# ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT(ISFD)

## Eleventh Annual Report
## 1439H-1440H (2018)

## Cover pictures illustration

1. H.E. Dr. Bandar Hajjar, President of IsDB Group, embraces Nigerien children, during IsDB high-level mission to Niger, January 2019.
2. Signing ceremony of the Global Alliance to Fight Avoidable Blindness, Tunis, 2 April 2018. Dr. Waleed, Director General of ISFD, representing ISFD and Dr. Eyüp Gümüş, Undersecretary of Ministry of Health, representing Republic of Turkey.
3. Open air school in Africa.

# ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT (ISFD)

## Eleventh Annual Report
## 1439H-1440H (2018)

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# Letter of Transmittal

In The Name of Allah, The Beneficent, The Merciful

The Chairman,
ISFD Board of Governors

Dear Mr. Chairman,

Assalam-u-Alaikum Warahmatullahi Wabarakatuh

In accordance with the Regulations of the Islamic Solidarity Fund for Development I, on behalf of the Board of Directors, have the honour to submit for the kind attention of the esteemed Board of Governors, the Annual Report on the operations and activities of the Islamic Solidarity Fund for Development in 1439H-1440H (2018).

The Annual Report also includes the audited financial statements of the ISFD as prescribed in Article 18 of the Fund's Regulations.

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

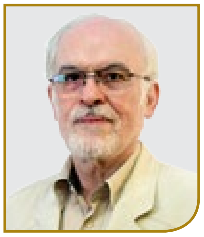
**Dr. Bandar Bin Mohamed Hamza Hajjar**
President, IsDB Group

The Third Extraordinary Session of the OIC Summit, Makkah Al Mukarramah, 5-6 Dhul Qadah 1426H (7-8 December 2005) where the decision to establish a Special Fund within the Is DB Group was made – the Islamic Solidarity Fund for Development (ISFD).

# ISFD Board of Directors

**H.E. Dr. Bandar Mohamed Hajjar**
President, IsDB Group,
Chairman, ISFD Board of Directors

Hon. Dr. Abdalnasr Abouzkeh



Hon. Abdolrahman Nadimi Boushehri

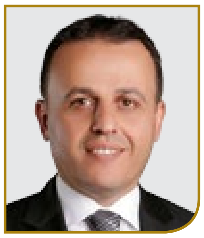
Hon. Abdoulie Jallow

Hon. Ahmad Jefri Abd Rahman

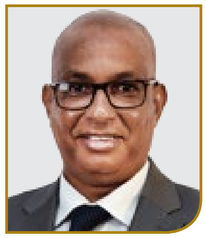
Hon. Ali Hamdan Ahmed

Hon. Bader Ahmed Al Qayed

Hon. Bakhodir Alikhanov



Hon. Bülent AKSU



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Hon. Zahid Ullah Hamdard

Hon. Zeina Toukan

# Basic Facts about the ISFD

## Poverty is a significant challenge in the IsDB member countries, particularly LDMCs. Therefore, poverty alleviation occupies an important place in the agenda of the IsDB.

The decision to establish the ISFD as a Special Fund within the IsDB was reached by the Third Extraordinary Session of the OIC Islamic Summit Conference in Makkah Al Mukarramah in 7-8 December 2005 (5-6 Dhul Qadah 1426H). The Summit decided to establish a special Fund within the IsDB with a view to (a) reduce poverty, (b) build the productive capacities of member states, (c) reduce illiteracy, and (d) eradicate diseases and epidemics, particularly Malaria, Tuberculosis (TB) and AIDS. In light of the Bank's Vision and the directive of the 3rd Extraordinary OIC summit, poverty reduction has become the overarching objective of the IsDB's interventions in the member countries and the ISFD was officially launched during the 32nd Meeting of the IsDB Board of Governors, held on 12-13 J. Awwal 1428H (29-30 May, 2007) in Dakar, Senegal.

The Fund, headquartered in Jeddah, Saudi Arabia, has been established in the form of a Waqf[1] (i.e. Trust), with a principal target capital of US$10.0 billion. All IsDB member countries are expected to contribute to the Fund and extend technical and moral support to its operations. Two overarching themes define the focus of the ISFD: Improving and enhancing the income of the poor, and promoting the development of human capital.

The Fund seeks to reduce poverty in its member countries through:

- Promoting pro-poor growth.
- Emphasizing human development, especially improvement in health care and education.
- Providing financial support to enhance the productive capacity and sustainable means of income generation for the poor.

The Fund views poverty as a multi-dimensional phenomenon, encompassing not only low income and consumption, but also low achievement in fundamental human rights including education, nutrition, primary health, water and sanitation, housing, crisis coping capacity, insecurity, and all other forms of human development. Hence, the ISFD adopts a more comprehensive definition of poverty and does not only stick to "income poverty" in the analysis of the poverty status in member countries

Rice is a main staple food and strategic food security crop West Africa. In most of these countries rice demand exceeds production and large quantities of rice are imported to meet demand at huge expense in terms of hard currency. The ISFD approved a Regional Rice Value Chain Program which covers 5 countries in West Africa in 2018 – The Gambia, Guinea, Niger, Senegal, and Sierra Leone.

1 The concept of Waqf (Trust/ Endowment) implies that only the income which will be generated from the investments of the Fund's resources will be available to finance its operations.

## MAJOR HILIGHTS IN 2018

### OPERATIONS

**Approvals**

The total approvals of the ISFD in 2018

US$ 229.24 million

10

projects in member countries

**Cumulative Approvals: 2008 - 2018**

127

Operations (loans & grants)

For

34

member countries

To which the ISFD has contributed

US$ 1.185 billion

**AFAB**

US$ 251 million

- Agreement Signed
- Preparations in process for two Alliances: Out-of-School Children and Vaccine for Colera

**IWIF**

US$ 350.0 million

Investcorp : US$250m

Al Quds Fund: US$100m

## RESOURCES OF THE ISFD

Targeted Initial Capital

US$ 10.0 billion

**Pledges of Capital Contributions**

US$ 2.70 billion

Pledge by 49 member countries

US$ 1.7 billion

IsDB Contribution

US$ 1.0 billion

8 member countries are yet to announce their contribution to the Fund.

**Paid Contributions**

US$ 2.58 billion

Paid by member Countries

US$ 1.58 billion

Paid by IsDB

US$ 1.0 billion

1 payment was received in 2018, amounting to US$1.0 million.

**ISFD Resources in-kind**

Benin Waqf Land US$ 5.35 million

## INCOME IN 2018

**Operating income**

US$ 89.78 million

**Net income**

US$ 84.22 million

# Chairman’s Message

I am pleased to present the Annual Report of the Islamic Solidarity Fund for Development (ISFD) - 2018. The report provides detailed record of the Fund's financing operations, activities, and financial results over the past year, as well as the situation of poverty in member countries against which the ISFD had implemented its programs.

The most vulnerable people often lack access to basic needs, such as sustainable income generating activities, education, health, supply of drinking water and electricity. The ISFD has continued to focus its financing activities in these important areas to help the poor free themselves from the vicious circle of poverty.

The Fund approved US$229.24million for 10 member countries in 2018, compared to US$175.6 million of projects' approvals in the year before. Cumulatively, the ISFD contributed US$1.185 billion for poverty alleviation projects and programs as at 30 December 2018. These contributions constituted 30% of the IsDB concessionary financing portfolio for the period since the Fund's commenced its operations in 2008. They covered the key sectors that form the core of poverty reduction programs, namely rural and agricultural development, microfinance, education, health, water and energy.

The Fund took steps to combine finance with innovative solutions to respond more effectively to member countries' diverse challenges and needs. In particular, it introduced the Ihsan Waqf Investment Fund (IWIF), the Economic Empowerment Program, and the Global Alliance for Avoidable Blindness (AFAB-II) program. It also continued its support to the Lives & Livelihood Fund (LLF), the IsDB-STI Fund, and developed a number of other initiatives. These initiatives will allow the ISFD to mobilize resources from development partners for its programs, to supplement the resources from the investment of its capital resources.

Mobilization of capital resources, however, fell short of our targets. No new commitments were made in 2018 towards the ISFD capital, and by the end of the year, commitments stood unchanged from the previous year's level of US$2.7 billion. We are aware of the need to exert more effort to mobilize the approved capital of the Fund which is critical for enhancing the Fund's operations.

Internally, we continued the reform of the Fund to strengthen its operational and management structure. An Evaluation Study was carried out under the supervision of a designated Sub-Committee of the Board of Directors which came up with a number of pertinent recommendations to streamline the Fund's governance and business model and strengthen its ability in delivering its services to member countries.

I wish to express my sincere appreciation to the Board of Directors and Management for their unfailing support and skillful leadership throughout the year, and to the ISFD staff for their dedication. We stand committed to work hard to deserve member countries' confidence by improving the Fund's methods of work and implementation mechanisms to achieve its noble goals.

**Dr. Bandar Bin Mohamed Hamza Hajjar**

Chairman of the ISFD Board of Directors
President, IsDB Group

# Message from the Director General

2018 marks the end of my first 3-year term as Director General of the ISFD. It was indeed a great honour for me to have the opportunity to lead this institution and contribute to its challenging mission of combating poverty in member countries. I am also gratified to be bestowed with another term to lead the Fund and give me the opportunity to consolidate the efforts we have made during the first mandate period.

I would like to take this opportunity to place on record my sincere thanks and appreciation to His Excellency Dr. Bandar Bin Mohamed Hamza Hajjar, the President of the IsDB Group for renewing the precious trust he has conferred on me to lead this institution for the period 2019-2021. For my part, I will do my utmost to put all my efforts in serving the Fund to achieve its noble goals. Over the past three years, ISFD has seen a number of developments that will have significant impact on its business.

Over the past three years, ISFD has seen a number of developments that will have significant impact on its business.

The Fund has achieved a sustained increase in its approvals during this period. These approvals have gone up from US$99.1 million in 2016, to US$175.6 million in 2017, and US$229.24 million in 2018. Guided by the IsDB Policy for Poverty Reduction, approvals were allocated to pro-poor projects in the main productive and human development sectors in member countries.

The Fund has also adopted a program in cooperation with international and regional partners targeting 2.45 million students who have left school to return back to school. This program, developed with Education Above All (EAA) and other international organizations, is designed to serve as the basis for a global alliance to bring back all children of member countries who have left school back to school.

The ISFD also introduced the Economic Empowerment Program which seeks to empower individuals economically by providing training, processes and opportunities to increase their incomes and standards of living. The ISFD has already conducted consultations with some member countries and development partners that have shown great interest in this program.

The ISFD has also developed the Alliance to Fight Avoidable Blindness (AFAB-2) program. The Fund was able to receive commitments amounting to US$251.0 million by 32 donors and partners, to conduct 1.5 million eye operations, as well as other services to address this problem in member countries. This program will be developed for five years, after which a similar program will be developed for all those affected by this scourge in the member states. This alliance will be a model for the development of alliances in many other humanitarian fields.

The ISFD has also developed the NGOs Transformation Program, which is a tripartite initiative between ISFD, IsDB and UNDP to support development and humanitarian assistance through NGOs and Civil Society Organisations (CSOs) in the IsDB member countries.

In terms of financial resources, the Fund has achieved some successes in attracting commitments from some countries based on the criteria for contribution which has been adopted by the Board of Governors. However, we still have a long way to go in this direction. We are currently preparing a report to sensitize member countries about the impact of the ISFD operations on poverty so that we can increase their conviction of contribution.

In the framework of the financial sustainability, the ISFD developed the Ihsan Waqf Investment Fund (IWIF) as an endowment investment program that aims to mobilize resources from benefactors of member countries. The income of the invested amounts in each Ihsan fund will be fully allocated to support the most needy people to increase their incomes and standard of living. The first Ihsan Waqf will be established with Investcorp for an amount of US$250.0 million.

It should also be noted that the Fund has developed tools for mobilizing other resources for its programs, such as the Cash Waqf Sukuk, through which the ISFD is planning the issuance of US$200.0 million with Malaysian organizations under Bank Negara regulations.

We are currently reviewing the Fund's investment policy and financial sustainability and seeking to take advantage of the opportunities offered by the Crowd Funding to enhance its resources. Our aim is to play a key role in the Bank's Integrated Work Program and the President's Five-Year Program by strengthening the Fund's ability to achieve its mandate in combating poverty in Member States.

Despite all these achievements, we recognize that the way forward is fraught with challenges and great expectations to be achieved. In particular, the mobilization of the Fund's target capital of US$10.0 billion is critical to the implementation of its programs. We also need to continue developing innovative financing schemes for poverty reduction with significant impact on the poverty situation. These tasks cannot be achieved without unrelenting effort and persistence, and we promise to make them our main goal in the years ahead.

