes in their fair value. Cash and cash equivalents are carried at cost less impairment in the statement of financial position.

c) Commodity murabaha placements

Commodity murabaha placements entails the purchase and sale of commodities at fixed profit. The buying and selling of commodities are limited by the terms of agreement between the Fund and other Islamic and conventional financial institutions. Commodity murabaha placements are carried at amortized cost less provision for impairment.

d) Sukuk investments

Sukuk are certificates of equal value representing undivided share in ownership to tangible assets, usufructs, services or (in the ownership) of assets of a particular project, classified as either measured at amortised cost or at fair value through the statement of financial activities.

Sukuk investments that are initially designated at fair value through statement of financial activities, if it eliminates or significantly reduces a measurement or recognition inconsistency. On initial recognition, these investments are measured at fair value based on quoted market prices. At the end of each reporting year, such investments are re- measured at fair value with the resulting gain or loss recognized in the statement of financial activities and classified within income from sukuk investments.

Sukuk investments that are acquired with positive intent and ability to hold them to contractual maturity are measured atR amortised cost less allowance for credit losses.

e) Instalment sale

Sale whereby the Fund sells to a customer, an asset which it has purchased and acquired based on a promise from that customer to buy. The selling price includes the profit margin. Amounts receivable from the instalment sale transactions are stated at selling price, less unearned income, less repayments and allowance for credit losses.

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

f) Istisna'a assets

A sale contract between two parties whereby IsDB undertakes to construct, for its customer, a specific asset or property according to certain pre-agreed specifications to be delivered during a pre-agreed period of time in consideration of a pre-determined price, which comprises the cost of construction and a profit amount.

The work undertaken is not restricted to be accomplished by the Bank alone and the whole or part of the construction/development can be undertaken by third parties under the control and responsibility of the Bank.

Istisna'a assets in progress represent disbursements made as well as accrued income against assets being either constructed or manufactured Istisna'a profit (difference between the sale price of asset or property to the customer and the Bank total Istisna'a cost) is internally accounted for on a time-apportioned basis over the period of the contract based on the principal amount outstanding.

The Fund has also maintained investments in syndicated istisna'a fund whereby the Fund carries the same at amortised cost less provision for impairment.

g) Loan (Qard)

Loan (Qard) is a long-term concessional (non-interest bearing) facility provided to finance development projects in Member Countries bearing a service fee at a rate sufficient to cover the Fund's actual administrative expenses.

Loan (Qard) amounts outstanding represent amounts disbursed in respect of projects plus accrued service fees, less repayments received and allowance for credit losses.

h) Ijarah

Ijarah is an agreement (either direct or through a syndicate) whereby IsDB, acting as a lessor, purchases assets according to the customer request (lessee), based on his promise to lease the asset for an agreed rent for a specific period. IsDB transfers the right to the lessee for a rental payment for the lease period. Throughout the Ijarah period, IsDB retains ownership of the leased asset. At the end of the Ijarah period, IsDB transfers title of the asset to the lessee without consideration.

The Fund has maintained investments in syndicated ijarah fund whereby the Fund carries the same at amortised cost less provision for impairment.

i) Investment in musharaka fund

Musharaka is partnership in which the Fund contributes a certain percentage of capital and is entitled to share profits or loss proportionately. Musharaka is stated at net asset value being the cost (expected to be recovered) less amounts of Musharaka capital returned.

j) Investment in an associate

In accordance with IsDB's Articles of Agreement, Articles 17.2 and 17.5 which is applicable to the Fund as well. "The Fund shall not acquire a majority or controlling interests in the share capital of the project in which it participates except when it is necessary to protect the Fund's interest or to ensure the success of such project or enterprise" and "The Fund shall not assume responsibility for managing any project or enterprise in which it has invested except when necessary to safeguard its investment".

Consequently, Fund does not exercise control over any of its investments to obtain benefits regardless of percentage of voting rights. For investments in which the Fund holds 20 per cent or more of the voting rights the Fund is presumed to have significant influence and hence such investments are accounted for and classified as investments in associates.

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost (including transaction costs directly related to acquisition of investment in associate). The Fund's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. The Fund's share of its associates' post-acquisition profits or losses is recognised in the statement of financial activities; its share of post-acquisition movements in reserves is recognised in changes in waqf equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment and reduced by dividends. When the Fund's share of losses in an associate equal or exceeds its interest in the associate, including any other unsecured receivables, the Fund does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Fund determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If this is the case the Fund calculates the amount of impairment as being the difference between the fair value of the associate and the carrying value and recognises the amount in the statement of financial activities. Dilution gains and losses in associates are recognised in the statement of financial activities. The Fund's share of the results of associates is based on financial statements available up to a date not older than three months of the date of the statement of financial position adjusted for material transaction during the intervening period and conforming to the accounting policies of the Fund.

k) Equity investments

Equity investments are intended to be held for a long-term period and may be sold in response to liquidity needs, changes in fair values or within the overall context of the Fund's developmental activities. Accordingly, the Fund has opted to designate all of its equity investments at fair value through waqf equity.

Listed investments are measured at market value.

Unlisted investments in equities and funds measured at fair value through waqf equity.

Unlisted investments in equities and funds are carried at fair values determined by independent valuers. Initially and subsequently such investments are measured at fair value, and any unrealized gains or losses arising from the change in their fair value are recognized directly in waqf equity until the investment is derecognized or determined to be impaired, at which time the cumulative gain or loss previously recorded in waqf equity is recognized in the statement of financial activities. Any subsequent fair value gains post impairment is not reversed through the statement of financial activities and are recognized in fair value reserve in waqf equity.

l) Investments in funds

Investments in funds comprise of equity and other fund investments and are intended to be held for a long-term period and may be sold in response to needs for liquidity or changes in prices. Initially and subsequently such investments are measured at fair value, and any unrealized gains or losses arising from the change in their fair value are recognized directly in waqf equity until the investment is derecognized or determined to be impaired, at which time the cumulative gain or loss previously recorded in waqf equity is recognized in the statement of financial activities. Any subsequent fair value gains post impairment is not reversed through the statement of financial activities and are recognized in fair value reserve in waqf equity.

Investments in funds whose fair value cannot be reliably measured are carried at cost less provision for any impairment in the value of such investments.

m) Investment in real estate

Investment in real estate are properties held to earn rentals and / or for capital appreciation, are measured initially at fair value and subsequently also at fair value since these represent specified assets contributed by one of the Waqifs. Any unrealised gain/losses resulting from re-measurement at fair value of investment in real estate is recorded directly in waqf equity under fair value reserve.

n) Wakala investments

Wakala is an agreement whereby one party (the "Muwakkil" / "Principal") appoints an investment agent (the "Wakeel" / "Agent") to invest the Muwakkil's funds (the "Wakala Capital") on the basis of an agency contract (the "Wakala") in return for a specified fee. The funds are managed in a fiduciary capacity and the Wakeel has no entitlement to these assets. Muwakkil bear all of the risks and earn all of the rewards on these investments except where the actual profit exceeds the expected profit on the investment. The agency fee can be a lump sum or a fixed percentage of the Wakala Capital. The agent decides in respect to the investments to be made from the Wakala Capital, subject to the terms of the Wakala agreement. However, the Wakeel bears the loss in cases of misconduct, negligence or violation of any of the terms of the Wakala agreements, accordingly, they are recognized on the statement of financial position.

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

The Fund applies the wakala venture approach under which the Fund follows equity method of accounting, since the investments are made into transferrable assets and pools of assets (primarily stocks) where such assets are subject to frequent changes and replacements due to rebalancing and market conditions in accordance with the strategic and dynamic asset allocation at the discretion of the agent. Further, the role of the agent is not limited whereby the agent performs day-to-day asset management function and, where applicable, is also responsible for replacement of assets or recoveries against them. For details of equity method of accounting and impairment, please refer investment in associates' policy.

o) Other Investments

The Fund has maintained ijarah and istisna'a investments whereby the Fund carries the same at amortised cost less allowance for impairment.

p) Waqf corpus

Waqf corpus is the amount contributed by the Waqif in the form of cash, in-kind assets or specified assets:

In case of cash contribution or contribution of in-kind assets (e.g., tangible or intangible assets or investments etc.), the Waqf corpus is their cash equivalents (cash waqf) and in case of specified assets, their value as of the date of the contribution comprises of the Waqf corpus (non-cash waqf).

Contributions by Waqif or others, not specifically defined as the Waaf corpus in terms of Waqf deed (or other form of declaration by Waqif), are not considered as the Waqf corpus and are recognised directly in statement of financial activities.

q) Assets comprising waqf corpus

Initial recognition
Assets comprising of the Waqf corpus are initially recognized at fair value, with a corresponding amount recognized as waqf equity. For cash and in-kind assets contributed by the waqif their cash and cash equivalent value is the fair value of the assets.

Assets comprising of the Waqf corpus not expected to generate economic benefits (e.g., Masjid, manuscripts etc.) are initially recognized at nominal value.

Subsequent measurement
Assets comprising of the Waqf corpus (excluding cash contribution or contribution of in-kind assets) are measured at fair value, with a corresponding effect of fair value gains and losses to be recognized directly in Waqf equity. No depreciation or amortization is charged on such assets. The fair value is reviewed generally at the end of each financial reporting period and is re-measured in case of indications of significant changes from the previous valuation. Any subsequent changes in fair values are recognized directly in waqf equity under fair value reserve.

Income arising from assets comprising of the Waqf corpus is recognized in the statement of financial activities.

Assets comprising of the Waqf corpus which are not expected to generate economic benefits, other than the benefit of usage, (e.g., Masjid, manuscripts etc.) are carried at originally assigned nominal value and disclosed appropriately.