**Dr. Waleed Abdul Mohsin Al Wohaib**

Director General, ISFD

# 1

# STATE OF POVERTY IN MEMBER COUNTRIES

# 1 State of Poverty in Member Countries

2017 saw a year of acceleration in global GDP growth, which increased by 0.6%age points faster than the previous year. It is also estimated that 2018 was another year of strong global growth, with GDP growth rising to 3.2%, which was the highest growth level since 2011[1]. This growth has been increasingly broad-based, with recoveries in trade and investment, as well as oil and commodity prices.

The Middle East and North Africa's (MENA) regional economy had gradually rebounded from the slowdown in 2017. According to some estimates, it had expanded by 2.7% in 2018. This compares favorably to the marked decline to 1.8% in 2017, from 5.0% in 2016, which was caused by the decline in the oil sector growth among the oil exporters[2]. Oil-exporting economies had benefited from the rise in oil prices in 2018, allowing them to boost spending and take some pressure off their financial markets. While high oil prices have had a negative impact on oil-importing economies, sound global economic dynamics had supported export growth, partly reducing the pressure on current accounts in these countries.

Asia's economic outlook has improved. It is estimated that this region had grown by around 5.6% in 2018, accounting for nearly two-thirds of global growth, and the region remains the world's most dynamic by a considerable margin. In contrast, the Central Asian region improved, with growth estimated at 4.4% in 2018, supported by the more favorable global environment. In both regions, efforts to promote growth-friendly fiscal policy, stronger monetary policy frameworks, economic diversification and private sector development have continued. This positive momentum is expected to continue in 2019.

**Global Hunger Index Values of Low Income OIC Member Countries**

| Country | 1990 | 1995 | 2000 | 2005 | 2016 |
|---|---|---|---|---|---|
| **Afghanistan** | 47,4 | 55,9 | 52,5 | 44,9 | 34,8 |
| **Benin** | 46,1 | 42,6 | 38,2 | 33,3 | 23,2 |
| **Burkina Faso** | 53,0 | 46,1 | 48,4 | 49,6 | 31 |
| **Chad** | 65,0 | 60,6 | 52,0 | 53,1 | 44,3 |
| **Gambia** | 36,4 | 35,4 | 27,9 | 26,3 | 20,9 |
| **Guinea** | 47,8 | 45,8 | 44,4 | 38,0 | 28,1 |
| **Guinea -Bissau** | - | 45,2 | 43,9 | 31,9 | 27,4 |
| **Mali** | 51,9 | 51,3 | 43,9 | 38,3 | 28,1 |
| **Mozambique** | 64,5 | 63,2 | 49,2 | 42,4 | 31,7 |
| **Niger** | 64,7 | 62,7 | 53,0 | 42,8 | 33,7 |
| **Senegal** | 36,8 | 36,9 | 37,9 | 28,5 | 16,5 |
| **Sierra Leone** | 58,8 | 56,0 | 53,5 | 52,4 | 35 |
| **Togo** | 42,5 | 44,1 | 38,6 | 36,4 | 22,4 |
| **Uganda** | 39,8 | 40,9 | 39,3 | 32,2 | 26,4 |

*Source: COMCEC Poverty Outlook - 2018*

1 https://atradiuscollections.com/global/reports/global-economic-outlook-may-2018.html?gclid=EAIaIQobChMIqryP9rjT2wIVx4TVCh3iBAJvEAAYASAAEgJL4fD_BwE

2 FOCUSS ECONOMICS: https://www.focus-economics.com/regions/middle-east-and-north-africa

*The ISFD has joined the program in the "Fight Against Avoidable Blindness." The program aims to conduct 100,000 eye surgeries and 1 million treatment cases over five years, in addition to participating in strengthening the capacities and best practices in eye health in the targeted member countries.*

2018 was also a good year for sub-Saharan Africa (SSA), achieving a growth rate of 3.8%, up from 2.7% in 2017 and 2.3% in 2016. The pickup reflects mainly the recovery in oil production in Nigeria, the easing of drought conditions in eastern and southern Africa, and improved external environment. Stronger commodity prices and healthy foreign demand also supported this growth. However, even with this rise, economic growth has barely surpassed the population growth rate, and the challenges of unemployment and overall growth have continued, with job creation growth only half that of output growth. Nevertheless, this achievement provides greater hope for policy reorientation towards longer-term issues that hinder progress towards economic growth and sustainable development.

## Poverty in IsDB Member Countries

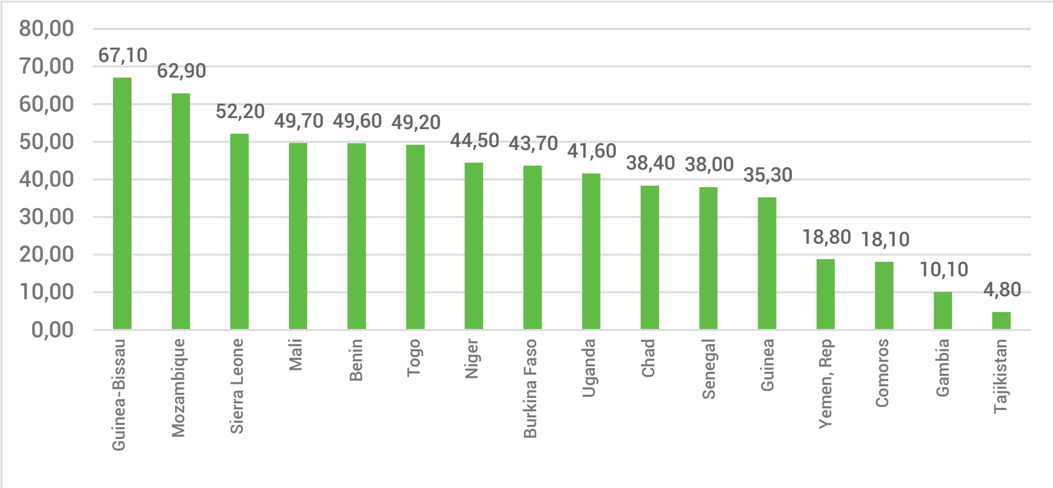
Although the data to assess poverty reduction in IsDB member countries is hardly complete and up to date, available statistics show that these countries have continued to register advances in economic growth. However, this growth has been accompanied by strong regional disparities in achieving poverty reduction and promoting human development.

Thus, while extreme poverty had gone down from 41% to 30% of the population in IsDB member countries taken together during the period 2000 – 2016, it had actually gone up by one percentage point, from 55% to 56%, in the African region, and by 4%, from 20% to 24%, in the Commonwealth of Independent States (CIS) region. The most significant reduction was achieved in the Asian region, where extreme poverty was reduced by 26% during this period, from 56% to 30%. In the Middle East and North Africa (MENA) region, it went down by 0.8% during the same period, from 4.4% to 3.6%.

In absolute numbers, the number of those living in extreme poverty stood at 350 million for all IsDB member countries in 2017, compared to 424 million in 2000. At the same time, there was an increase in the number of people who live in extreme poverty by 80 million in sub-Saharan Africa and one million in the Arab region. Again, the most significant progress was achieved in the Asia region. The reduction in income poverty has been one of the Asian region's major successes, due principally to rapid economic growth and improved income distribution policies.

Taking stock of the progress made so far and the challenges ahead, projections indicate that the Asian region is likely to make satisfactory progress towards achieving SDG Goal-1 of ending poverty in all its forms. Thus, given current trends, the Asian region is likely to

**Poverty Headcount Ratio at US$ 1.90 a day in IsDB LDMCs Countries (PPP) (%)***




Source: The World Bank, 2018
*Index for other LDMCs not available

(i) achieve gender equality in primary and secondary education; and (ii) come closer to achieving the goal of universal primary education. But major challenges remain. While extreme poverty has been substantially reduced, the region could still have a large number of poor by 2030.

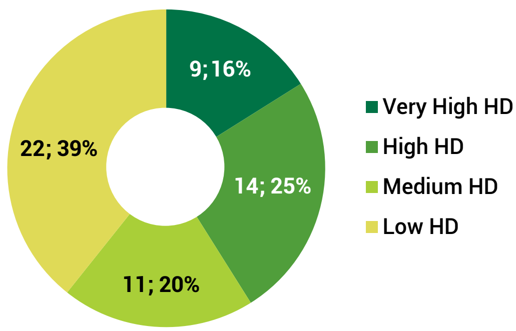
For the Africa region as a whole, which accounts for more than 60% of the total extreme poor people in the IsDB member countries, although many countries are exerting great efforts. progress towards SDGs targets is still likely to be slow. The region is likely to struggle with achieving several SDGs, including those in critical areas, like hunger, education, health, and access to improved water and sanitation. Inadequate spending on infrastructure and social services (i.e. education and healthcare) are cited as important reasons for the deterioration in human development indicators in Africa.

## Financing the SDGs

This matter is at the centre of global efforts to achieve the SDGs. And so it is also at the core of how the business community approaches the Global Goals. On the one hand, it is argued that financing the SDGs shouldn't be all too difficult. After all, the SDGs require a mere $2-3 trillion of additional investments per annum, out of a global GDP of approximately $115 trillion. For some analysts, this should be manageable if the SDGs have the full backing of the rich countries and development community, especially given what achieving the SDGs would mean for unleashing human and economic potential and ensuring universal safety.

At the same time, however, financing the SDGs is a complex task. It would require an unprecedented coordination between public sector organization and private institutions. It would require significant reform to global financial regulation and financial institutions. It would also require a meaningful commitment from all corporations – large and small – to tackle the challenges outlined by the SDGs.

**Distribution of IsDB Member Countries in Different Human Development Categories**




Source: UNDP (2018)

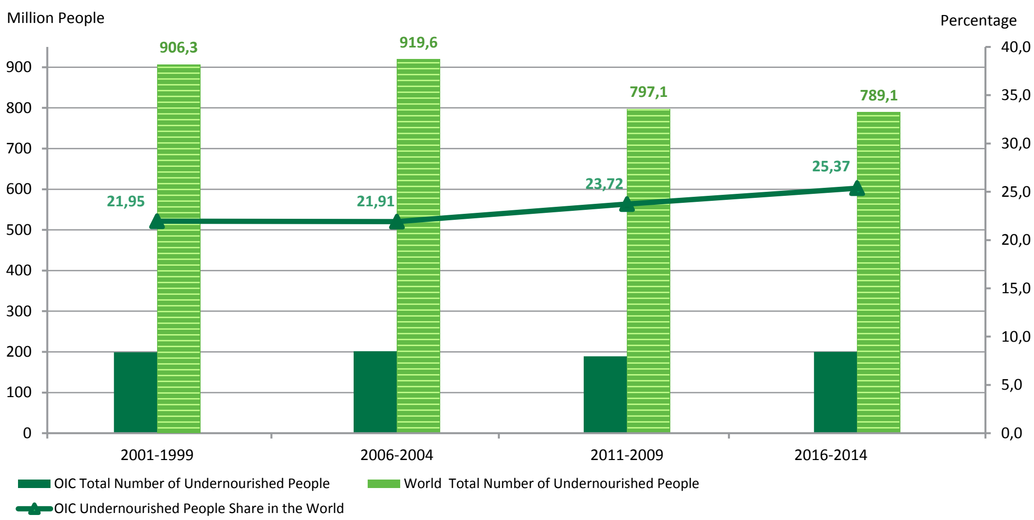
The Finance Working Group of the Business and Sustainable Development Commission (BSDC) argues that the financial system must be oriented towards long-term and sustainable outcomes. For this to happen, it identifies five areas of specific focus: aligning financial regulation with sustainable development, standardizing and mandating sustainability reporting for corporations, getting sustainable infrastructure investment right, supporting the formation of long-term pools of risk capital, and supporting financial innovation that accelerates inclusion.

The global business community has at least two roles in the creation of a financial system aligned with sustainable development. The first is to do what businesses do best – innovate, create and build. New financial products, instruments and technologies are needed at all scales for the SDGs to be financed. Secondly, business must advocate for, and work with, governments to make the needed reforms to the financial system so that it can more effectively link global saving to the global investment needs.

Orienting a complex global financial system towards long-term outcomes, however, will not be an easy task. But it is possible. Regardless, it is necessary. It has to be acknowledged that without additional investment, public and private, the SDGs will not be met.

**Enhancing food security:** Sub-Saharan Africa (SSA) is the only region in the world where the overall food security situation is currently deteriorating. Yet, despite the notable applications of science and technology advances and their proven successes in agriculture, stable crop yields have remained low compared to world averages in many countries.

**Undernourished People in the IsDB Member Countries and its Share in the World**




Source: COMCEC Poverty Outlook - 2018

*Youth unemployment and lack of income-generation opportunities remains an issue of great concern to member countries. The ISFD approved the "Youth Job Creation Program in OIC Member Countries" which aims to create at least one million decent jobs in marginalized communities with a view to reducing poverty and improving economic opportunities.*

Further, more than 90% of arable land in SSA is still rain-fed and climate change is starting to impact on this production system with shifts and erratic changes in rainfall patterns.