All other assets and liabilities including assets procured through proceeds of cash or in-kind contributions to the Waqf equity are subsequently measured in line with the accounting policies of the Fund.

In case of cash waqf, assets comprising waqf corpus are not required to be disclosed separately from the other assets not comprising waqf corpus.

r) Ghallah

Ghallah represents the net surplus from financial activities and other gains/losses attributable (adjusted for non-cash items and items not available for distribution except for depreciation, amortization and impairment on assets) to the beneficiaries.

s) Restricted funds

Funds received specifically to carry out certain activities or to be utilized for particular purposes like collection and distribution of Zakah or collection and distribution of specific contributions for a specific purpose are considered restricted funds.

Restricted funds received (distinguishing between Zakah and other significant restricted funds) are initially recorded as a liability. Their utilization, as well as other movements therein, are adequately disclosed in the notes to the financial statements. Corresponding amounts of respective assets pertaining to restricted funds are also required to be disclosed separately.

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

t) Revenue recognition

Commodity Murabaha placements through banks

Income from placements with other Islamic banks and conventional banks is recognized on effective yield basis over the period of the contract based on the principal amounts outstanding.

Sukuk investments

Income from sukuk investments is accrued on an effective yield basis and is recognized in the income statement. For the sukuk designated at fair value through statement of financial activities, gains and losses resulting from the re-measurement of the fair values at the reporting date are also recognized in the statement of financial activities.

Income from istisna'a and ijarah investments

Income from investments in syndicated istisna'a fund and investment in syndicated ijarah is recognised using the effective yield over the period of transactions as syndicated to the Fund.

Income from instalment sale and istisna'a

Income from instalment sale and istisna'a is recognized using the effective yield over the period of respective transactions.

Dividend income from equity investments and investments in funds

Dividend income is recognized when the right to receive the payments is established.

Wakala investment

Revenues, expenses, gains and losses, arising from investment in Wakala venture as well as the respective agent's remuneration (including both, fixed fee and variable remuneration is recognized periodically, on a net basis.

Loan (Qard)service fees

ISFD charges loan (qard) service fee only to cover its actual administrative costs related to the signature of an agreement and disbursements made to the member countries. Thus, the loan (qard) service fee is calculated during the financial periods starting from the signature date through to the date of the last disbursement only and not throughout the loan (qard) tenure (to maturity date).

The loan (qard) service fee is allocated and recognised in the statement of financial activities over the financial period.

u) Grant allocation from waqf equity

The Fund recognizes allocation of grants, whether conditional or unconditional, as an appropriation from its retained surplus when those are approved by the appropriate authority with a corresponding credit to liabilities. When such grants are disbursed to the beneficiaries such liability is reduced accordingly as and when the conditions are satisfied. Any unutilized grants which are either cancelled, returned or for which the time period lapses are credited to retained surplus/accumulated deficit.

v) Impairment of financial assets

Impairment of Financial Assets held at amortized cost

The fund applies the credit loss approach to financing instruments measured at amortized cost, loan commitments, and treasury investments held at amortized cost. To assess the extent of credit risk, the financial assets are divided into three (3) categories:

i. *Stage 1 – No significant increase in credit risk;*
ii. *Stage 2 – Significant increase in credit risk (SICR); and*
iii. *Stage 3 – Credit impaired financial assets.*

Allocation to different stages is based on the degree of deterioration in the credit quality of the financial asset. At each reporting date, the Fund assesses whether there has been a significant increase in credit risk. The Fund monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Fund will measure the loss allowance based on lifetime rather than 12-month ECL. Currently, the Fund has assessed Nil loss allowance on issued loan commitments and financial guarantee contracts.

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Fund compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Fund considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Fund's historical experience and expert credit assessment including forward-looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

Forward-looking information includes the future prospects of the countries and industries in which the Fund's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. The Fund allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing rating transactions and/or days past due, given that macro-economic scenario data and models for certain countries are not readily available, in such cases proxy scenarios and models have been used.

The PDs used are forward-looking and the Fund uses the same methodologies and data used to measure the loss allowance for ECL.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However, the Fund still considers separately some qualitative factors to assess if credit risk has increased significantly.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD.

All financial assets are allocated to stage 1 on initial recognition. However, if a significant increase in credit risk is identified at the reporting date compared with initial recognition, then the asset is transferred to stage 2 (Refer to note 30 Risk management). If there is objective evidence of impairment, then the asset is credit-impaired and allocated to stage 3 as described in note 30 Risk management.

With the exception of Purchased or originated credit-impaired (POCI) financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2).
- As for instruments classified in stage 3, loss allowance is quantified as the product of LGD and exposure at default ("EAD") of each instrument.

Credit-impaired financial assets
A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events

For Sovereign:
Prolonged Civil War/ external arms conflict
For Non-Sovereign:
Company files for bankruptcy
Cancellation of Operating License
Clear evidence that the company will not be able to make the future repayments

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Fund assesses whether debt instruments that are financial assets measured at amortised cost or FVTWE are credit-impaired at each reporting date.

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

Purchased or originated credit-impaired (POCI) financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Fund recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the financial asset, changes to the timing of the cash flows of the financial asset (principal and profit repayment), reduction in the amount of cash flows due (principal and profit forgiveness).

When a financial asset is modified the Fund assesses whether this modification results in derecognition. In accordance with the Fund's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Fund considers the following:

A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective profit rate. If the difference in present value is greater than 10% the Fund deems the arrangement is substantially different leading to derecognition. When performing a quantitative assessment of a modification or renegotiation of a credit-impaired financial asset or a purchased or originated credit-impaired financial asset that was subject to a write-off, the Fund considers the expected (rather than the contractual) cash flows before modification or renegotiation and compares those with the contractual cash flows after modification or renegotiation.

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated- credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Fund monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Fund determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- the remaining lifetime PD at the reporting date based on the modified terms.

For financial assets modified as part of the Fund's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Fund's ability to collect the modified cash flows taking into account the Fund's previous experience of similar forbearance action, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL. If a forborne loan is credit impaired due to the existence of evidence of credit impairment (see above), the Fund performs an ongoing assessment to ascertain if the problems of the exposure are cured, to determine if the loan is no longer credit-impaired. The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant Increase in credit risk.

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

Where a modification does not lead to derecognition the Fund calculates the modification loss by comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Modification losses, if any, for financial assets are included in the statement of financial activities in 'Losses on modification of financial assets'. Then the Fund measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Fund derecognised a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Fund neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Fund recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Fund retains substantially all the risks and rewards of ownership of a transferred financial asset, the Fund continues to recognise the financial asset and also recognises a collateralized borrowing for the proceeds received.

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Fund considers the following as constituting an event of default:
- All contracts or obligors rated 21 in the Fund's internal scale (equivalent to C in Moody's scale and D in both S&P's and Fitch Ratings' scale); or
- Moreover, the Fund also uses a rebuttable presumption based on DPD. This rule is applied if the contractual payments are due for more than 180 days for sovereign contracts and 90 days for non-sovereign ones, unless there is reasonable and supportable information indicating that the contract is not credit-impaired.

This definition of default is used by the Fund for accounting purposes as well as for internal credit risk management purposes. The definition of default is appropriately tailored to reflect different characteristics of different types of assets.
The Fund uses a variety of sources of information to assess default which are either developed internally or obtained from external sources. As noted in the definition of credit impaired financial assets above, default is evidence that an asset is credit impaired. Therefore, credit impaired assets will include defaulted assets, but will also include other non-defaulted given the definition of credit impaired is broader than the definition of default.

Write-off

When the non-sovereign exposure is deemed uncollectible, it is written-off against the related impairment provision and any excess loss is recognized in the statement of financial activities. Such assets are written-off only after all necessary procedures have been completed and the amount of loss has been determined. Subsequent recoveries of amounts previously written-off are credited to the Fund's statement of financial activities. Sovereign exposures are not written-off based on the Fund's past experience, since its inception. Fund has not written off any non-sovereign financial assets during the current and prior year.

Impairment of investments held at fair value through changes in waqf equity

The Fund exercises judgment to consider impairment on the financial assets and investments in real estate through changes in waqf equity, at each reporting date. A financial asset held at fair value through changes in waqf equity is considered impaired if it has suffered a significant or prolonged decline in its value below cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Fund evaluates among other factors, the normal volatility in share prices. In addition, the Fund considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The Fund considers 30% or more, as a reasonable measure for significant decline below its cost, irrespective of the duration of the decline. Prolonged decline represents decline below cost that persists for 1 year or longer irrespective of the amount.

w) Zakat and tax

The Fund is considered a Bait-ul-Mal (public money), hence is not subject to Zakat or any Taxes.

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

x) Subsequent event

The financial statements are adjusted to reflect events that occurred between the reporting date and the date when the financial statements are authorized for issue, provided they give evidence of conditions that existed at the reporting date.

CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of financial statements in accordance with FAS issued by AAOIFI requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and incomes and expenses. It also requires Management to exercise its judgment in the process of applying the Fund's accounting policies. Such estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. The most significant judgments and estimates are summarised below:

Functional and presentation currency: Since most of the operations are conducted in USD and disbursements are made in USD, ISFD's functional and presentation currency is USD.