The threat for many IsDB member countries, particularly in Africa, is real where millions of people are undernourished and children severely underweight. For West Africa, despite the fact that countries are realizing significant potential for rice production, they currently meet only 60% of their needs for this product. This dependency is expected to continue in the coming years due to population growth and urbanization, as well as changing dietary habits. Rice is a cereal for which the stakes in these countries, both in terms of production and consumption, are becoming more strategic than ever, and it is expected to become the staple of the region in the near future. Despite stabilization in self-supply since the crisis a decade ago in this commodity, production constraints and the continued growth in consumption per capita means that the region will remain largely dependent on the international market to cover the deficit in its rice balance. Hence, the importance of the efforts to enhance the region's capacity for the production of this commodity can never be overstated.

## Addressing the Critical Challenge of Employment in the MENA Region

Youth unemployment remains an issue of global focus. Whereas worldwide youth unemployment in 2014 stood at 13%, North Africa (30.5%), and the Middle East (28.2%), reflected the two highest regional averages overall. Furthermore, while global averages have remained relatively consistent since the 2008 financial recession, in the Middle East and North Africa the trend has worsened considerably where the rates at 2018 were standing at their highest point since the late 1990s.

This ongoing deterioration persists even though Arab youth are doing comparatively well with near universal education, including young women, at higher levels. Moreover, while it is true that social and cultural factors reduce female employment in these areas (raising overall rates), it is reported that this discrepancy alone cannot account for more than a few percentage points of variation. Also, employment opportunities for the young are being hampered by the recent instability as youth are the most severely affected age group in economic crises. At 28.4% in 2015, for example, the youth unemployment rate in the MENA region is almost five times higher than the joblessness rate for older adults. According to some reports, in North Africa, youth unemployment is higher than the Arab average: 30% for both sexes and 45% for young women.

Achieving rapid employment growth will require structural reforms and a coordination of public and private efforts. This is particularly important given the current mismatch between the education system and the job market. Private-sector development is another critical part of the solution. Moreover, entrepreneurship and access to finance for small businesses can help fill the jobs gap.

Addressing long-term structural barriers to regional employment creation is a formidable challenge posed by financial, social and economic considerations that limit the effectiveness of any single course of action. However, breaking the problem into smaller parts is an important step, especially when evidence is at hand to support unique interventions.

As it relates to overall employment, the significance of the SME sector and effective implementation of economic empowerment programs cannot be overstated. SMEs and self-employment businesses account for a very high share of private sector employment in MENA, particularly in countries with large informal sectors where they represent about 80% of all business and contribute 40% of all jobs.

## Insufficient Growth Capital in the SME Sector

Promoting SME resilience and growth is well recognized contributor to both GDP and stability – and many country policies, including those in the MENA region, have been developed to promote economic activity in this sector. Yet, access to finance continues to be one of the greatest challenges for the region where nearly 63% of the SMEs do not have access to commercial capital. The total financing gap for SMEs in MENA is estimated at US$210-US$240 billion (of which the formal sector gap is estimated at US$160-US180 billion) since 2012[3]. A recent World Bank/Union of Arab Banks survey of over 130 MENA banks shows that only 8 percent of lending goes to SMEs across MENA (and even less in GCC countries at 2 percent)[4].

*ISFD has developed the "Economic Empowerment Program", which aims to empower the youth through creation of economic opportunities, quality jobs, training, and inclusion in local economies.*

3 SMEs for Job Creation in the Arab World, SMEs Access to Financial Services, The World Bank, 2012 http://documents.worldbank.org/curated/en/687631468110059492/pdf/715510WP0Box370r0Job0Creation0Final.pdf

4 Overcoming Constraints to SME Development in MENA Countries and Enhancing Access to Finance, IFC Knowledge Series, Issue 1, Qamar Saleem - Senior SME Banking Specialist, MENA, IFC. https://www.ifc.org/wps/wcm/connect/d9628880424d8c929791bf0dc33b630b/SME+Banking+in+MENA+-+issue+1.pdf?MOD=AJPERES

Not surprisingly, banking in the region is characterized by conservative lending practices, where credit risk is minimized through the imposition of high collateral requirements. Lack of sufficient collateral is the number one reported (by borrowers) obstacle to receive bank commercial funding. From the commercial lenders' perspective, advancing relatively small amounts to widely distributed and under collateralized borrowers is simply too costly a venture to pursue.

## Addressing Youth Unemployment Through Economic Empowerment Programs

To some extent, youth unemployment is being addressed through the recently introduced concept of the Economic Empowerment Programs that seek to provide direct support to people to increase income and living standards. It is a practice in which power is adopted in societies for the mutual benefit of individuals.

Economic Empowerment Programs provide a practice in which power could be adopted in societies for the mutual benefit of individuals. Overall, they empower and support people to reach their goals by providing training, processes and opportunities. As well as linking individuals to jobs opportunities or supporting them in establishing their own businesses, they contribute to accessing finance by individuals through group support. As such, these programs could provide an opportunity to effectively tackle the problem of youth unemployment in the MENA Region and other IsDB member countries.

## Energy for the Poor

Energy can play a crucial role in improving quality of life and is key for economic development and reducing poverty. Lack of access to adequate, affordable and reliable energy can be a severe constraint on the three pillars of sustainable development: economic, social and environmental. In the IsDB member countries, particularly LDMCs, energy poverty is still widespread as it is estimated that nearly 600 million people still have no access to electricity.

Energy contributes to the eradication of poverty by increasing productive hours at home and work place. It improves access to education by allowing children to study at home during dark evening hours. It also increases the safety of women, girls and children walking in dark or remote areas and can reduce rates of violence. Also, energy is a critical enabler for primary health care services, especially maternal and childbirth emergencies. Therefore, access to affordable energy is an imperative for fighting poverty.

*Pumping water using solar energy: the technology selection of water pumping systems in agriculture is critical for reducing production cost*

It is expected that reliance on fossil fuels and biomass will continue for some time in most IsDB member countries, so this aspect should be taken into account in the overall IsDB/ ISFD energy interventions, as well as national development plans, particularly how to encourage more sustainable management and efficient uses.

Practitioners and energy development specialists agree that a new approach needs to be taken to ensure that energy underpins efforts to fight poverty . This means:

- Taking a people-centred approach, reaching beyond the technical issues, to deliver energy services that meet peoples' needs and priorities.
- Ensuring that communities have a voice in the decision making process on how to meet their energy needs.
- Working across all sectors to integrate energy more fully into development processes early on.
- Working at local, national and international levels, in order to develop pro-poor policies based on real evidence of the impact of energy on poor people.
- Taking an holistic approach to energy rather than a project based approach.
- Building a deeper understanding of the links between energy and poverty reduction.

## Role of the ISFD

For IsDB LDMCs, they remain dependent on external aid to compensate for shortfalls in government resources to maintain and expand priority social services, and achieve SDGs. Evidence shows that financing for poverty reduction programs is not merely insufficient, but that the ad-hoc and temporary nature of the available financing, as well as challenges to coordinate its delivery and directing it to the most needy sectors, hinder the efforts of these countries to make a steady progress towards achieving the SDGs.

Achieving the SDGs requires the participation of all three sectors; the comparative advantage of each suggests a clear division of labour. The public sector has the power to set public goals, push standards and mobilize funds through taxation. The private sector creates wealth, and provides both efficiency and scale. Thanks to its independence, the charitable sector - charities and those they support - has the appetite for risk, flexibility, creativity and the courage required to develop new ways to meet the boldest goals.

Ensuring effective programs and financial resources to address these problems, therefore, remains a critical challenge for the ISFD. This is particularly so in view of the shortfalls in foreign aid. Developing countries also face significant challenges that must be overcome in order to achieve inclusive and equitable and sustainable development for all.

## Therefore, the ISFD will:

- Implement innovative programs that will ensure access of the poor to sustainable income-generation opportunities, enhance their food security, improve access to safe water, support women's empowerment and well-being, and thus help them to break away from the vicious circle of poverty.
- Emphasize human development, especially improvements in health care and education, in its programs.
- Establish specialized and innovative programs to help in the mobilization of more resources to address specific poverty issues in the member countries.

The ISFD operational program for 2019 has been developed to achieve these goals. The ISFD will also continue to play its due role in mobilizing the resources which are critical to the success of its programs. It will also leverage its comparative advantage to attract partners to enhance its resources. It is hoped that through acceleration of the implementation of these programs, the Fund will step its efforts to achieve its mandate of creating a lasting impact on the poverty situation in the IsDB Member Countries.


# 2

# OPERATIONS IN 1439H (2018)

# 2 Operations in 1439H (2018)

## ISFD Projects/Programs

The ISFD financing operations are guided by the IsDB Group Policy for Poverty Reduction which calls for a systematic and pro-active approach to assist member countries in their efforts to reduce poverty. This involves consultations with stakeholders, including local communities, as well as appropriate program/ project design, including best international poverty reduction practices. This approach is in line with an integrated approach to development, including empowering the community and providing the poor and vulnerable with income-generating opportunities.

The underlying objective of all the projects approved in 2018 was the expected impact on reducing poverty in the beneficiary countries. Given the resources constraint, the Fund was selective in identifying projects and formulating them in such a way as to achieve the maximum possible impact in accordance with the operational guidelines of the IsDB. This was reflected in the sector priorities, geographical focus, as well as the terms and conditions of financing which were aimed to achieve the following:

- Helping the poor to break away from poverty, with special emphasis on the absolute poor.
- Achieving sustainability in the poverty reduction activities of the ISFD to help member countries achieve SDGs, as well as create growth and employment opportunities for the poor.

The Fund emphasizes partnerships and co-financing to supplement its limited resources and scale up its projects. Components have also been included in its programs to address

*Access to improved water sources in Tajikistan has increased from 55% to 75% of the population over the past two decades. The country has also achieved a substantial increase in the access to improved sanitation facilities during this period. The ISFD approved a project for improvement of water resources management in the Khatlon Region in 2018 at a total cost of US$53.5 million, towards which the ISFD will provide a loan of US$15.0 million.*

cross-cutting issues, such as environmental conservation, women's empowerment, governance and best practices, particularly in the areas of poverty assessment, project's implementation and monitoring and evaluation.

All projects approved in 2018 were appraised with an expected high impact on the livelihood and well-being of the poor. They are also relevant to all IsDB Key Strategic Thrusts, having direct relevance to "Alleviating Poverty" and "Prospering the People". Moreover, they all fall under the key pillars of the IsDB Member Countries' Partnership Strategies (MCPSs).

## Projects/Programs Approvals

Three main themes defined the focus of the ISFD poverty reduction activities in 2018: (a) ensuring that these activities create additional jobs and employment for the targeted groups through multi-sectoral interventions; (b) promoting the development of human capital by enhancing education and health interventions, and (c) enhancing the production of food stables to achive food scurity in selected LDMCs in Sub-Sahran Africa.

Since inception and up to 2018, the ISFD had approved 132 projects for total cost of US$4.6 billion, to which the ISFD has contributed US$1.185 billion by way of loans and grants. The ISFD had contributed US$1.185 million (25.8%) to this amount, while the remaining cost was covered by the IsDB and other co-financiers, including national governments, multilateral institutions, bilateral donors, and NGOs.

During 2018, 10 operations amounting to US$229.24million were approved for 12 member countries, compared to approval amounting to US$175.6 million in 2017.

## Disbursements

Disbursements amounted to US$113.0 million in 2018, US$43.0 million for projects and US$ 70 million for grants. With respect to disbursements, cumulative disbursements stood at US$312.0. million, which represents 26.3% of the total approved ISFD financing up to the end of 2018. This increase in disbursements was a result of the growing number of approved ISFD projects over the past five years that have met the disbursement criteria, in addition to the disbursement of the first installment of US$ 50.0 to the IsDB-STI.

## The Regional Rice Value Chain Program

The ISFD implementation of the Regional Rice Value Chain Program had started in 2018. This is a 10-country regional program which was announced by the President of the IsDB during the 43rd Annual Meeting of the IsDB Board of Governors in April 2018. This was in response to requests from 10 member countries in Sub-Saharan Africa; namely, Benin, Burkina Faso, Côte d'Ivoire, Guinea, The Gambia, Mali, Niger, Sierra Leone, Senegal and Sudan. It was hence decided to appraise the program and submit it to the Board of Directors in two groups over the period 2018–2019.

Five projects were appraised under this program in 2008 (Group 1), including: The Gambia, Guinea, Niger, Sierra Leone and Senegal projects. The remaining five countries, (Group 2), will be appraised in 2019. The program is co-financed with the Arab Bank for Economic Development in Africa (BADEA). The African Development Bank (AfDB) will participate in parallel financing, while the Swiss Development Cooperation (SDC) will provide grant resources to support capacity development for the value chain actors and monitoring for sustainable impact.