SIGNIFICANT JUDGEMENTS

Going concern: The Fund's management has made an assessment of the Fund's ability to continue as a going concern and is satisfied that the Fund has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Fund's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Comingling of funds total assets: The total assets of the Fund are represented by the waqf corpus as well as the accumulated surplus. Since the Fund is a cash waqf (except for investment in real estate represented by in-kind corpus), total assets have not been split between those representing waqf corpus and those representing other components of waqf equity (other than in-kind corpus) and those represented by the grants payable. Management believes that the most appropriate representation of the accumulated surplus and grants payable would be commodity Murabaha placements, if such a split was to be presented on the statement of financial position. Management continues to monitor the Fund resources on a totality basis.

Impairment of financial assets designated at fair value through waqf equity: The Fund's management has established thresholds to determine significant or prolonged decline in the value below cost of its financial assets designated at fair value through waqf equity as described in the policy notes above, it continues to exercise judgement in making impairment decisions consistently using the said threshold as well as taking into account all the relevant factors in determining that the established thresholds remain relevant as of period ends.

Ghallah available for distribution: The definition of Ghallah as per FAS 37 excludes items that are not readily available for distribution. Whilst the standard provides certain examples, however, management exercises judgement in including or excluding certain items from the calculation of Ghallah for the year based on either the contractual terms of the assets generating those returns or the expected period of their realization.

SIGNIFICANT ESTIMATES

Expected credit losses against financial assets

Expected credit losses against financial assets – The measurement of credit losses under FAS 30 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

Expected credit losses against financial assets (continued)

The Fund's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

(i) The Fund's internal credit grading model, which assigns PDs to the individual grades;
(ii) The Fund's criteria for assessing if there has been a significant increase in credit risk necessitating the loss allowance to be measured on a 12 month or lifetime ECL basis and the applicable qualitative assessment;
(iii) Development of ECL models, including the various formulas and the choice of inputs;
(iv) Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs; and
(v) Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets is measured by using valuation techniques which require a certain degree of judgement and estimation.

Nonetheless, the actual amount that is realised in a future transaction may differ from the current estimate of fair value and may still be outside management estimates, given the inherent uncertainty surrounding valuation of unquoted investments.

Employee benefits liabilities

The Fund uses the projected unit credit method to determine the net present value of its defined benefit plans and the related service costs. In this regard, the Fund uses certain assumptions of discount rates, expected return on plan assets and rate of salary increases, which may differ from actual experiences. These estimates are updated on annual basis.

The effect of new and revised financial accounting standards

The following new FASs, which became effective for annual periods beginning on or after 1 January 2023, have been adopted in these financial statements if found to be applicable.

Financial Accounting Standard – 39 "Financial Reporting for Zakah"

This standard aims at setting out accounting treatment of Zakah in the books of an Islamic financial institution, including the presentation and disclosure in its financial statements. The objective of this standard is to establish the principles of financial reporting related to Zakah attributable to different stakeholders of an Islamic financial institution. This standard shall be effective for the financial periods beginning on or after 1 January 2023 with early adoption permitted. The Fund has evaluated the impact of this standard and concluded that it is not applicable as the Fund is not a zakah payer.

Financial Accounting Standard - 41 "Interim Financial Reporting"

This standard prescribes the principles for the preparation of interim financial reports and the relevant presentation and disclosure requirements, emphasizing the minimum disclosures specific to the Islamic financial institutions in line with AAOIFI FAS.

The standard considers and aligns with the relevant requirements with FAS 1 "General Presentation and Disclosures in the Financial Statements" and other recently issued / revised FASs. This standard also provides an option for an institution to prepare and publish a complete set of financial statements at interim reporting dates in line with the respective FASs. This standard shall be effective for financial periods beginning on or after 1 January 2023.

The Fund has evaluated the requirements of the standard and concluded that it is not applicable on the Fund. The Fund, being exempt from external laws and regulations, is not required under law or regulation to prepare interim financial reports neither it prepares interim financial reports on a voluntary basis.

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

Financial Accounting Standard - 44 "Determining control of assets and business"

This standard prescribes the criteria of obtaining control of assets, i.e., having risks and rewards incidental to ownership of assets, including those related to underlying assets of instruments such as Sukuk and participatory arrangements such as Mudaraba, Musharaka and Wakala. Furthermore, the standard addresses circumstances when control is lost.

This standard also sets out the principles for assessing the need to consolidate financial statements in case an institution controls a business, taking the form of an independent legal entity. This standard is effective immediately and applicable for and after the financial periods ended 31 December 2023 of the Fund. The Fund has evaluated the provisions of this standard and concluded that the Fund is already in compliance with the requirements of the Standard.

Standards issued but not yet effective

The following new FASs have been issued. The Fund intends to adopt these financial reporting standards when they become effective and is currently assessing the impact of these new FASs on its financial statements and systems.

(i) Financial Accounting Standard – 40 "Financial Reporting for Islamic Finance Windows"

The objective of this standard is to establish financial reporting requirements for Islamic financial services offered by conventional financial institutions (in the form of Islamic finance windows). This standard shall be effective on the financial statements of the Islamic finance window of conventional financial institutions for the periods beginning on or after 1 January 2024 with early adoption permitted, subject to simultaneous compliance of Financial Accounting Standard – 1 (Revised 2021) "General Presentation and Disclosures in the Financial Statements". This standard is not applicable to the Fund as it is not a conventional financial institution.

(ii) Financial Accounting Standard – 1 (Revised 2021) "General Presentation and Disclosures in the Financial Statements"

The revised FAS 1 describes and improves the overall presentation and disclosure requirements prescribed in line with the global best practices and supersedes the earlier FAS 1. It is applicable on all the Islamic financial institutions and other institutions following AAOIFI FASs. This standard sets out the overall requirements for presentation of financial statements, the minimum requirements for the contents of the financial statements and a recommended structure of financial statements that facilitate faithful presentation in line with Shari'ah principles and rules and comparability with the institution's financial statements of previous periods, and the financial statements of other institutions. This standard shall be effective on the financial statements of the institutions beginning on or after 1 January 2024 with early adoption permitted. The Fund is currently evaluating the impact of this standard on its financial statements.

(iii) Financial Accounting Standard - 42 "Presentation and Disclosures in the Financial Statements of Takaful Institutions"

This standard sets out the principles for the presentation and disclosure for the financial statements of Takaful institutions. It aims to ensure that the Takaful institutions faithfully present the information related to these arrangements to the relevant stakeholders as per the contractual relationship between the parties and the business model of the Takaful business in line with the Shari'ah principles and rules.

This standard improves the presentation and disclosure requirements, in line with the global best practices, and supersedes the existing FAS 12 "General Presentation and Disclosures in the Financial Statements of Islamic Insurance Companies".

This standard shall be effective on the annual financial statements of the Takaful institutions beginning on or after 01 January 2025. FAS 42 shall not impact the financial statements as the Fund is not a Takaful institution.

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

(iv) Financial Accounting Standard - 43 "Accounting for Takaful: Recognition and Measurement"

This standard sets out the principles for the recognition, measurement and reporting of Takaful arrangements and ancillary transactions for the Takaful institutions. It aims to ensure that the Takaful institutions faithfully present the information related to these arrangements to the relevant stakeholders as per the contractual relationship between the parties and the business model of the Takaful business in line with the Shari'ah principles and rules. The requirements of this standard are duly aligned with the international best practices of financial reporting for the insurance business.

This standard shall be effective on the financial statements of the Takaful institution for the annual financial reporting period beginning on or after 01 January 2025. FAS 43 shall not impact the financial statements as the Fund is not a Takaful institution.

(v) Financial Accounting Standard - 45 "Quasi-Equity (Including Investment Accounts)"

This standard prescribes the principles of financial reporting related to the participatory investment instruments (including investment accounts) in which an Islamic financial institution controls the underlying assets (mostly, as a working partner), on behalf of the stakeholders other than the owners' equity. Such instruments (including, in particular, the unrestricted investment accounts) normally qualify for on-balance sheet accounting and are reported as quasi-equity.

This standard provides the overall criteria for on-balance-sheet accounting for participatory investment instruments and quasi-equity, as well as, pooling, recognition, derecognition, measurement, presentation and disclosure of quasi-equity. It further addresses financial reporting related to other quasi-equity instruments and certain specific issues.

This standard shall be effective for the financial reporting period beginning on or after 01 January 2026 with early adoption permitted. The Fund does not have quasi equity and hence the Standard is not applicable.

(vi) Financial Accounting Standard - 46 "Off-Balance Sheet Assets Under Management"

This standard prescribes the criteria for characterization of off-balance sheet assets under management and the related principles of financial reporting in line with the "AAOIFI conceptual framework for financial reporting".

This standard encompasses the aspects of recognition, derecognition, measurement, selection and adoption of accounting policies etc relating to off balance sheet assets under management, as well as, certain specific aspects of financial reporting, e.g. impairment and onerous commitments by the institution. The standard also includes the presentation and disclosure requirements, particularly aligning the same with the requirements of FAS 1 "General Presentation and Disclosures in the financial statements" in respect of the Statement of changes in the off- balance sheet assets under management.

This standard shall be effective for the financial reporting period beginning on or after 01 January 2026 with early adoption permitted. This standard shall be adopted at the same time as adoption of FAS 45 "Quasi-Equity (Including Investment Accounts)". FAS 46 shall not impact the financial statements as the Fund does not manage third party funds for investment purposes.

(vii) Financial Accounting Standard - 47 "Transfer of Assets Between Investment Pools"

This standard prescribes the financial reporting principles and disclosure requirements applicable to all transfer of assets between investment pools related to (and where material, between significant categories of) owners' equity, quasi-equity and off-balance sheet assets under management of an institution. It requires adoption and consistent application of accounting policies for such transfers in line with Sha'riah principles and rules and describes general disclosure requirements in this respect.