The projects approved under this program have been designed within a regional program framework with the following objectives: (i) Strengthening existing regional network of improved seed supplies (high yielding and adapted to climate change) that is constituted by the national agricultural research centers and private seed companies in each of the target countries with the support of Africa Rice (one of the 16 international agricultural research centers); (ii) Developing strong smallholder-focused market linkages through ICT-based solutions and stakeholders capacities development programs that will accelerate and sustain outcomes of the value chain; and (iii) Establishing regional platform for learning, exchange of information and knowledge as well as policy coordination among the program's participating countries.

**Water supply project in Kyrgyz Republic:** The ISFD approved US$20.0 million loan for a rural water supply and sanitation improvement project in the Kyrgyz Republic, where the majority of the existing water supply infrastructure in rural areas are in need for improvement. The project is aimed to support the Government of Kyrgyz Republic Strategy for the development of drinking water and sanitation in rural areas of the Kyrgyz Republic (2016-2026) through providing reliable and safe drinking water supply, as well as improved sanitation services.

**Water management project in Tajikistan:** An ISFD loan amounting to US$15.0 million was approved for a water resource management in the Khatlon Region in Tajikistan. The project aims to support the National Development Strategy of Tajikistan (2016-2030) that is focused, inter-alia, on economic diversification and competitiveness, sustainable jobs and ensuring food security. Its development objective is to improve the livelihood of the rural population through improvement of water resources management with resilience to climate change impacts. This project is a joint effort of theCoordination Group in providing development support to the Government of Tajikistan in implementing priority programs.

**Hospital project in Guinea Bissau:** The ISFD also approved a loan amounting to US$3.8 million for a project which aims to strengthen the capacity of the Simao Mendes National Hospital (SMNH) in Guinea Bissau. The goal of the project is to contribute to reducing the increasing burden of renal failure by reducing morbidity and mortality and the high rate of medical evacuation through the establishment of a dialysis center in the SMNH. It will also support the Government's plan of reducing the growing burden related to non communicable diseases in the country.

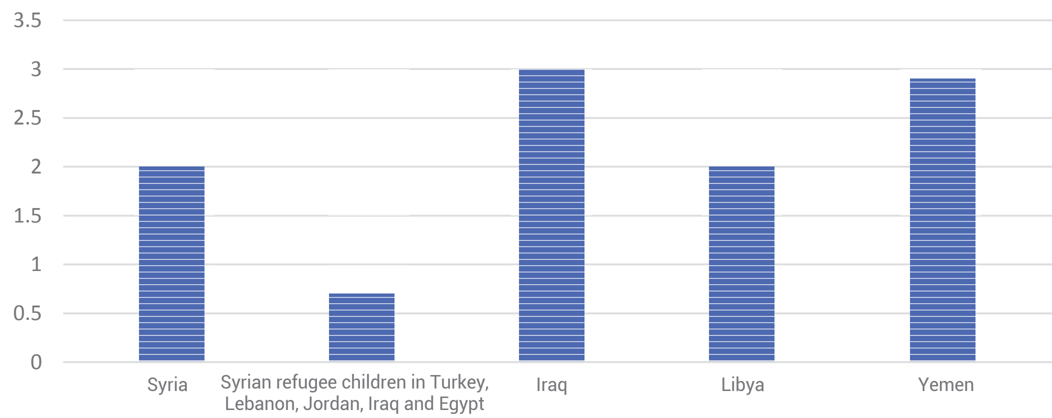

*Supporting the health care system in Guinea Bissau: The ISFD is supporting the Government's plan of reducing the growing burden related to renal failure through establishment of a dialysis center at the Simao Mendes National Hospital (SMNH).*

*Children who don't go to school are often the most vulnerable and marginalized. The ISFD has supported the "Enrolment and Retention of Out-of-School Children Program" which aims to serve as the basis for a global alliance to bring back all children of member countries who have left school back to school.*

**Job creation program:** The ISFD approved a program which aims at creating jobs for the youth in the OIC countries. The main objective of the program is to increase the income of young people in the OIC Member States by creating at least one million decent jobs in marginalized communities in member countries with a view to reducing poverty and improving economic opportunities by 2030. Eight countries have been initially identified as tentative candidates for the program: Tunisia, Gambia, Bangladesh, Morocco, Mauritania, Nigeria, Comoros and Egypt. The ISFD will contribute US$81.70 million to the program to be committed in in four equal tranches of US$20.425 million each in 2018, 2019, 2020 and 2021.

**Enrolment and retention of out-of-school children program:** A program for enrolling and retaining out-of-school children was also approved by the Fund in 2018. There are huge challenges in Sub-Saharan Africa (SSA) and South Asia in their strive to provide universal access and indeed quality basic education for all. The participating countries in the program in SSA and South Asia are home to the largest number of out-of-school children in their respective regions and amongst the highest in the IsDB member countries. Thus, the overall goal of the program is to promote inclusive and equitable quality education and lifelong learning for all. Specifically, it supports enrolment and retention of 2,400,500 out-of-school children, and provides them with quality basic education. The ISFD will

**Out of school children (million)**




Source: UNHCR - 2018

*ISFD Sustainable Villages Program in Mali: The primary objective of the program is to reduce extreme poverty in the selected cluster of villages through utilizing low-cost, sustainable and community-driven interventions that are tailored to the villages' needs.*

contribute US$100.0 million to this program over two years (2018 and 2019). The program will be implemented in partnership with Education Above All, Qatar.

Considering the multi-faceted nature of poverty in member countries, the approved projects have been focused on key sectors that form the core of poverty reduction activities of the ISFD, namely education, health, rural and agricultural development, water supply and sanitation. The thrust of the ISFD approach in selecting these programs was the need to foster ownership and commitment by direct beneficiaries to ensure sustainability of the projects. Women empowerment and capacity building were cross cutting issues in all the projects financed by the ISFD to address the obstacles faced by women in economic development in member countries, particularly in the rural areas. They were also targeted to provide the poor and vulnerable with opportunities for income generation on a sustainable basis.

The ISFD recognizes that human capital is the primary asset of the poor and its development is therefore of fundamental importance for poverty reduction. Projects in education and health sectors create the foundation on which most poverty reduction activities are built. In the education sector, the ISFD supports national efforts to promote Education For All (EFA) strategies within a sustainable and integrated sector framework that is linked to poverty reduction and development strategies. It also supports vocational training as a means for sustainable income generation activities. The Fund recognizes that in situations of extreme poverty, girls are particularly at risk, as they tend to inherit the poverty of their parents. Therefore, the Fund has stressed girls education, particularly at the primary level, as a priority area of operations.

## LDMCs are major beneficiaries of the ISFD

In accordance with the IsDB Policy on Poverty Reduction, the IsDB Less Developed Member Countries (LDMCs) were the main beneficiaries of the ISFD programs during 2018. These countries are characterized by low per-capita income, low levels of human capital, high levels of poverty and under-nutrition, higher population growth rates and illiteracy, poor transport systems, predominance of subsistence agriculture and low levels of industrialization, low level of urbanization but rapid rural-to-urban migration, dominance of informal sector, and underdeveloped labor, financial, and other markets.

Thus, in accordance with the approved policy for ISFD financing, 80% of the ISFD cumulative financing was directed towards these countries and 20% to poverty pockets in non-LDMCs. Most of this financing (60% of the total) was extended to African countries. The remaining interventions were made in Central Asia, Middle East and Asia. By adhering to this policy, the ISFD aims to maximize its support for the LDMCs through combining proven best practices in combating poverty with innovative projects and programs that respond to their needs.

By the end of 2018, 20 operations of the ISFD were completed, with disbursement exceeding the threshold of 90% for these projects. The completed projects include operations in Micro Finance in Kyrgyz Republic, Tajikistan, Kazakhstan, and Benin; two Community Driven Development (CDD) projects in Indonesia and Sierra Leone; and a Malaria Prevention and Control project in Chad. In the light of the ISFD commitment to improve its effectiveness, the Fund had started synthesizing the results and lessons learnt from the completed projects and those which were about to be completed in order to take advantage of lessons in the on-going ISFD operations.

Satisfactory rating had been accorded to the completed ISFD projects in the Projects' Completion Reports. In Indonesia, for example, the ISFD contributed to the National program for Community Empowerment (PNPM), which is recognized as one of the most successful Community Driven Development (CDD) projects in the country. The program generated jobs, provided loans to female small traders and home-based businesses, and increased community access to markets, town centres, clean water supply and health and education facilities. In communities supported by PNPM, poor households have greater likelihood of graduating from poverty to self-sustenance.

The Terms and Conditions applied to these projects were aimed to ensure smooth implementation of the project and expedite the utilization of the ISFD loans. The ISFD support to these projects is based on its approved policy to promote socio-

*Togo: The ISFD supports poverty reduction programs through provision of microfinance for self-employment and business creation.*

economic development and poverty reduction in member countries through improved access to integrated national infrastructure networks and services.

## Promoting Co-Financing with Development Partners

Co-financing as part of the drive to mobilize resources is vital for leveraging the ISFD resources to have a meaningful impact on the beneficiary countries. There is evident need for partnerships to enhance the effectiveness and efficiency of ISFD financing in member countries. Co-financing can lead to improvement in efficiency across the financing institutions, achieving best practices, reducing cost, catalyzing greater investments, and "doing more with less."

## Importance of strategic partnerships

In line with the IsDB Policy on Poverty Reduction, the ISFD strives to form strategic partnerships for effective implementation of its programs. Strategic partnerships and alliances give the Fund competitive advantage and opportunities to access a broad range of resources and expertise. This means that partnerships can assist in offering the beneficiary countries distinctive skill sets and co-financing opportunities that add value to the ISFD intervention. Partnering with NGOs and specialized agencies, ensures that these partners deliver effectively in the services areas that are vital for the success of the ISFD interventions. They also create an incentive for ISFD involvement if they contribute to the programs' costs and provide the ISFD with a higher leverage for its limited resources. Partnership is also one of the best ways of strengthening working relationships, enhancing governance, and ensuring successes.

The ISFD has developed partnerships with a broad development community. The primary partners of the ISFD are the governments of the beneficiary countries. However, the Fund has strengthened its policy dialogue by involving a broader range of stakeholders in its work, particularly in implementation of its Vocational Literacy Program (VOLIP), Microfinance Support Program (MFSP), and Sustainable Villages Program (SVP). In doing so, the ISFD aims to learn lessons by making strategic partnerships with institutions and organizations that have rich experience or are better placed to secure participation and effective implementation of its programs.

*An ISFD mission at the training centre of the Family Bank in Khartoum, Sudan*

## Building partnerships to scale up ISFD financing for poverty alleviation programs.

1. **Lives and Livelihood Fund LLF (2016-2020)**

   The LLF Program was launched in September 2016 by the IsDB in partnership with Saudi Arabia, Qatar, the United Arab Emirates, the ISFD, and the Bill & Melinda Gates Foundation. By pooling grants from donors with ordinary lending capital from the IsDB, the Lives and Livelihoods Fund offers low-income member countries concessional financing resources for essential development projects.

   Over a period of five years of operation, the Facility will enable IsDB to deploy up to $2.0 billion of Ordinary Financing on concessional terms to address poverty, infectious diseases, primary healthcare, agriculture and food security, and rural infrastructure in IsDB member countries. More than 90.0% of the LLF resources target the east developed member countries (LDMCs) with concentration of poor people.

   ISFD BOD has approved in June 2015 a contribution of US$100.0 million for this program as a Grant over five (5) years in five (5) equal instalments. The objective of ISFD participation in the "Lives and Livelihoods Fund" is to help scale-up the availability of concessional resources for poverty-focused projects in LDMCs.

2. **Science, Technology & Innovation Fund STI**

   The IsDB Science, Technology & Innovation Fund was established in July 2017, with an initial target size of US$500 million. The Fund Capital shall consist of contributions by the Bank, member countries and non-member countries of the Bank, entities, institutions, foundations, corporates and individuals within and outside member countries.

   ISFD approved in November 2017 a contribution of US$100 million for this program as a Grant. It is expected that ISFD contribution will assist in mobilizing the remaining amount of US$400 million to complete the target capital of the Fund (US$500.0 million), this will represent a leverage of 1:4.

3. **Accelerating Youth Job Creation Program (2019-2022)**

   This is a joint partnership between ISFD and Silatech to create large scale jobs for youth in selected countries through facilitating youth's access to finance, building their entrepreneurial capacities, and building the technical capabilities of local Microfinance Institutions (MFIs) to provide youth with the services that meet their specific needs.

   The total cost of the program is estimated at US$370 million. ISFD will contribute US$80 million. Silatech will contribute US$90 million. Other partners will contribute US$200 million. The expected leverage is 1:3.6

4. **ISFD - EAA Enroll and Retain Out-Of-School Children Program**

   The overall goal of the program is to promote inclusive and equitable quality education and lifelong learning for all. The key result of the program is to enroll and retained in school 2.4 million out-of-school children and establish 8,800 new schools. The total cost of the program is estimated at US$375.3 million of which the ISFD will contribute US$100.0 million over two years (2018 and 2019).