This standard shall be effective for the financial reporting period beginning on or after 01 January 2026 with early adoption permitted. The Standard is not applicable to the Fund as it does not have investment pools.

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

4. CASH AND CASH EQUIVALENTS

	2023	202
Cash at bank	23,941	6,589
Short-term commodity murabaha placements (note 5)	16,928	497,042
	40,869	503,631

Commodity murabaha placements included within cash equivalents are those interbank placements, which have an original maturity equal to, or less than three months. Placements with original maturities of above three months are disclosed in note 5.

5. COMMODITY MURABAHA PLACEMENTS

	2023	2022
Commodity murabaha placements through banks	900,960	1,172,727
Accrued income	25,741	5,778
Short-term commodity murabaha placements (note 4)	(16,928)	(497,042)
Provision for impairment (note 22)	(48)	(23)
	909,725	681,440

6. SUKUK INVESTMENTS

	Counterparty rating					
31 December 2023	AAA	AA+ to AA-	A+ to A-	BBB to lower	Unrated	Total
Sukuk investments classified as fair value though statement of financial activities:						
- Financial institutions	128,773	-	10,216	-	-	138,989
- Other entities	-	-	-	-	10,668	10,668
	128,773	-	10,216	-	10,668	149,657
Sukuk investments classified at amortised cost:						
- Governments	-	-	45,359	481,516	-	526,875
- Financial institutions	315,642	-	25,448	60,318	-	401,408
- Other entities	-	-	93,915	50,573	-	144,488
	315,642	-	164,722	592,407	-	1,072,771
Total	444,415	-	174,938	592,407	10,668	1,222,428

	Counterparty rating					
31 December 2022	AAA	AA+ to AA-	A+ to A-	BBB to lower	Unrated	Total
Sukuk investments classified as fair value though statement of financial activities:						
- Governments	-	40,574	-	-	2,033	42,607
- Financial institutions	124,534	-	10,073	-	60,285	194,892
- Other entities	-	-	-	-	-	-
	124,534	40,574	10,073	-	62,318	237,499
Sukuk investments classified at amortised cost:						
- Governments	-	-	-	480,898	-	480,898
- Financial institutions	-	25,296	30,275	-	-	55,571
- Other entities	-	-	63,548	50,521	16,687	130,756
	-	25,296	93,823	531,419	16,687	667,225
Total	124,534	65,870	103,896	531,419	79,005	904,724

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

The movement of the sukuk investments is as follows:

	2023	2022
Balance at beginning of the year	**904,724**	1,069,476
Movements during the year		
Additions	**444,842**	-
Sale/ redemptions of sukuk investments	**(135,541)**	(149,369)
Unrealized fair value gains/(losses)	**3,682**	(14,159)
Accrued income	**3,808**	(702)
Unrealized foreign exchange translation gain/ (loss)	**29**	(10)
Impairment reversal/ (charge) for the year	**884**	(512)
Balance at end of the year	**1,222,428**	904,724

Sukuk investments as of December 31, 2023, are net of provision of impairment of USD 704 thousand (2022: USD 1,588 thousand) (note 22).

Income from sukuk investments is comprised of the following:

	2023	2022
Coupon income	**35,959**	37,263
Amortization of (premium)/ discount on sukuk investments	**(212)**	167
Realised fair value gain	**702**	-
Unrealised fair value gains/(losses)	**3,682**	(14,159)
	40,131	23,271

7. INSTALMENT SALE

	2023	2022
Gross amounts receivable	**33,961**	33,961
Accrued income	**1,391**	889
Less: provision for impairment (note 22)	**(9,844)**	(5,294)
	25,508	29,556

In 2020, ISFD entered into installment sales contracts worth USD 35 million (of which USD 33.96 million disbursed) with a member country which were part of the COVID 19 emergency response. The net impairment charge for the year is USD 4,550 (2022: USD 2,692).

8. ISTISNA'A ASSET

	2023	2022
Gross receivable	**5,189**	-
Accrued income	**187**	-
Less: provision for impairment (note 22)	**(75)**	-
	5,301	-

In 2021, ISFD entered into istisna'a contract worth USD 16 million (of which USD 5.2 million disbursed) with a member country. The impairment charge for the year is USD 75 (2022: nil).

9. LOANS (QARD)

	2023	2022
Loans (qard)	**440,395**	381,168
Less: provision for impairment (note 22)	**(21,466)**	(15,002)
	418,929	366,166

The net impairment charge/ (reversal) for the year was USD 6,464 (2022: USD (14)).

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

10. ISTISNA'A INVESTMENT

	2023	2022
Balance at the beginning of the year	**17,937**	11,921
Disbursements	**3,079**	5,305
Accrued Income	**990**	741
Impairment reversal / (charge) during the year	**147**	(30)
Balance at end of the year	**22,153**	17,937

In 2020, ISFD co-invested in istisna'a project to construct a dormitory with estimated total cost of USD 89.6 million with ISFD's share equal to 57.13% (2022: 22.3%).

11. IJARAH INVESTMENT

	2023	2022
Balance at beginning of the year	**39,014**	71,930
Disbursement	**3**	-
Repayments	**(3,296)**	(32,858)
Accrued Income	**312**	(131)
Impairment (charge)/ reversal during the year	**(32)**	73
Balance at end of the year	**36,001**	39,014

ISFD entered into 9 non-sovereign ijarah projects syndicated with IsDB – OCR and one ijarah project syndicated with IsDB- Awqaf Properties Investment Fund, whereby the latter acts as lead syndicate. 7 of the 10 projects repaid their dues ahead of schedule in 2022. Income on ijarah investment amounted to USD 3.6 million (2022: USD 3.2 million). Investment in ijarah is net of provision for impairment of USD 741 thousand (2022: USD 709 thousand).

12. INVESTMENT IN MUSHARAKAH FUND

	2023	2022
Investment in musharakah fund	**5,000**	5,000

In 2021, ISFD invested in a musharakah fund. The total commitment to the fund equals to USD 50 million which shall be disbursed over the next 10 years.

13. INVESTMENT IN AN ASSOCIATE

	2023	2022
Balance at beginning of the year	**257**	89
Share of reserves of an associate recognised directly in waqf equity	**132**	164
Share of net results	**-**	4
Impairment charge for the year	**(389)**	-
Balance at end of the year	**-**	257

14. EQUITY INVESTMENTS

	2023	2022
Balance at beginning of the year	**49,807**	60,042
Disposal	**(12,258)**	(6,392)
Net unrealised fair value gains reported through changes in waqf equity	**10,239**	9,154
Impairment charge for the year	**(428)**	(12,997)
Balance at end of the year	**47,360**	49,807

The Fund's equity investments are comprised of USD 30.1 million (2022: USD 27.3 million) invested in unlisted equity securities and USD 17.3 million (2022: USD 22.5 million) invested in listed equity securities. Equity investments are net of provision for impairment of USD 67.9 million (2022: USD 67.5 million).

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

15. INVESTMENTS IN FUNDS

	2023	202
Balance at beginning of the year	**131,100**	124,708
Additions	**25,895**	20,179
Disposals	**(6,415)**	(8,818)
Net unrealised fair value gains/(losses) reported through changes in waqf equity	**25,101**	(4,351)
Impairment charge for the year	**(3,722)**	(618)
Balance at end of the year	**171,959**	131,100

15a) Following is the movement in fair value reserve due to equity investments, investments in funds and investment in real estate:

	2023	2022
Unrealised fair value gains on investment assets (notes 14 &15)	**35,340**	4,803
Unrealised fair value gain on investment in real estate (note 17)	**1,247**	-
Realised fair value loss/ (gain) on disposal transfer to statement of financial activities	**8,000**	(686)
	44,587	4,117

16. WAKALA INVESTMENTS

Wakala investments represent investments in securities managed by external portfolio managers as at 31 December:

	2023	2022
Balance at the beginning of the year	**441,921**	-
Additions during the year	**-**	430,000
Share of profit (net of management and other fees)	**70,437**	11,921
Balance at end of the year	**512,358**	441,921

This represents investments in securities' portfolios managed by external portfolio managers and held for trading as at 31 December:

	2023	2022
Cash	**3,938**	4,350
Investment in equity instruments	**367,883**	350,301
Investment in exchange traded funds	**65,599**	48,693
Investment in sukuk funds	**36,042**	32,835
Investments in funds	**38,896**	5,742
	512,358	441,921

The Fund has appointed three external fund managers (EFMs) to manage part of its investments portfolio on a discretionary basis as multi asset classes and multi fund Manager strategy (OCIO) as a Segregated Managed Account. The EFM charges annual fund management fee calculated as percentage of the net asset value of the portfolio and specific annual performance fee. The custodian fee is also charged to the Fund for custodial services amounting to USD 443 thousand (2022: nil).

17. INVESTMENT IN REAL ESTATE

The Government of the Republic of Benin (a member country) vide Article 3 of the Decree No. 2014-137 dated 20th February 2014 had allocated a piece of land to ISFD for 70 years, non-renewable, that will be developed (by ISFD) to generate revenues for the Fund. The value of the land allocated was independently assessed by a consultant to be USD 5.36 million and was recorded at fair value at the date of the contribution in the books of ISFD, with corresponding credit to the in-kind waqf corpus. The allocated piece of Land was registered in the name of Islamic Development Bank for the benefit of ISFD.

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

In December 2022, the Government of the Republic of Benin replaced its land previously contributed at USD 5.36 million valuation with the new land valued at USD 5.55 million. In addition, in 2022, the Government of Burkina Faso allocated land to ISFD worth USD 1.89 million which was revalued to USD 3.14 million in 2023 and the resulting fair value gain of USD 1.25 million is recorded in statement of changes in waqf equity. These lands shall be developed by ISFD to generate revenues for the Fund.