5. **Alliance to Fight Avoidable Blindness AFAB-2 (2018-2022)**

   Building on the success of the first phase of the program, the Second Generation of the program is aimed at providing accessible and sustainable eye care services in 12 countries - (Burkina Faso, Mali, Niger, Guinea Bissau, Guinea, Cote d'Ivoire, Togo, Chad, Djibouti, Mozambique, Comoros, Mauritania).

   ISFD BOD has approved a contribution of US$5.0 million in 5 years for this program. While the resources to be mobilized by the Alliance in 5 years were initially targeted at US$25.0 million, the actual amount committed had risen to US$251.0 million. Islamic Relief, UK, has doubled its commitment from US$1.0 to US$2.0 million. The program represents an achievement in resource mobilization of a leverage 1:49.

# 3

# CORPORATE GOVERNANCE

# 3 Corporate Governance

*The 11th ISFD Board of Governors was held in conjunction with the 43rd IsDB Group Annual Meeting of the BOG in Tunis on 11-12 Jumad-I 1439H (4-5 April 2018), and was opened by H.E. Beji Caid Essebsi, President of Tunisia.*

## Activities of the ISFD Board of Governors

The 11th Annual Meeting of the ISFD BOG was held in Tunisia on 18 Rajab 1439H (5 April 2018), in conjunction with the 43rd IsDB Group Annual Meeting of the BOG. The BOG approved all the recommendations presented to it by the Procedures Committee of the BOG in connection with the ISFD, and adopted a total of 4 resolutions relating to those recommendations.

The BOG adopted the ISFD Annual Report and Audited Financial Statements for the financial year ending on 31 December 2017. It also deliberated on the progress of the Fund during 2017 and commended the ISFD management for the results achieved during the year.

The Board of Governors called on the IsDB management for a review of ISFD's performance over the last ten years. The Board of Governors also called on the IsDB management to take the necessary steps to strengthen ISFD's position and standing among other institutions of the IsDB Group, and enhance its performance in combating poverty in member countries. This call was welcomed by the IsDB President who saw an opportunity to raise the status of the Fund among the IsDB Group, which can enhance its position to realize the aspirations of its founders as an effective tool to fight poverty in member countries.

The BOG decided that the 12th Annual Meeting of the ISFD BOG would be held in Marrakech, Morocco, on 28 Rajab 1440H (4 April 2019). It also approved Messrs.' Ernst & Yong as auditors of the ISFD Financial Accounts in 2019.

## Activities of the ISFD Board of Directors

As per the regulations of the ISFD, the Board of Executive Directors of the IsDB is the Board of Directors of the ISFD (BOD) and chaired by the President of the IsDB Group.

The Board of Directors is responsible for overseeing the activities of the Fund and for this purpose may exercise all the powers delegated to it by the Board of Governors. The Board meets four times a year and, among its main duties, is responsible for approving loan proposals, policies, the administrative budget, setting the terms and conditions of financing and operational procedures, providing guidance on specific fields of activity, and making decisions on strategic matters in accordance with the powers conferred on it by the ISFD regulations. The Board has a Standing Committee (the Audit Committee) that reviews and discusses documents that are subsequently submitted to the Board for consideration and approval.

In 2018, the BOD held four meetings during which it considered a number of items related to projects financing and policy issues. The BOD considered seven ISFD Progress Reports during these meetings highlighting the various activities carried out by the Fund during the year as well as areas for further actions and improvement.

The Board noted the significant improvement in the returns on the ISFD investments of its capital resources in 2018. To improve the performance of the Fund's investments, however, the it urged the ISFD management to speed up the finalization of the ISFD Investment Policy of its resources. The Board also commended the partnerships and networking relationships which the ISFD has so far achieved.

The Board emphasized that combating poverty requires targeted interventions in the areas of social and human development such as basic education, health services and enhancing capabilities, particularly for women and children, empowering citizens, men and women equally, and providing the poor and vulnerable with social safety nets.

## Approval of the ISFD 3-Year Work Program (2019-2021)

The BOD approved the ISFD 3-Year Work Program (2019-2021) and approved Allocation for 2019, as follows:

- Operations financing: U$270 million
- Administrative budget: U$6.9 million
- Capital expenditure: U$35 thousand

## Announcement of the establishment of a Waqf Fund for Al Quds

An MOU was signed by the ISFD and Al Quds Endowment Fund on the occasion of the ISFD Board of Governors Meeting on 4 April 2018 in Tunis, for establishment of a US$100.0 million


*ISFD AWARD – Best Humanitarian Initiative.ISFD was named Best Humanitarian Initiative at the Islamic Business & Finance Awards 2018.*


*An MOU was signed by the ISFD and Al Quds Endowment Fund on the occasion of the ISFD Board of Governors Meeting on 4 April 2018 in Tunis, for establishment of a US$100.0 million Ihsan Investment Waqf for Al-Quds. The ISFD was represented by the Director-General, Dr. Waleed Al-Wuhaib, and Al-Quds Endowment Foundation was represented by its Chairman Munib Rasheed Al-Masri. The ISFD will contribute US$20.0 million to the Fund and Munib Al-Masri will contribute US$20.0 million, in addition to contributions of US$60.0 million to be mobilized from other donors.*

Waqf for Al-Quds. The ISFD was represented by the Director-General, Dr. Waleed Al-Wuhaib, and Al-Quds Endowment Foundation was represented by its Chairman Munib Rasheed Al-Masri. The ISFD will contribute US$20.0 million to the Fund and Munib Al-Masri Foundation will contribute US$20.0 million, in addition to collecting contributions of US$60.0 million from other donors. The ceremony was held under the patronage of the President of the IsDB Group, Dr. Bandar bin Mohammed Hajjar.

The signing of the agreement was attended by the Governor of the IsDB for Palestine, H.E. Dr. Mohammad Shatia, the Governor of Al Quds, Adnan Al-Husseini, and the Prime Minister's Adviser for Arab and Islamic Fund, Dr. Nasser Qatami.

## Meeting with Crops for the Future

A delegation from Crops for the Future – Malaysia, visited the ISFD in August 2018. The delegation, lead by by Sist. Zunita Zubir, discussed partnership by ISFD and CFF to support efforts to improve food and nutrition security, health and incomes of the poor in IsDB member countries. It also discussed opportunities for developing solutions to food security using underutilized crops in member countries.

## ISFD Participation in the 6th Brazil Africa Forum

The ISFD participated in the 6th Brazil Africa Forum, held on 22-23 November 2018, in Salvador, Brazil, which brought together 200 representatives from 38 countries to discuss together new strategies between Brazil and African countries to promote youth empowerment and sustainable development.

The Forum consolidates itself as a space for debates and exchange of experience, suggestions and opinions among decision makers, experts and researchers who aspire to the development of partnerships between Brazil and African countries. The ISFD is aiming to develop partnership with the Brazil Africa Institute to mobilize support from Brazil for its programs that target the poor in Africa, in particular the Alliance for Fighting Avoidable Blindness.

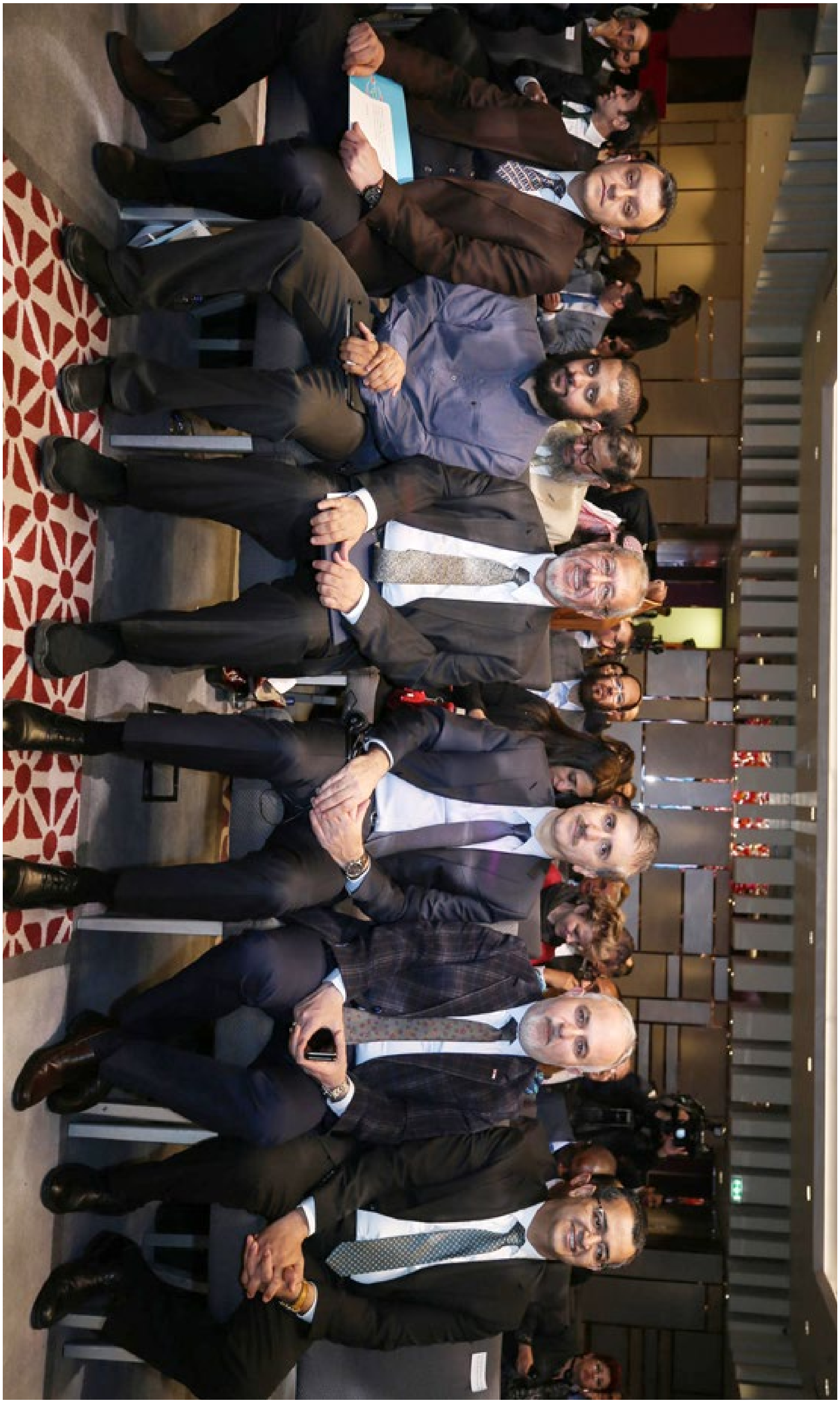
## Signing Ceremony of the AFAB Alliance

The ISFD held a signing ceremony for the Alliance to "Fight Against Avoidable Blindness" in Tunisia on 2 April 2019, on the occasion of the 43rd IsDB Group Annual Meeting of the Board of Governors, 12th Annual Meeting of the ISFD BOG.

The Program aims to conduct 100,000 eye surgeries and 1 million treatment cases over five years, in addition to participate in strengthening the capacities and best practices in eye health in the targeted member countries.

*President of the Republic of Niger Mahamadou Issoufou and President of IsDB Group Dr. Bandar Hajjar inspecting King Abdullah bin Abdulaziz Complex in Niamey, which is affiliated to King Abdullah Humanitarian Foundation and supervised by IsDB on 23 January 2019. The ISFD was represented by the Director General in this mission.*

*Meeting between delegations from IsDB, the ISFD and Gavi, the Vaccine Alliance, in Gavi Headquarters in Geneva to explore an engagement framework and roadmap for 31 OIC MCs to increase vaccine manufacturing and immunization to meet their needs over the next five years.*



ISFD Coordination Meeting in Istanbul (19-20 March, 2018) on the: “Fight Against Avoidable Blindness” project in Istanbul: With A sizable participation pledge from Turkey, the ISFD sets to embark on the 2nd Generation of this project in 12 African Countries.


Signing Ceremony of the Alliance to Fight Avoidable Blindness, Tunis - 2 April 2018. The ceremony was graced by HRH Prince Abdulaziz bin Ahmed Al Saud, Founder and Chairman of the Federation of Blindness Control.


# 4

# FINANCIAL REVIEW

# 4 Financial Review

## Resources of the ISFD

The ISFD has an approved target capital of US$10.0 billion. The capital commitments as at the end of 2018 amounts to US$2.704 billion, representing 27.0% of the target capital (Annex IV). These commitments are composed of voluntary contributions by member countries, and the IsDB. The Fund has no callable capital.

Total pledges as at the end of 2018 stood at US$2.7 billion, composed of US$1.7 billion committed by 49 IsDB member countries, and US$1.0 billion committed by the IsDB. The biggest pledges were made by Saudi Arabia (US$1.0 billion), Kuwait (US$300.0 million), and Iran (US$100.0 million).

No new commitments were made in 2018. However, fresh commitments, amounting to US$24.1 million, were made by 4 countries in 2017, namely: Sudan (US$21.1 million); Togo (US$1.0 million), Brunei Darussalam (US$1.0 million), and Maldives (US$1.0 million).