The aforementioned lands were specified as the waqf corpus and recorded as in-kind contributions. The allocated lands are registered in the name the Bank.

18. OTHER ASSETS AND OTHER RECEIVABLES

	2023	2022
Due from related parties (note 23)	**5,405**	1,453
Other assets	**647**	591
	6,052	2,044

19. ACCRUED EXPENSES AND OTHER LIABILITIES

	2023	2022
Due to related parties (note 23)	**212**	941
Pension liability	**729**	931
Accrued expenses and other liabilities	**2,359**	4,871
	3,300	6,743

20. GRANTS ALLOCATION AND PAYABLE

The Board of Directors of ISFD vide resolution no ISFD/BOD/21/12/436/(52)/31 approved the following.

1) A grant of USD 100 million for "Lives and Livelihood Fund" (LLF) in its 51st meeting held in Maputo, Mozambique, in June 2015. The approved amount will be disbursed in line with Lives and Livelihood Fund's requirements for the underlying projects starting 1437H (2016). As at 31 December 2023, USD 99.9 million (2022: 85.8 million) has been disbursed.

2) A grant of 10% of net annual income of the Fund subject to the Board of Directors approval on specific amount to be allocated each year.

The Board of Directors of ISFD vide resolution no. ISFD/BOD/12/11/017/ (59)/13 approved that the Fund shall contribute USD 100 million as an exceptional grant from its retained earnings to the IsDB – Science, Technology and Innovation Fund (STI). The approved amount shall be disbursed in two annual instalments of USD 50 million each. Up to December 2022, ISFD had disbursed USD 50 million. Pursuant to the termination of STI Fund during the year, the remaining grant commitment has been allocated back to accumulated surplus of the Fund along with other distribution proceeds from STI Fund (note 24).

The Board of Directors of ISFD approved the following grants from ISFD's normalized net income (net income adjusted for unrealized gains/losses), appropriated from net income in the statement of changes in waqf equity:

Grant Allocation	2023	2022
Grant Allocation – 10%	**(8,250)**	(5,112)
UNDP & IDB & ISFD NGOs Empowerment Program	**(2,000)**	(5,000)
Al-Quds Empowerment Fund	**(1,500)**	-
Other	**(1,000)**	(1,000)
Total grant allocation	**(12,750)**	(11,112)

Grant movement during the year:

	2023	2022
Balance at beginning of the year	**128,610**	138,081
Allocation during the year	**12,750**	11,112
Transfers from other liabilities	**360**	-
Utilization during the year	**(20,982)**	(20,583)
Reversal of grant allocations (note 20)	**(50,000)**	-
Balance at end of the year	**70,738**	128,610

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

The Board of Directors of ISFD by resolution number BOD/10/05/023 (85)/12 approved to earmark (within ISFD) an additional total sum of USD 100 million for a period of 5 years i.e., 2024 to 2028 from ISFD resources. The Funds shall be invested and the returns shall be donated to LLF as a grant starting from 2025. The Board of Directors also emphasized that the earmarked amount of USD 100 million shall be sourced from the termination proceeds of IsDB Science, Technology and Innovation Fund (IsDB-STI) and from the capital of ISFD from Ihsan Waqf Fund Program allocation, USD 50 million each.

21. EQUITY PRESERVATION FUND

The Board of Directors (BoD) of ISFD by resolution number BOD/16/03/437/ (54) Special/5 approved the establishment of a Special Equity Preservation Fund ("the Reserve") and that annual allocation be made to the Reserve in the amount of 5% of the normalized net annual income (net income less unrealized fair value gains / losses) of ISFD in the years 1437H-1441H (2016-2019) and 10% in the following years.

At its 82[nd] meeting held on 11 December 2022, the BoD resolved to increase the capital preservation rate from its current 10% to 15% in 2023 and to 25% in 2024 and beyond. During 2023, an amount of USD 15.4 million (2022: USD 6.3 million) has been added to the equity preservation fund.

22. PROVISION FOR IMPAIRMENT OF TREASURY, PROJECT AND INVESTMENT ASSETS

Provision for impairment comprised of the following:

	31 December 2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Commodity murabaha placements	**48**	**-**	**-**	**48**
Sukuk investments	**704**	**-**	**-**	**704**
Installment sale	**-**	**-**	**9,844**	**9,844**
Istisna'a assets	**75**	**-**	**-**	**75**
Loans (Qard)	**8,120**	**1,894**	**11,452**	**21,466**
Istisna'a investment	**77**	**-**	**-**	**77**
Ijarah investment	**741**	**-**	**-**	**741**
	9,765	**1,894**	**21,296**	**32,955**
Investment in an associate				**389**
Equity investments				**67,882**
Investments in funds				**9,673**
				110,899

	31 December 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Commodity murabaha placements	23	-	-	23
Sukuk investments	1,588	-	-	1,588
Installment sale	-	-	5,294	5,294
Loans (Qard)	5,904	2,337	6,761	15,002
Istisna'a investment	224	-	-	224
Ijarah investment	709	-	-	709
	8,448	**2,337**	**12,055**	**22,840**
Equity investments				**67,454**
Investments in funds				**5,951**
				96,245

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

The movement in provision for impairment is as follows:

	2023	2022
Opening balance	**96,245**	79,536
Charge for the year, net	**14,654**	16,709
Closing balance	**110,899**	96,245

In accordance with the Fund's policy, cumulative market value losses of particular equity investments have been deemed as a significant or prolonged decline and were charged to statement of financial activities for the year amounting to USD 428 thousand (2022: USD 12.9 million) (charge of USD 3.6 million minus reversal of impairment of USD 3.2 million) and included in charge for the year of USD 14.7 million (2022: USD 16.7 million).

23. RELATED PARTIES

The Fund is managed by IsDB and its transactions are done through IsDB and its affiliated entities. Principal arrangements related to syndicated financing (Istisna'a and Ijarah under investment assets) are with OCR and APIF (notes 10 and 11). Development activity transactions, which are entered into with Member Countries, represents all the financing activities (i.e., Loans (Qard) and ijarah investment) of the Fund and related income, which has been disclosed in the statement of financial activities. The Fund has also invested in sukuk issued by IsDB and other member countries.

(i) Due from related parties

	2023	2022
IsDB – Ordinary Capital Resources	**2,711**	-
IsDB – Special Account Resources Waqf Fund	**2,687**	1,452
King Abdullah bin Abdulaziz Program for Charity Works (KAAP)	**7**	-
Kuwait Development Fund	**-**	1
	5,405	1,453

(ii) Due to related parties

	2023	2022
IsDB – Ordinary Capital Resources	**-**	916
Islamic Corporation for the Insurance of Investment and Export Credit ("ICIEC")	**14**	12
Somalia Trust Fund	**-**	8
Bill and Melinda Gates Foundation	**-**	3
Islamic Corporation for the Development of the Private Sector (ICD)	**2**	2
IsDB – Pension Fund	**196**	-
	212	941

24. TERMINATION OF IsDB SCIENCE, TECHNOLOGY AND INNOVATION FUND (IsDB-STI FUND)

In prior years, IsDB-STI Fund was established, amongst others, through contributions from the Fund of USD 50 million. During the year, the Board of Executive Directors of IsDB through Resolution No. BED/04/02/023/(349)/6 approved the termination of the IsDB Science, Technology and Innovation Fund (IsDB-STI Fund), its operations and the liquidation of its assets.

As of the date of liquidation of STI, i.e., September 30, 2023, the accumulated contributions in the ISDB-STI Fund were USD 52.96 million in cash and cash equivalents. As of September 30, 2023, IsDB-STI Fund transferred the cash and cash equivalents of USD 52.96 million. Thereafter, the Fund reversed the undisbursed portion of grant allocation (note 20) of USD 50 million which was credited to accumulated surplus since it was originally financed through the resources of the Fund.

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

25. MATURITY PROFILE OF ASSETS AND LIABILITIES

	Assets and liabilities maturity periods					
31 December 2023	**Less than 3 months**	**3 to 12 months**	**1 to 5 Years**	**Over 5 Years**	**No Fixed Maturity**	**Total**
Assets						
Cash and cash equivalents	**40,869**	**-**	**-**	**-**	**-**	**40,869**
Commodity 32urabaha placements	**223,141**	**686,584**	**-**	**-**	**-**	**909,725**
Sukuk investments	**-**	**389,477**	**746,654**	**86,297**	**-**	**1,222,428**
Installment sale	**-**	**-**	**-**	**25,508**	**-**	**25,508**
Istisna'a asset	**-**	**448**	**1,792**	**3,061**	**-**	**5,301**
Loans (Qard)	**4,232**	**38,576**	**94,940**	**281,181**	**-**	**418,929**
Istisna'a investment	**466**	**947**	**4,702**	**16,038**	**-**	**22,153**
Ijarah investment	**1,208**	**3,617**	**14,131**	**17,045**	**-**	**36,001**
Investment in musharakah fund	**-**	**-**	**-**	**-**	**5,000**	**5,000**
Equity investments	**-**	**-**	**-**	**-**	**47,360**	**47,360**
Investments in funds	**-**	**-**	**-**	**-**	**171,959**	**171,959**
Wakala investments	**-**	**-**	**-**	**-**	**512,358**	**512,358**
Investment in Real estate	**-**	**-**	**-**	**-**	**8,686**	**8,686**
Other assets and other receivables	**6,052**	**-**	**-**	**-**	**-**	**6,052**
Total assets	**275,968**	**1,119,649**	**862,219**	**429,130**	**745,363**	**3,432,329**
Liabilities						
Accrued expenses and other liabilities	**(2,571)**	**-**	**-**	**-**	**(729)**	**(3,300)**
Grants payable	**-**	**-**	**-**	**-**	**(70,738)**	**(70,738)**
Net assets	**273,397**	**1,119,649**	**862,219**	**429,130**	**673,896**	**3,358,291**