Paid-up capital reached US$2.585 billion as at the end of 2018, only US$1.0 million more than the level reported for 2017. Of the cumulative payments, as of end-2018, US$1.584 billion was paid by member countries and US$1.0 billion by the IsDB. One payment was received from a member country in 2018, Bangladesh, amounting to US$1.0 million, being the 8th installment of its contribution to the Fund. Of the committed contributions, the remaining amount to be paid, as at the end of 2018, is US$142.85 million.

## Complementary Resources:

The ISFD aims to obtain complementary resources through: (i) Specialized Trust Funds for poverty alleviation; (ii) Waqf Land Development in Member Countries; (iii) Co-financing with partners; and (iv) Partnership with philanthropists, social investors, and the private sector. So far, the Fund has focused on the ISFD Waqf projects, while efforts are being made to benefit from other complementary resources.

In 2012, the ISFD Board of Governors, adopted the resolution (No. ISFD/BG/3-433), calling on the member countries "to take all measures to support the efforts of the ISFD in resource mobilization, such as allocating a suitable Waqf in favour of the ISFD which the ISFD can develop to generate revenues that can enhance its resources."

Since then, the ISFD has continued consultations with member countries to allocate Waqf assets to the Fund. As at the end of 2018, three countries have allocated plots of land to the ISFD within the framework of the Waqf program, namely: Benin, Burkina Faso, and Comoros.

## Benin

The land allocated to ISFD in Benin has been valued at US$5.4 million. The project cost is estimated at US$22.0 million. Projections show a pre-tax IRR of 13.3% can be achieved, based on an equity-debt ratio of 45%-55%. In accordance with the financing plan, the ISFD will contribute US$9.7 million to the project from its own resources and the IsDB will contribute US$6.0 million, through the Awqaf Properties Investment Fund (APIF). An amount of US$6.0 million will be mobilized from external sources to bridge the financing gap for the project.

## Burkina Faso

A plot of land at a prime location in Ouagadougou has been allocated to the ISFD. The Fund is working on the valuation of the land before a feasibility study for development of the Waqf project is undertaken.

## Comoros

The Government of Comoros has allocated a plot of land measuring over 5 hectares to the ISFD on the Corniche de Moroni. The valuation of the land will be undertaken as soon as the Government provides the ISFD with the title documents of the land.

Waqf land allocations to the ISFD have also been extended in 2018 by Cote D'Ivoire, Nigeria, and Togo. Moreover, expressions of interest in the program have also been made by Azerbaijan, Bahrain, Sierra Leone, Cameroon, Maldives, and Sudan.

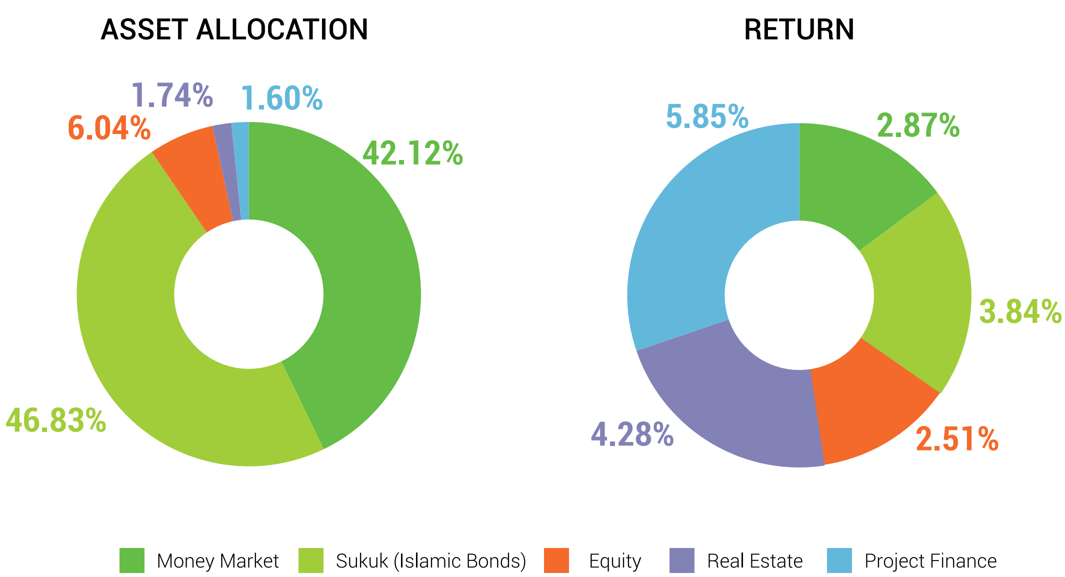
## Investment of Capital Resources

ISFD has separate accounts and records of capital resources and operations. All operations and activities of the Fund are carried out in accordance with Sharia'a law governing Islamic Waqfs.

Although the accounts of the Fund are denominated in United States dollars, the Regulations of the Fund provide that they may be held in any currency, currencies or unit of account that the ISFD Board of Directors may deem appropriate. However, as a temporary measure, the Board decided to use the US Dollar as a unit of account for the Fund as its capital is denominated in US Dollars.

The Fund's accounts are maintained by the IsDB Finance Control Department and its capital resources are invested by the Treasury and Investments Departments of the IsDB.

### ISFD Investment - 2018



## Income

The ISFD liquid assets consist of contributions paid to the Fund's capital, as well as the unused profits of the Fund. These funds are invested in commodity Murabaha and short-term Shariah compatible placements.

ISFD total income in 2018 is US$89.78 million, compared to US$89.61 million achieved in 2017. It was mainly composed of income from investments in Sukuk which dominated the investment classes during 2018 (US$64.19 million, compared to US$64.98 million in 2007).

Net income achieved during the year is US$84.22 million, compared to US$83.74 in 2017. This constitutes a return of 2.8% and 2.86% on the net assets of ISFD in these two years respectively. The increase in the Fund's net assets by 2.48% (from US$2.93 billion in 2017 to US$3.00 billion in 2018), was not accompanied by an appreciation in the rate of return on the Fund's investments of its capital resources.

## Provision for Losses

A provision for loan impairment of assets of US$5.12 million was incurred in 2018, compared to US$6.15 million impairment in 2017, and US$15.4 million impairment in 2016.

## Disbursements

Disbursements for operations amounted to US$113.0 million in 2018, compared to US$26.4 million in 2017, and US$33.43 million in the 2016. The high increase experienced in 2018 was mainly due to the disbursement of the first installment (US$50.0 million) of the ISFD US$100.0 million grant to the IsDB Science, Technology & Innovation Fund (IsDB-STI). The disbursements for loan in 2018 were US$43.0 million, and the rest (US$70.0 million) was made for grants. Cumulative disbursements of the Fund since 2007 were standing at US$269.33 million by the end of 2018.

## Management of Liquid Funds

The ISFD is required to invest its capital and retained earnings which are not immediately required for financing its operations so that it can earn income that can be used to finance its projects and programs. As a Waqf (i.e. Trust), paid-up capital is not used in the Fund's operational activities. To maximize income, liquidity is maintained only to the extent necessary to meet the Fund's current cash requirements and undisbursed commitments for the short term. All ISFD capital resources are invested in accordance with the approved Investment Policy of the ISFD.

The ISFD had launched several initiatives in 2018 to supplement its interventions in member countries through investing of part of its capital resources in poverty alleviation projects and programs, as shown in Section 2 (Operations Financing).

## ISFD Key Financial Indicators (in US$ million)

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Capital Commitments | 2,679.36 | 2,679,360 | 2,681.73 | 2,702.00 | **2,702.00** |
| Capital Payments | 2,269.59 | 2,377.59 | 2,482.14 | 2,584.22 | **2,585.22** |
| Contributions received from MCs during the year | 2.94 | 7.99 | 2.94 | 0.94 | **1.0** |
| Gross Income | 75.64 | 65.02 | 87.66 | 89.61 | **89.78** |
| Net Income | 72.33 | 62.07 | 83.04 | 83.74 | **84.22** |

# ANNEXES

ANNEX I

# ISFD APPROVED PROJECTS BRIEFS – 1439H (2018)

## 1. Regional Rice Value Chain Program - The Gambia Project

**Justification of the Project:** Rice is the main staple food in The Gambia and is extremely important to food security and nutrition. Despite its importance, the country currently produces only about 20% of its national demand, while the deficit of 80% is imported annually. This costed the country US$84.0 million in 2017. The challenges faced by the country to increase rice production include: (i) low level of investment in irrigated systems, (iii) low rice yields, and (iv) low levels of mechanization and post-harvest processing.

**Description of the Project:** The project aims at improving the national economy of The Gambia through improved production, processing, and marketing, and reducing the high cost of rice importation. It will also increase vertical and horizontal production by adding new irrigated areas to the existing productive ones and introducing an array of technical interventions to increase productivity. Activities to improve productivity will take into consideration measures to enhance production system's social and environmental safeguards.

The project is in line with the Government's development agenda as articulated in the long-term development blueprint Vision 2020, which aims to transform The Gambia into a middle-income and export-oriented country. Rice is one of three flagship value chains of the National Development Plan (NDP) 2018-2021. The project meets the NDP priorities, particularly: stabilizing the economy, stimulating growth, and modernizing agriculture for sustained economic growth. In addition, the project meets the government's priority of making the private sector the engine of growth, transformation and job creation.

The project approach is based on three pillars. First, it will facilitate establishment of grassroots public-private partnership through community agreements that are supported by the government. Secondly, it will strengthen community and farmers' organizations. Thirdly, the project will follow market mechanisms and will refrain from giving free assets or services to farmers; instead it will put in place a fees system for services to ensure financial sustainability.

**Project's Cost and Financing:** The total cost of the project is estimated at US$29.8 million, towards which the ISFD will provide a loan of US$2.0 million for 30 years, including a grace period of 10 years. The IsDB will provide US$15.0, which shall take the form of a blended financing comprising of 65% ordinary financing (equivalent to US$9.75 million) and 35% LLF Donor Grant funding (equivalent to US$5.25 million), in addition to US$0.3 million as a grant for Reverse Linkage (RL). BADEA will be involved in financing of the project activities by US$10.0 million, and US$2.5 million will be provided by The Gambia Government. AfDB will provide a parallel finance of US$15.0 million to bring up the total investment to US$44.8 million.

## 2. Regional Rice Value Chain Program - The Guinea Project

**Justification of the Project:** Rice is a strategic and politically important stable food crop in Guinea, which explains the strong emphasis of the government policies for the subsector, such as various production and consumption subsidy measures and the implementation of a comprehensive National Rice Development Strategy Framework. This seeks to double rice production by 2020 in order to improve food security and provide a potential surplus for export. The strategy aims at improving seed varieties, inputs supply, irrigation availability, marketing, Research and Development (R&D), and agricultural credit.

In light of this situation, it is essential to increase, in a sustainable manner, rice production and productivity (yields per ha) throughout the year. The yields of smallholder farmers is currently very low, with the national average being less than 1.3 t/ha. The project aims to quadruple this through good agronomic practices, including the use of improved seeds, fertilizers and efficient irrigation. Efforts to improve productivity will also take into consideration measures to enhance the system's social and environmental sustainability.

**Description of the Project:** The project's focus is on value chain development, seeking to alleviate constraints impeding the development of rice cultivation by assisting actors across the entire value chain, including smallholder farmers, off-takers and processors, service providers, agro-dealers, financial institutions, and rural communities in the production and processing areas. As such, the project will have the following components: (i) raising rice production and productivity; (ii) strengthening the links to markets, (iii) policy and institutional support; and (iv) project management and coordination. Activities to improve productivity will also take into account measures to enhance the production systems and social and environmental safeguards.

The main objective of the project is to contribute to reducing high importation rate of rice and enhancing economic growth through improved production and productivity in a sustainable manner, processing, and marketing. The project will also increase vertical and horizontal production by adding new irrigated areas to the existing productive ones and introducing an array of institutional and technical interventions to increase productivity.

**Project's Cost and Financing:** The total cost of the project is estimated at US$29.33 million. The ISFD will provide a loan of US$2.0 million to the project for 30 years, including a grace period of 10 years, while the IsDB will contribute US$15.18 million by way of installment sale financing and US$0.3 million as a grant for Reverse Linkage. BADEA will contribute US$10.0 million, and the Government of Guinea will provide US$1.7 million.

## 3. Regional Rice Value Chain Program - The Niger Project

**Justification of the Project:** The main objective of the project is to contribute to reducing high importation rate of rice and supporting economic growth through improved production, processing, and marketing, and enhancing private sector participation. The project will also increase vertical and horizontal production by adding new irrigated areas to the existing productive ones and by introducing an array of institutional and technical interventions to increase productivity.