	Assets and liabilities maturity periods					
31 December 2022	Less than 3 months	3 to 12 months	1 to 5 Years	Over 5 Years	No Fixed Maturity	Total
Assets						
Cash and cash equivalents	503,631	-	-	-	-	503,631
Commodity 32urabaha placements	681,440	-	-	-	-	681,440
Sukuk investments	68,666	63,548	761,861	10,649	-	904,724
Installment sale	-	-	-	29,556	-	29,556
Loans (Qard)	-	21,135	103,549	241,482	-	366,166
Istisna'a investment	-	-	-	17,937	-	17,937
Ijarah investment	3,491	3,559	19,067	12,897	-	39,014
Investment in musharakah fund	-	-	-	-	5,000	5,000
Investment in an associate	-	-	-	-	257	257
Equity investments	-	-	-	-	49,807	49,807
Investments in funds	-	-	-	-	131,100	131,100
Wakala investments	-	-	-	-	441,921	441,921
Investment in real estate	-	-	-	7,439	-	7,439
Other assets and other receivables	2,044	-	-	-	-	2,044
Total assets	1,259,272	88,242	884,477	319,960	628,085	3,180,036
Liabilities						
Accrued expenses and other liabilities	(5,812)	-	-	-	(931)	(6,743)
Grants payable	-	-	-	-	(128,610)	(128,610)
Net assets	1,253,460	88,242	884,477	319,960	498,544	3,044,683

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

26. CONCENTRATION OF ASSETS

The geographical locations of assets at year-end reflect the continents in which the beneficiaries of the assets are located.

	Member countries			Non-member	
31 December 2023	**Asia**	**Africa**	**Europe**	**countries**	**Total**
Cash and cash equivalents	**33,389**	**-**	**-**	**7,480**	**40,869**
Commodity 33urabaha placement	**905,614**	**-**	**-**	**4,111**	**909,725**
Sukuk investments	**1,222,428**	**-**	**-**	**-**	**1,222,428**
Installment sale	**-**	**25,508**	**-**	**-**	**25,508**
Istisna'a assets	**-**	**5,301**	**-**	**-**	**5,301**
Loans (Qard)	**148,620**	**270,309**	**-**	**-**	**418,929**
Istisna'a investment	**-**	**-**	**-**	**22,153**	**22,153**
Ijarah investment	**36,001**	**-**	**-**	**-**	**36,001**
Investment in musharaka fund	**5,000**	**-**	**-**	**-**	**5,000**
Equity investments	**17,281**	**-**	**28,056**	**2,023**	**47,360**
Investments in funds	**43,919**	**-**	**59,504**	**68,536**	**171,959**
Wakala investments	**-**	**-**	**-**	**512,358**	**512,358**
Investment in real estate	**-**	**8,686**	**-**	**-**	**8,686**
Other assets and other receivables	**6,052**	**-**	**-**	**-**	**6,052**
Total assets	**2,418,304**	**309,804**	**87,560**	**616,661**	**3,432,329**

	Member countries			Non-member	
31 December 2022	**Asia**	**Africa**	**Europe**	**Countries**	**Total**
Cash and cash equivalents	495,490	-	-	8,141	**503,631**
Commodity 33urabaha placement	681,440	-	-	-	**681,440**
Sukuk investments	904,724	-	-	-	**904,724**
Installment sale	-	29,556	-	-	**29,556**
Loans (Qard)	92,823	273,343	-	-	**366,166**
Istisna'a investment	-	-	-	17,937	**17,937**
Ijarah investment	39,014	-	-	-	**39,014**
Investment in musharaka fund	5,000	-	-	-	**5,000**
Investment in an associate	-	257	-	-	**257**
Equity investments	22,458	-	23,970	3,379	**49,807**
Investments in funds	51,373	-	20,920	58,807	**131,100**
Wakala investments	-	-	-	441,921	**441,921**
Investment in real estate	-	7,439	-	-	**7,439**
Other assets and other receivables	2,044	-	-	-	**2,044**
Total assets	**2,294,366**	**310,595**	**44,890**	**530,185**	**3,180,036**

27. NET ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

The net assets in foreign currencies were as follows:

	2023	2022
Saudi Riyal	**14,854**	10,467
Euro	**13,503**	3,045
Others	**43**	(2,339)

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

28. UNDISBURSED COMMITMENTS

	2023	2022
Loans (Qard)	**307,675**	366,996
Istisna'a assets	**10,811**	-
Ijarah investment	**4,997**	-
Investment in musharakah Fund	**45,000**	45,000
Investments in funds	**11,696**	25,479
Capital contributions	**70,000**	70,000
	450,179	507,475

29. SHARI'AH BOARD

The Fund's activities are subject to the supervision of the IsDB Group Shari'ah Board consisting of members appointed by the Chairman of the IsDB Group in consultation with the Board of Executive Directors of IsDB. The Group Shari'ah Board was established pursuant to a Resolution of the Board of Executive Directors of IsDB. The members of the Board are appointed for 3 years and may be reappointed.
The Board has the following functions:

- to consider all products introduced by the Bank, its affiliates and trust funds for use for the first time and rule on their conformity with the Rules and Principles of the Islamic Shari'ah and lay down basic principles for drafting of related contracts and other documents.
- to give its opinion on the Islamic Shari'ah alternatives to conventional products which the Bank, its affiliates and trust funds intend to use, and to lay down basic principles for drafting of related contracts and other documents and contribute to their development with a view to enhancing the Bank's, its affiliates' and trust funds' experience in this regard;
- to respond to the Islamic Shari'ah related questions, enquiries and explications referred to it by the Board of Executive Directors or the management of the Bank, its affiliates and trust funds;
- to contribute to the Bank, its affiliates and trust funds programme for enhancing the awareness of its staff members of Islamic banking and deepen their understanding of the fundamentals, principles, rules and values relative to Islamic financial transactions; and
- to submit to the Board of Executive Directors of the Bank, its affiliates and trust funds a comprehensive report showing the measure of the Bank's, its affiliates' and trust funds' commitment to Rules and Principles of Islamic Shari'ah in the light of the opinions and directions given and the transactions reviewed.

30. RISK MANAGEMENT

The Fund is monitored by the IsDB's Risk Management Department ("RMD"). The Bank has a Risk Management Department ("RMD") that is independent from all business departments as well as other entities and funds of the Bank. The RMD is responsible for dealing with all risk policies, guidelines and procedures with a view to achieving sound, safe and sustainable low risk profile through the identification, measurement and monitoring of all types of risks inherent in its activities. The Bank has also established a Risk Management Committee which is responsible for reviewing the risk management policies, procedures, guidelines and defining the Bank, its affiliates and its funds risk management framework and appetite, with a view to ensuring that there are appropriate controls on all major risks resulting from the Bank, its affiliates and its funds financial transactions.

These policies are clearly communicated within the Fund with a view to maintain the overall credit risk appetite and profile within the parameters set by the management of the Fund. The credit policy formulation, credit limit setting, monitoring of credit exceptions / exposures and review / monitoring functions are performed independently by the RMD, which endeavors to ensure that business lines comply with risk parameters and prudential limits established by the BED and Management of the Bank and the Fund.

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

An important element tool of credit risk management is the established exposure limits for single beneficiary or an obligor and group of connected obligors. In this respect, the Fund has a well-developed limit structure, which is based on the credit strength of the beneficiary, the obligor.

Moreover, credit commercial limits in member countries regarding financing operations as well as placement of liquid funds are also in place.

The assessment of any exposure is based on the use of comprehensive internal rating systems for various potential counterparties eligible to enter into business relationship with the Fund. While extending financing to its member countries, the Fund safeguards its interests by obtaining relevant guarantees for its financing operations and has to ensure that concerned beneficiaries as well as guarantors are able to meet their obligations. In addition to the above risk mitigation tools, the Fund has in place comprehensive counterparty assessment criteria and detailed structured exposure limits in line with the best banking practices.

Expected Credit Risk for financial assets measured at amortized cost

The Fund applies a three-stage approach to measuring expected credit losses (ECLs) for financial assets measured at amortized cost.

Determining the stage for impairment

The Fund's staging model relies on a relative assessment of credit risk, because it reflects the significant increase in credit risk (SICR) since initial recognition of an asset. The staging assessment is made at the contract level for non-sovereign rather than counterparty level, since the quantum of change in credit risk may be different for different contracts belonging to the same obligor. Also, different contracts of the same counterparty may have different credit risk at initial recognition. For sovereign the staging assessment is made at the country level.

Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. The Fund considers a financial asset to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definition and has not suffered a significant downgrade.

Stage 2 includes financial assets that experience a SICR. When determining whether the risk of default has increased significantly since initial recognition, the Fund considers both quantitative and qualitative information and analysis based on the Fund's historical experience and expert credit risk assessment, including forward looking information that is available without undue cost or effort. Irrespective of the outcome of the above assessment, the Fund presumes that the credit risk on its sovereign and non-sovereign exposures has increased significantly since initial recognition when contractual payments are more than 90 days past due for sovereign financings and more than 30 days past due for non-sovereign financings on a material repayment amount. When a stage 2 instrument shows a significant enhancement in credit quality at the assessment date, it can move back to stage 1.