In Niger, rice consumption has witnessed a significant growth during the past ten years and national production does not meet the requirements of rice consumption. Therefore, Niger has developed a National Rice Development Strategy (NRDS) which states that the country's development programs and policies that support the rice sector are aimed to contribute to the country's macro-economic stability and to fight against food insecurity and rural and urban poverty. Therefore, this project aims to strengthen national capacities for rice production, supply, and resilience to food crises and disasters.

**Description of the Project:** The project's focus is on value chain development seeking to alleviate constraints impeding the development of the rice cultivation by impacting actors across the entire value chain including smallholder famers, off-takers and processors, service providers, agro-dealers, aggregators, financial institutions, and rural communities in production and processing areas. As such, the project will have the following components: (i) raising rice production and productivity; (ii) strengthening the links to markets, (iii): policy and institutional support, and (iv) project management and coordination. activities to improve productivity will also take into consideration measures to enhance the production systems, social and environmental safeguards.

The project contains a limited number of large development investments in public goods and services for the sustainable benefit of a large number of agricultural households. As the project focuses on land development and improvement of irrigation and post harvest infrastructure, capacity building in good agriculture practices and improvement of inputs, one model of financial feasibility assessment has been analyzed: the irrigated agriculture system, with households being the ultimate beneficiary of the all the services provided.

**Project's Cost and Financing:** The total cost of the project is estimated at US$18.64 million. The ISFD will provide a loan of US$2.0 million to the project for 30 years, including a grace period of 10 years, while the IsDB will contribute US$15.68 million by way of installment sale financing and Technical Assistance Grant amounting to US$0.3 million. The Government of Niger will provide US$1.08 million towards the project's financing.

## 4. Regional Rice Value Chain Program - The Senegal Project

**Justification of the Project:** Rice is the main staple food for the Senegal population. Despite the efforts made by the Government of Senegal to increase rice production, rice imports are still at 43% of the country's annual needs. The annual cost of rice imports for Senegal currently stands at more than US$350.0 million, which constitutes a heavy burden on the country's reserves of foreign currency. Senegal has a wealth of land and water resources, a vibrant private sector around the rice value chain, and a national strategy for developing the rice value chain and achieving rice self-sufficiency. This Project is also in line with IsDB's strategic priority interventions in Senegal as stated in the Member Country Partnership Strategy (MCPS). The project supports the achievement of the SDGs, mainly on Ending Hunger, Inclusiveness, climate change, partnership, and women empowerment.

**Description of the Project:** The project scope includes four components, namely (i) Raising production and productivity in a sustainable manner, (ii) Support to structuring and organizing the rice value chain to improve access to markets, (iii) Access to finance, and (iv) Support to Project Management. Human and institutional capacity will be a cross cutting intervention. The project has strong focus on private sector engagement, inclusiveness, with focus on creating jobs, especially for women and youth.

The project will provide solutions to unlock the value chain and make it operate better. Solving the bottlenecks related to the supply of improved seeds, knowledge of soil fertility and its sound management, better management of water for growing rice, improving coordination among the value chain actors and providing better access to finance. This should result in a more sustainable rice production and adequate supply to meet most of the national demand. The project is expected to achieve an additional annual rice production of 400,000 tons from year five, mainstream the contractual relations between the value chain actors and ensure a better access to finance. The project results are expected to be profitable to all the actors and to the Senegalese economy. Its direct targets are about 39,000 households, and aims at generating 20,000 jobs (with approximately 40% being women and the youth) through different sections of the value chain.

**Project's Cost and Financing:** The total cost of the project is estimated at EUR41.43 million (US$47.62 million). The ISFD will provide a loan of US$2.0 million to the project for 30 years, including a grace period of 10 years.

The IsDB will contribute (i) a combination of Installment Sale Services financing under LLF of EUR 9.78 million, Installment Sale financing under LLF of EU 16.60 million; the LLF financing shall take the form of a blended financing comprising of 65% ordinary financing (equivalent to EUR17.15 million), and 35% LLF Donor Grant funding (equivalent to EUR9.23 million); and (ii) Reverse Linkage Technical Assistance Grant amounting to EUR0.24 million.

The IsDB had mobilized development partners to patriciate in the financing of the project. BADEA will co-finance the activities of the project with a total amount of EUR10.76 million, while African Development Bank (AfDB) will provide to the Government of Senegal a total amount of US$90 million to support Rice Value Chain for the period 2019-2024. The Government of Senegal will provide EUR2.75 million.

## 5. Regional Rice Value Chain Program - The Sierra Leone Project

**Justification of the Project:** Rice is a major staple/food crop in Sierra Leone. Annual per capita consumption of rice of 104 kg is amongst the highest in sub Saharan Africa. The agriculture sector in Sierra Leone is heavily dominated by the production of staple crops, mainly rice and cassava, accounting for over three-quarters of the sector's output. The major challenges for the sector include: low productivity due to lack of improved technologies including agricultural inputs and low levels of value chain integration. Rice, the most important and main staple food in the country, is produced across the country mainly by smallholder farmers. However, local production is insufficient to meet demand and thus the country heavily dependents on import. According to the Ministry of Agriculture and Forestry (MAF) statistics, total rice demand was 700,000 tons in 2017. Local production was 300,000 tons while the rest was imported from abroad in 2017 at the cost of US$200.0 million.

In light of this situation, the project will support the implementation of the National Rice Development Strategy (NRDS), which aims to close the supply gap and contribute to the food security as well as poverty reduction in the country. The main objective of the project is to contribute to reducing high importation rate of rice and enhance economic growth through improved production and productivity in a sustainable manner, processing, and marketing. The project will also increase vertical and horizontal production by adding new irrigated areas to the existing productive ones and by introducing an array of institutional and technical interventions to increase productivity.

**Description of the Project:** The project's focus is on value chain development seeking to alleviate constraints impeding the development of the rice cultivation by impacting actors across the entire value chain, including smallholder famers, off-takers and processors, service providers, agro-dealers, aggregators, financial institutions, and rural communities in production and processing areas. As such, the project will have the following components: (i) raising rice production and productivity; (ii) strengthening the links to markets, (iii): policy and institutional support; and (iv) project management and coordination. Activities to improve productivity will also take into consideration measures to enhance the production systems, social and environmental safeguards.

**Project's Cost and Financing:** The total project cost is US$34.12 million, comprising an ISFD loan of US$2.0 million for 30 years, including 10 years grace period, a total of US$20.3 million from IsDB resources including instalment sale blended with LLF grant of US$20.0 million, and Reverse Linkage TA Grant of US$0.3 million. BADEA has also committed to finance the project with total of US$10.0 million loan, in addition to US$1.82 million from Government of Sierra Leone as counterpart funding. The project will be parallel-financed by the African Development Bank (AfDB) with additional US$8.4 million to bring the total investment to approximately US$42.52 million.

## 6. Rural Water Supply and Sanitation Improvement Project - Kyrgyz Republic

**Justification of the Project:** Poverty incidence in the Kyrgyz Republic remains high, but inequality has been declining. Economic growth coupled with high social expenditures have led to a decline in the proportion of people living below the national poverty line, from 37.0% in 2013 to 25.4% in 2016. The poor are concentrated in rural areas where the majority of the existing water supply infrastructure in rural areas in the Kyrgyz Republic is in need for improvement. It is estimated that about 40% of rural people do not have access to safe drinking water and consume water from unprotected sources. As such, people in this segment of the population are exposed to the infection with water-borne diseases.

The majority of the existing water supply infrastructure in rural area inherited from Soviet Union era were built prior to 1980's and are currently in poor condition. They are highly inefficient, with losses estimated on average at 60%. Currently, around two-third households in the project area do not have access to centralized water system and spend an average of 2-3 hours per day for collecting water. This difficult condition is aggravated by often harsh climatic conditions and result in significant hardship for rural population in general, and for women and youth in particular.

The project is aimed to support the Government of Kyrgyz Republic Strategy for the development of drinking water and sanitation in rural area of the Kyrgyz Republic (2016-2026) through providing reliable and safe drinking water supply, as well as improved sanitation services. The key development result of the project is to contribute to the national target of ensuring that 90% of the population living in rural area are provided with access to improved and safe water supply and improved sanitation and hygiene practices in social institutions. The project will result in improved water supply for 150,000 rural people and access to improved sanitation facilities for 11,500 people in the project's area.

This project is a joint effort of the Coordination Group in providing development support to the Government of Kyrgyz Republic in implementing priority programs.

**Description of the Project:** The project has five components:

**(i)** **Improvement of Rural Water Supply & Sanitation:** This includes installation of 15 water supply systems, rehabilitation of 60 sanitation facilities in social institutions (primarily schools); and land acquisition.

**(ii)** **Supply of Machinery and Equipment:** To ensure sustainability of the water supply system in the project area, critical machinery and equipment will be supplied to the local municipalities. Moreover, sanitary services will be supplied with lab and IT equipment to improve the water and sanitation quality control and monitoring.

**(iii)** **Capacity Building on Sanitation & Institutional Development:** This component will give support for improved water, sanitation and hygiene practices within the target rural communities and strengthening institutional capacity of water operators. It includes: (a) tariff setting, billing system and service delivery; (b) communication activates and public awareness campaigns and (c) baseline survey and project end assessment, including socio-environment impact assessment.

**(iv)** **Detailed Design & Supervision:** This service includes (a) preparation of detailed design by locally licensed consulting firms under Government's financing; and (b) consultancy service for design review and construction supervision.

**(v)** **Project Management:** This component is related to (a) Project Management Unit (PMU) support; (b) start-up workshop and staff trainings; and (c) financial audit service.

**Project's Cost and Financing:** The total cost of the project is estimated at US$60.0 million. The ISFD will provide a loan of US$20.0 million to the project for 30 years, including a grace period of 10 years, while the remaining amounts will be co-financed by the Saudi Fund for Development (US$30.0 million), and the Government of Kyrgyz Republic (US$10.00 million).

## 7. Improvement of Water Resources Management in the Khatlon Region Project – Tajikistan

**Justification of the Project:** Tajikistan is a lower-middle-income, food-deficit country of about 9.0 million people, three-quarters of whom live in rural areas. The human development index (HDI) value for the country is 0.627, ranking 129 (2017), and poverty rate is estimated at 29%, while official unemployment rate is 2.2% (2017).

Most of the water resources management infrastructure constructed during the Soviet era prior to 1980's are complex, unsophisticated, costly to operate and maintain, and not efficient. Obsolete in condition and poorly functioning facilities require significant modernization. Inefficient water use at all levels (off-farm and on-farm) leads to significant water losses, while institutional and financial constraints hamper adequate maintenance of water resources infrastructure. Large amounts of arable lands are abandoned due to lack of water causing decline in agriculture production, which is further affected by increasing water stress due to climate changes.

Similarly, the drinking water supply facilities in rural areas are obsolete, poorly functioning, and in some rural areas inexistent. Rural people are forced to travel long distance, often in extreme weather, and yet to extract water from unprotected open sources. This is causing health problems and hardships, especially for women and youth. Child morbidity is high, chronically suffering from water borne diseases caused by poor quality of drinking water.

The project aims to support the National Development Strategy of Tajikistan (2016-2030) that is focused, inter-alia, on economic diversification and competitiveness, sustainable jobs and ensuring food security. Its development objective is to improve the livelihood of the rural population, through improvement of water resources management with resilience to climate change impacts. The project will result in increase of agriculture production by 110,000 tons per year, 2,000 new permanent and 15,000 seasonal job opportunities will be created, and 60,000 rural people will be provided with access to improved water supply.

**Description of the Project:** The project has five components:

(i) **Improvement of Water Resources Management Infrastructure:** scope includes (a) Construction and upgrading irrigation and drainage schemes covering 3,000 ha land in Dangara Valley; (b) Modernization of selected irrigation pumping stations with efficient pumps to improve water supply; and (c) Construction and rehabilitation of rural water supply system, and rehabilitation of sanitation facilities in social institutions (schools, kindergarten, health centers, etc.) in selected districts.

(ii) **Access to Islamic finance:** This component envisions (a) extending Shariah compliant line of finance (including micro-finance) to farmers and rural people to support them in agriculture value chain financing (primarily in production and processing) and support in rural development, (b) consultancy service support in capacity building in Islamic finance, and (c) supporting Advocacy and Monitoring and Evaluation Units to promote Islamic finance.

(iii) **Sustainable management of water infrastructure:** The project considers (a) supply of key machinery and equipment for local irrigation water management authorities and water utility operator, and (b) capacity development and institutional strengthening in water resources management.

(iv) **Consultancy (design and supervision):** The service includes (a) preparation of detailed engineering design including environmental assessment, expertize review; and (b) consultancy service for design review, tendering, construction supervision and contracts management.

(v) **Project management:** This component considers financing the project management expenses related to (a) Project Implementation Unit (PIU) support (staff salary, office equipment, operating and domestic travel costs); (b) project start-up workshop, PIU staff training; and (c) financial audit service.