Where there is objective evidence that an identified financial asset is impaired, specific provisions for impairment are recognized in the statement of financial activities, and under FAS 30, the asset is classified in Stage 3. The Fund presumes that assets are credit-impaired when contractual payments are more than 180 days past due for sovereign financings and more than 90 days past due for non-sovereign financings on a material repayment amount. Besides, the Fund may consider an asset as impaired if the Fund assesses that the obligor is unlikely to pay its credit obligations in full, without recourse by the fund to actions such as realizing security.

A financial asset is no longer considered impaired when all past due amounts have been recovered, and it is determined that the outstanding amounts with future expected income are fully collectable in accordance with the original contractual terms or revised terms of the financial instrument with all criteria for the impaired classification having been remedied. The financial asset will be transferred back to stage 2 after a cure period of 6 months.

The Fund regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

Measurement of Expected Credit Losses (ECLs)

ECL represents the average credit losses weighted by the probabilities of default (PD), whereby credit losses are defined as the present value of all cash shortfalls. The ECL is calculated for stage 1, stage 2 and stage 3 instruments by multiplying three main components, being the probability of default (PD), loss given default (LGD) and the exposure at default (EAD)and discounting the resulting provision using the instrument's effective profit rate (EPR).

These ECL parameters are generally derived from internally developed models and other historical data. They are adjusted to reflect forward-looking information as described below.

PD represents the likelihood of a counterpart defaulting on its financial obligation over different time horizon (e.g., 1 year or lifetime). The estimates the PDs using internal rating tools tailored to the various categories of counterparties and exposures. These internal rating models are based on internally and externally compiled data comprising both quantitative and qualitative factors. They produce a relative credit risk grading, which is in turn are associated with a likelihood of default (PD) over a one-year horizon, that is calibrated to reflect the Fund's long run average default rate estimates (through-the-cycle (TTC) PD). The Fund uses a specific model based on country and industry parametrization to convert its TTC PDs into point-in time (PIT) PDs and derives a PIT PD term structure.

LGD is the magnitude of the potential loss in the event of a default. This is generally estimated as value lost plus costs net of recovery (if any) as percentage of outstanding amount. The Fund uses internal LGD estimation models that consider the structure, collateral, and seniority of the claim and the counterparty rating and jurisdiction. LGD estimates are calibrated to reflect the recovery experience of the Fund as well as the Multilateral Development Banks' consortium data.

EAD represents the expected exposure in the event of a default. The Fund derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial instrument is its gross carrying amount. For contract under disbursement, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract.

FAS 30 requires ECLs to be forward-looking. The Fund uses a statistical model that links its counterparties' future performance to the current and future state of the macroeconomic environment. The model links macroeconomic scenarios to counterparty's default risk. Macroeconomic factors taken into consideration include, but are not limited to, gross domestic product, equity market prices, unemployment rates, and commodity prices and these require an evaluation of both the current and forecast direction of the macro-economic cycle. The Fund estimates its ECLs by calculating the weighted average ECL of its exposures across three (3) set of forward-looking macroeconomic scenarios.

Exposure Amounts and ECL coverage

The Fund recognizes 12-month ECL for stage 1 instruments and lifetime ECL for stage 2 instruments. For stage 3 instruments, the Fund calculates the ECL as the product of LGD and EAD of each instrument.

Tables below present the breakdown of gross exposure amount (project and treasury assets and other investments debt-type that are subject to credit risk), impairment allowance, and the coverage ratio by exposure type for financial instruments measured at amortized cost as at 31 December 2023.

31 December 2023	Gross Exposure Amount				Impairment Allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Sovereign	869,667	34,053	84,673	988,393	8,881	1,894	17,424	28,199
Non-Sovereign	1,937,418	-	3,872	1,941,290	884	-	3,872	4,756
Total	**2,807,085**	**34,053**	**88,545**	**2,929,683**	**9,765**	**1,894**	**21,296**	**32,955**

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

31 December 2022	Gross Exposure Amount				Impairment Allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Sovereign	810,827	38,206	88,136	937,169	7,424	2,337	8,182	17,943
Non-Sovereign	1,623,100	-	3,873	1,626,973	1,024	-	3,873	4,897
Total	2,433,927	38,206	92,009	2,564,142	8,448	2,337	12,055	22,840

31 December 2023	Coverage Ratio (Impairment Allowance / Exposure Amount)			
	Stage 1	Stage 2	Stage 3	Total
Sovereign	1.02%	5.56%	20.58%	**2.85%**
Non-Sovereign	0.05%	-	100%	**0.24%**
Total	**0.35%**	**5.56%**	**24.05%**	**1.12%**

31 December 2022	Coverage Ratio (Impairment Allowance / Exposure Amount)			
	Stage 1	Stage 2	Stage 3	Total
Sovereign	0.92%	6.12%	9.28%	**1.91%**
Non-Sovereign	0.06%	-	100.00%	**0.30%**
Total	**0.35%**	**6.12%**	**13.10%**	**0.89%**

An important element of the credit risk management framework is exposure limits structure for each obligor and group of connected obligors. Moreover, portfolio concentration limits relating to single country and single obligor are also in place with the view to maintain appropriate diversification. The assessment of any exposure is based on the use of comprehensive internal rating systems for various potential counterparties eligible to enter into business relationships with IDB and its managed funds. While extending financing to its member countries, the Bank safeguards its and its managed funds' interests by obtaining adequate guarantees and ensures that the concerned beneficiaries as well as the guarantors are able to meet their obligations to IDB and its managed funds. In addition to the above risk mitigation tools, the Bank has in place a comprehensive approach for risk assessment and assignment of exposure limits for each type of obligors in line with the best banking practices.

a) Country risk

Country risk refers to the risks associated with the economic, social and political environments of the beneficiary's home country. Guidelines are in place for assessing and monitoring country risk profiles and exposure to safeguard the Bank, as well as the other entities of the Bank, against undue risk. The country risk profiles and exposure limits are periodically reviewed taking into consideration the macro-economic, financial and other developments in the member countries, as well as the status of their business relationship with IDB and its managed funds, perception of the rating agencies and institutions of repute, risk perception of market participants and experience of other multilateral development banks (MDB's). Countries are classified under 7 risk categories; i.e., "A" to "G", whereby "A" represents the highest creditworthy category (lowest risk) and "G" represents the lowest creditworthy category (highest risk).

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

b) Market risks

The Fund is exposed to following market risks:

Currency risk
Currency risk arises from the possibility that changes in foreign exchange rates will affect the value of the financial assets and liabilities denominated in foreign currencies, in case the Fund does not hedge its currency exposure by means of hedging instruments. Exposure to exchange risk is limited. Most of the Fund's operations are affected in USD. The Fund does not trade in currencies. Therefore, it is not exposed to currency trading risk. The investment portfolio is held primarily in USD and EUR. The Fund has a conservative policy whereby the currency composition of the portfolio is monitored and adjusted regularly.

Mark-up risk
Mark-up risk arises from the possibility that changes in Mark-up risk will affect the value of the financial instruments. The Fund is exposed to Mark-up on its investments in cash and cash equivalents, commodity 38urabaha placements, syndicated financing and sukuk investments. In respect of the financial assets, the Funds invests in fixed income instruments to ensure that the effect of exposure on financial assets is minimized.

c) Liquidity risk
Liquidity risk is the risk that the Fund will be unable to meet its net cash requirements. To guard against this risk, the Fund adopts a conservative approach by maintaining high liquidity levels invested in cash and cash equivalents and commodity 38urabaha placements with short-term maturity of three to twelve months.

d) Operational Risk
The fund defines operational risk as the risk of loss resulting from inadequate or failed processes, people and systems; or from external events. This also includes possible losses resulting from Shar'ia non-compliance risks, failure in fiduciary responsibilities and legal risk.

Operational risk management forms part of the day-to-day responsibilities of management at all levels. The fund manages operational risk based on a consistent framework that enables the fund to determine its operational risk profile and systematically identify and assess risks and controls to define risk mitigating measures and priorities.

Shari'ah non-compliance risk (SNCR)

The fund attaches value in safeguarding its operations from Shari'ah non-compliance risk (SNCR) as part of its operational risk management. Shari'ah compliance forms an integral part of the fund's purpose of establishment. Consequently, the fund effectively manages SNCRs through leveraging on the IsDB Group wide robust framework of procedures and policies. The business or risk-taking unit, as the 1st line of defence, embeds a culture of Shari'ah compliance, while the Shari'ah Compliance function of IsDB Group serves as the 2nd line of defence t' strategically manage and moni'or SNCRs pre-execution of transactions/operations. The IsDB Group Internal Shari'ah Audit function provides independent reasonable assurance as the 3rd line of defence post-execution of transactions/operations adopting a risk-based internal Shari'ah audit methodology.

e) Fair values of financial assets and liabilities
The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

The following table presents the Fund's assets and liabilities that are measured at fair value at 31 December 2023 and 2022.

	Level 1	Level 2	Level 3	Total
31 December 2023				
Assets				
Financial assets at fair value through statement of financial activities:				
- Sukuk investments	**149,657**	**-**	**-**	**149,657**
Financial assets at fair value through waqf equity				
- Equity investments	**17,281**	**30,079**	**-**	**47,360**
- Investments in funds	**-**	**-**	**171,959**	**171,959**
	166,938	**30,079**	**171,959**	**368,976**

31 December 2022	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through statement of financial activities:				
- Sukuk investments	237,499	-	-	**237,499**
Financial assets at fair value through waqf equity				
- Equity investments	22,457	27,350	-	**49,807**
- Investments in funds	-	-	131,100	**131,100**
	259,956	**27,350**	**131,100**	**418,406**

There were no transfers between levels during the years ended 31 December 2023 and 31 December 2022.

f) Waqf equity sustainability

In accordance with the Regulations of the Fund, the principal / waqf corpus shall be maintained. At 31 December 2023, the Fund equity has been financially sustainable and accumulated surplus equal to USD 687 million representing 20.55% of total assets. Further, the Board of Directors of ISFD approved establishment of a Special Equity Preservation Fund to which annual allocation are made in the amount of 15% of the normalized net annual income from year 2023 (note 21).

31. LIBOR TRANSITION

Benchmark transition

In July 2017, the Financial Conduct Authority (FCA), the regulator of LIBOR, announced that it will no longer compel panel banks to submit rates required to calculate LIBOR after December 31, 2021, and, therefore, market participants, including IsDB need to set their pricing on the basis of the alternative reference rates because the availability of LIBOR after this date is not a certainty. The regulators' guidance remains that LIBOR should not be used for new contracts after 2021. In consideration of the regulatory guidance and in preparations for the global markets' transition away from LIBOR, IsDB since 2018 has initiated the LIBOR transition program to facilitate a smooth and orderly transition of its financing and funding instruments effected by alternative reference rates.

The Fund's exposure to LIBOR transition is limited in one (1) currency i.e., USD whereas for EUR, the exposure is against EURIBOR which is not subject to cessation.

Various key milestones were overcome involving:

(i) formulation of detailed implementation roadmap and action plan with the help of an external consultant,
(ii) formulation and incorporation of enhanced 'fallback' clause for all prospective contracts,
(iii) obtaining clearance from Shariah Technical Committee on use of CME Term SOFR (Chicago Mercantile Exchange 'CME' is an American global markets company. It is the world's largest financial derivatives exchange. CME Group estimates the Term SOFR Reference Rates benchmark as a daily set of forward-looking profit rates for 1-month, 3-month, 6-month and 12-month tenors) as preferred replacement rate to USD LIBOR,
(iv) revision in the Sovereign Pricing policy based on new benchmark rates,
(v) resource mobilization based on SOFR curve and maintaining the cost pass through mechanism to minimize the ALM (Asset and Liability Management) risks, and

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

(vi) adoption of the alternate reference rate for all the new contracts approved from 2022 onwards,
(vii) management approval on the conversion methodology for legacy portfolio impacted due to Libor cessation,
(viii) engagement with member countries and other counterparts for building census on the conversion methodology,
(ix) drafting and sharing of amendment agreements with the paying agencies for their review and feedback.
(x) Obtaining the signatures for the amendment agreements from the beneficiary and IsDB, and
(xi) Changing the reference rate to the alternative reference rate in the SAP System for all the projects listed in the signed amendment agreements.

The Fund has historically used USD LIBOR, US Mid-Swap and EURIBOR benchmark rates as reference rates for pricing financial exposures (both assets and liabilities). The EURIBOR is not expected to be discontinued and hence the Fund can continue using it in future, since EURIBOR has already transitioned to the new principles of transaction-based methodology from earlier quotation-based methodology. For the USD denominated exposures, the Fund's management has taken a decision to replace the USD LIBOR and USD Mid-Swap rates with the CME Term SOFR and USD OIS Mid-Swap rates in respective tenors.

The Fund's decision to select the CME Term SOFR as a replacement rate to USD LIBOR is based on its functional similarities to the sun-settled LIBOR rate. In fact, given it is also a forward-looking term rate and hence its selection as replacement rate is expected to result in minimal implication. Additionally, the revised Sovereign Pricing policy has been formulated in such a way that the transition from LIBOR is not expected to create any impact in terms of changes in economic value at the individual contract level.

In March 2023, UK FCA announced that the LIBOR's administrator, ICE Benchmark Administration Limited (IBA), will continue the publication of the 1-, 3- and 6-month US dollar LIBOR settings for a short period after 30 June 2023, using an unrepresentative 'synthetic' methodology ('synthetic US dollar LIBOR'), which will be available until at least 30 September 2024. The Fund approved the use of the synthetic US dollar LIBOR, but strongly encourage all the beneficiaries to agree to use CME Term SOFR.

The Fund is actively working through this transition from multiple perspectives: project financing and treasury and liquidity, funding, shariah, risk and legal, accounting, operations, information technology, considering the portfolio of existing assets and funding that use LIBOR as a benchmark.

Risks arising from the benchmark reform

The following are the key risk for the Fund that are arose from the benchmark transition.

1. Shariah risk: Given that the Fund must abide but the Shariah principles, the clearance on use of a new benchmark rate for pricing the financial exposures was one of the major milestones in Fund's transition program. However, this risk has been addressed by obtaining the clearance from IsDB's Shariah Technical Committee on use of CME Term SOFR as replacement benchmark.

2. Legal risk: There is a possibility of not reaching an agreement with the counterparts on revised pricing particularly on the legacy contracts. This could be a result of having ineffective fallback clauses in the signed legal agreements. This risk has been addressed with the formulation of enhanced 'Fallback' clause which has been added to all new contracts and for legacy contracts, an external Law firm is in process of drafting amendment agreements while the Fund is engaged with paying agencies and counterparts on building consensus on the conversion of Libor linked outstanding contracts.

3. IT and system risks: It is expected that the booking of new contracts and conversion of legacy contracts from old benchmark to new may require certain enhancements in system functionalities and processes. This risk is addressed by performing thorough business user testing on existing systems, and running various use cases that will be required for utilizing the new reference rates.

Progress towards adoption of alternative benchmark rates

All newly approved sovereign financing contracts now reference the alternative benchmark rate for pricing as adopted by the Fund in its new pricing policy and the legal documentation already included the improved fallback clause.

The Fund's main risk policies such as ALM Framework, Exposure Management Framework and Liquidity Policy will remain effective without requiring any change due to benchmark reform.

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

Profit rate benchmark transition for non-derivative financial contracts

For EUR denominated contracts, the Fund has historically used EURIBOR as benchmark rate. Therefore, no impact is expected for the Fund because the EURIBOR is not expected to be discontinued since it has already been transformed back in 2019 by the regulator.

All treasury asset contracts have transitioned to SOFR except for one US dollar floating rate sukuks that is indexed to synthetic LIBOR.

Project assets:
To date, 74% of the projects under PPP have agreed to adopt the alternative rates proposed by the Fund, while the remaining will use synthetic LIBOR on temporary basis until finalization of the amendment agreements.

For legacy contracts for sovereign financing 93% of the paying agencies and governments eligible for LIBOR transition have agreed to the terms and amendments proposed by the Fund, while the remaining will use synthetic LIBOR on temporary basis until finalization of the amendment agreements.

32. AUTHORIZATION FOR ISSUE

The financial statements were authorized for issue in accordance with the resolution of the Board of Executive Directors dated March 17, 2024, (corresponding to 7 Ramadan, 1445H).

THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT
APPENDIX – STATEMENT OF SERVICE PERFORMANCE
YEAR ENDED 31 DECEMBER 2023
(All amounts in thousands of United States Dollars unless otherwise stated)

STATEMENT OF SERVICE PERFORMANCE

The Islamic Solidarity Fund for Development (ISFD) was established in 2007 as a special fund within the Islamic Development Bank (IsDB) with the aim of: (i) fighting poverty and promoting pro-poor economic growth in member countries, (ii) providing financial support to enhance the productive capacity and sustainable means of income generation for the poor; and (iii) advancing human development, especially reducing illiteracy and eradicating diseases/epidemics. To this end and in collaboration with partners and donors, the Fund implements innovative poverty reduction programs and projects designed in collaboration with the IsDB, with a focus on comprehensive human development in OIC member countries, especially the least developed member countries (LDMCs). The Fund's priority areas include:

- Education, and Health
- Community development,
- Agricultural and rural development.
- Basic rural infrastructure development.
- Women and youth empowerment

Utilization of the Fund

Since its inception in 2007, the Fund has cumulatively approved USD 1.23 billion grants and concessionary loans to finance projects, programs, and Funds for poverty alleviation.

Between 2015 and year-end 2023, the cumulative grant allocations net of cancellations (both general and program) of the Fund amounted to USD 181million. At the same period, total disbursements to these projects reached USD 106 million with further USD 71million allocations available for future disbursements as of 31 December 2023.

In 2023, the Fund allocated USD 13.1 million supporting 31 projects and two programs as follows:

- USD 70 thousand in scholarships for ophthalmologists from Guinea and Chad.
- USD 806 thousand for Cataract Treatment Campaigns in Niger, Burkina Faso, Guinea, Chad, Mali, Cote d'Ivoire, and Mozambique under AFAB program.
- USD 3.5 million in AFAB-3; a new Program to reduce uncorrected refractive errors (URE) in primary and secondary schools by 25% in Africa by the end of 2029.
- USD 484 thousand for 7 projects by local NGOs in MCs under Tadamon Programme: NGOs Empowerment for poverty reduction programme.
- USD 1.25 million for emergency response in support of population affected by the conflict in Sudan and these affected by floods in Libya.
- USD 4.85 million allocation for Food Security Response Accelerator under Tadamon Programme
- USD 2.01 million for ten projects to support people in Al Quds in the education, health, economic empowerment, and community development sectors.
- USD100 thousand for TADAMON Food security project in Yemen.

In 2023, the Board of Directors approved to earmark USD100 million (within ISFD) for a period of 5 years starting 2024, the return on which shall be used as grant for projects approved under the second phase of LLF starting 2025.

معاً لمكافحة الفقر
REDUCING POVERTY
ISFD
صندوق التضامن الإسلامي للتنمية
Islamic Solidarity Fund for Development

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