**Project's Cost and Financing:** The total cost of the project is estimated at US$53.5 million. The ISFD will provide a loan of US$15.0 million to the project for 30 years, including a grace period of 10 years, while the remaining amounts will be co-financed by the Saudi Fund for Development (US$25.0 million), OFID (US$10.0 million), and Government of Tajikistan (US$3.5 million).

## 8. Strengthening the Capacity of the Simao Mendes National Hospital Project – Guinea Bissau

**Justification of the Project:** Guinea-Bissau is one of the IsDB least developed member countries, and has a health system that needs substantial support. Kidney disease is a growing problem with high economic cost on the health system and is associated with an increased risk of cardiovascular disease, premature death and low quality of life. Diagnosis of renal failure in Guinea Bissau means long suffering for most patients because of weak capacity in the country to offer dialysis treatment. Patients with renal failure requiring continuous hemodialysis sessions are routinely evacuated abroad for treatment. In this regard, establishing a hemodialysis service centre is among the priorities of the health sector in the country. The Simao Mendes National Hospital (SMNH) suffers from limited availability of medical equipment, despite being the main referral hospital.

The goal of the project is to contribute to reducing the increasing burden of renal failure by reducing morbidity and mortality and the high rate of medical evacuation through the establishment of a dialysis center in the SMNH. It will also support the Government's plan of reducing the growing burden related to Non-Communicable Diseases (NCD). The expected key results are: (i) by 2030, Premature Mortality Rate from NCD reduced by 1/3 (SDG-3): from 28% to 10% and (ii) by 2021, the use of comprehensive hemodialysis treatment within SMNH increased from 0% to 85%; (iii) by 2021, medical evacuation abroad for hemodialysis reduced by 75%; and (iv) by 2020, Hemodialysis Center within the SMNH established and functional.

**Description of the Project:** The scope of the project encompasses the following components: (i) Upgrading the Hemodialysis Center, Oxygen Unit and Drugs Warehouse (ii) Acquisition of medical equipment, (iii) Human and organizational Capacity Development through Reverse Linkage (RL) mechanism, and (iv) Support to the Project Management.

**Project's Cost and Financing:** The total cost of the project is estimated at US$4.24 million. The ISFD will provide a loan of US$3.8 million to the project for 30 years, including a grace period of 10 years. The IsDB provides Technical Assistance Grant financing amounting to US$0.80 million (including US$0.50 million for Reverse Linkage). The Government of Guinea Bissau will finance the remaining amount of US$0.44 million.

## 9. The Youth Job Creation Program in OIC Member Countries

**Rationale for Country and Sector Support:** This initiative is part of ISFD's mandate to mobilize resources and act as an innovative force to develop new ways of mobilizing resources (through partnership with NGOs, regional charity organizations, microfinance institutions and crowdfunding platforms) to combat poverty and youth unemployment in member countries. Unemployment, particularly among the youth, is a global problem. With an average unemployment rate of 16.0% in 2016, the OIC member countries experience relatively high youth unemployment. For young women, the unemployment rate is even worse – 32%, along with the fact that their labour market participation is worse than the rest of the world. In addressing these challenges, youth employment programs are among the tools used internationally to reduce poverty and inequality and lay the foundation for sustainable economic growth.

For its part, the ISFD has taken important lessons in the implementation of youth employment programs over the past few years. In fact, IsDB is among those supporting such interventions through its Youth Employment Support Program (YES), which focuses on the Arab region after 2011, to address the discontent arising directly from the high rate of youth unemployment.

On the other hand, IsDB's strategic partner, Silatech, is an international non-profit organization that works to create jobs and expand economic opportunities for young people. So far, it has achieved more than one million jobs, with operations on the ground in 17 countries. In light of this background, Silatech and ISFD proposed this initiative to expand the Youth Employment Development Programming in in the OIC's Member Countries. This will be achieved mainly through the provision of financial and technical support to small and micro enterprises.

**Program Objectives and Key Results:** The main objective of the program is to increase the income of young people in the OIC Member States by creating at least one million decent jobs in marginalized communities in member countries with a view to reducing poverty and improving economic opportunities by 2030.

The key outputs expected from the program include:

(i) 400,000 entrepreneurs receive capacity building / training;
(ii) 1,586,000 micro and small enterprises receive funding.

**Program Description:** In order to reach the largest number of young men and women, the program will encourage financial institutions to lend young people to start their businesses by combining technical support with various types of innovative financing tools. It will include a loan component on concessional terms as well as a grant component.

The Fund's loan will be repaid within 10-15 years, including a grace period of 3 to 5 years. The service charge should not exceed the maximum of 0.95% of the loan amount when calculated on an annual basis. The program will achieve its objectives through the following four main components:

(i) Capacity building to implementing partners (Micro Finance Institutions); (b) end beneficiaries, through technical skills development, entrepreneurship / business training, and (c) government, by addressing issues of relevant regulatory and government bodies and capacity gaps;
(ii) Providing micro-enterprises financing schemes;
(iii) Project Management Unit support; and
(iv) Financial audit.

All OIC member countries are eligible for this facility, subject to specific criteria for prioritization. Eight countries have been initially identified as tentative candidates for the program: Tunisia, Gambia, Bangladesh, Morocco, Mauritania, Nigeria, Comoros and Egypt. Tunisia has been jointly selected by the ISFD and Silatech for Phase-1 country project under this program, given that it is in line with the identified prioritization criteria.

**Program Estimate Cost and Financing Plan:** The total cost of the program is estimated at US$368.3 million. The ISFD contribution will be through a multiyear financing facility not exceeding US$81.70 million by way of a combination of an ISFD Loans of US$80.00 million and an ISFD grant of US$1.70 million to be committed in 2018, 2019, 2020 and 2021 in four equal tranches of US$20.0 million each and US$425,000 of loans and grants respectively in each year. Silatech will contribute a loan of US$80.0 million and a grant of US$7.71 million. Other partners including participating governments, MFIs, and donors will contribute US$198.89 million.

## 10. ISFD - EAA Enroll and Retain Out-Of-School Children Program

**Rationale for Country and Sector Support:** Education is one of the most powerful instruments for poverty reduction and sustainable growth and has been at the forefront of the IsDB endeavors to restore human dignity. There are about 58 million out of school children around the world, two thirds of them are in IsDB member countries. Of these children, 39% have possibly attended school late, 20% later dropped out, while 41% have never attended school. An estimated 131 million girls worldwide remain out of school and face multiple barriers to education. The Sub-Saharan Africa region accounts for half of out-of-school children, while an estimated 34% are in Asia.

IsDB member countries are characterized by youthful populations with over one third below the age of 15, thus posing immense pressure on basic social services. Some IsDB member countries still lack the necessary educational infrastructure to provide adequate quality services for all children; the binding constraints include the challenges of rural access, gender inequality, family poverty, and weak public institutional structures. Specifically, there are huge challenges in Sub-Saharan Africa and South Asia in their strive to provide universal access and indeed quality basic education for all. UNICEF reports that on average (between 2009 - 2015) there were 15% of out-of-school children in the world (16% girls and 14% boys), while SSA and South Asia had 25% and 19% respectively. Attendance rates in developing countries are 10% lower than the world average, while dropout rates are 16%age points higher. The participating member countries in SSA and South Asia are home to the largest number of out-of-school children in their respective regions and amongst the highest in the IsDB MCs: 1.2 million (including 0.6 million girls) in Mali; 8.7 million (including 5.0 million girls) in Nigeria; and 5.61 million (including 3.3 1nillion girls) in Pakistan. Providing inclusive quality basic education for all can and should be met as a matter of urgency.

**Program Objectives and Key Results:** The overall goal of the program is to promote inclusive and equitable quality education and lifelong learning for all. Specifically, it supports enrolment and retention of out-of-school children, and provides them with quality basic education. The key results include (i) 2,400,500 out-of-school children enrolled and retained in school; (ii) 244,800 teachers, including 13,800 new recruits, and 13,000 government education officials trained; (iii) 18 national and international NGOs/agencies engaged as new partners, (iv) 8,800 new schools established; and (v) 59,600 school management committees established and community outreach and awareness expanded.

**Program Description:** The program aims at deploying accelerated alternative learning modules to reach out, enroll and retain, out-of-school children based on their backgrounds and diverse influences in hard-to-reach communities, conflict situations, children with special needs or light disabilities. It is based on three principles: (i) the use of innovative co-financing, which provides additional concessionary resources to member countries; (ii) expand the involvement of non-state actors in the delivery of educational services; (iii) focusing on inclusive and quality education outcomes with targeted intervention on out-of-school children in conflict and/or deprived hard to-reach communities. The program is aligned with the IsDB 10-Year Strategy and the IsDB President 5-Year Program orientation towards a Developer-focused programming and implementation mechanism that harnesses local capacities.

**Program Estimate Cost and Financing Plan:** The total cost of the program is estimated at US$375.29 million of which the ISFD will contribute US$100.0 million over two years (2018 and 2019). The Education Above All (EAA), Qatar, will contribute US$65.0 million grant from its own resources, and the NGO/Multilateral Implementation Partners will contribute grant resources amounting to US$61.93 million. Participating governments in-kind contribution is estimated at US$148.36 million. IsDB and EAA will independently manage their resources under this program using their respective policies and procedures, including those relating to procurement and disbursement.

# ANNEX II ISFD APPROVED PROJECTS AND PROGRAMS - 1439H (2018)

| | Project | Country | ISFD Contribution US$ Million | Total Cost US$ Million | Partners |
|---|---|---|---|---|---|
| 1 | Regional Rice Value Chain Program | The Gambia | 2.0 | 29.8 | ISFD, IsDB, BADEA, The Gambia Government, AfDB |
| 2 | Regional Rice Value Chain Program | Guinea | 2.0 | 29.33 | ISFD, IsDB, BADEA, Government of Guinea |
| 3 | Regional Rice Value Chain Program | Niger | 2.0 | 18.64 | ISFD, IsDB, Government of Niger |
| 4 | Regional Rice Value Chain Program | Senegal | 2.0 | 47.50 | ISFD, IsDB, AfDB, Government of Senegal |
| 5 | Regional Rice Value Chain Program | Sierra Leone | 2.0 | | ISFD, lsDB, BADEA, AfDB |
| 6 | Rural Water Supply and Sanitation Improvement | Kyrgyz Republic | 20.0 | 60.0 | ISFD, Saudi Fund for Development, Government of Kyrgyz Republic |
| 7 | Improvement of Water Resources Management in the Khatlon Region | Tajikistan | 15.0 | 53.5 | ISFD, Saudi Fund for Development, Government of Tajikistan |
| 8 | Strengthening the Capacity of the Simao Mendes National Hospital | Guinea Bissau | 4.24 | 3.8 | ISFD, IsDB, Government of Guinea Bissau |
| 9 | The Youth Job Creation Program in OIC Member Countries | Regional | 80.0 | 368.3 | ISFD, Silatech, Other partners |
| 10 | ISFD - EAA Enroll and Retain Out-Of-School Children Program | Multi | 100.0 | 375.29 | ISFD, Above All (EAA), Beneficiary countries, Other donors |
| | **TOTAL** | | **229.24** | **986.16** | |

ANNEX III

# ISFD STATEMENT OF CAPITAL CONTRIBUTION

As of 31 December 2018

| S.No | COUNTRY | COMMITMENTS (in USD) | PAID AMOUNT (in USD) |
|---|---|---|---|
| | **Committed and Fully Paid** | | |
| 1 | Saudi Arabia | 1,000,000,000 | 1,000,000,000 |
| 2 | Kuwait | 300,000,000 | 300,000,000 |
| 3 | Algeria | 50,000,000 | 50,000,000 |
| 4 | Qatar | 50,000,000 | 50,000,000 |
| 5 | Malaysia | 20,000,000 | 20,000,000 |
| 6 | Kazakhstan | 11,000,000 | 11,000,000 |
| 7 | Egypt | 10,000,000 | 10,000,000 |
| 8 | Pakistan | 10,000,000 | 10,000,000 |
| 9 | Indonesia | 10,000,000 | 10,000,000 |
| 10 | Morocco | 5,000,000 | 5,000,000 |
| 11 | Oman | 5,000,000 | 5,000,000 |
| 12 | Tunisia | 5,000,000 | 5,000,000 |
| 13 | Turkey | 5,000,000 | 5,000,000 |
| 14 | Gabon | 4,000,000 | 4,000,000 |
| 15 | Brunei | 3,000,000 | 3,000,000 |
| 16 | Jordan | 3,000,000 | 3,000,000 |
| 17 | Yemen Republic | 3,000,000 | 3,000,000 |
| 18 | Burkina Faso | 2,200,000 | 2,238,000 |
| 19 | Bahrain | 2,000,000 | 2,000,000 |
| 20 | Syria | 2,000,000 | 2,000,000 |
| 21 | Cameroun | 2,000,000 | 2,000,000 |
| 22 | Nigeria | 2,000,000 | 2,000,000 |
| 23 | Guinea | 2,000,000 | 2,000,000 |
| 24 | Lebanon | 1,000,000 | 1,000,000 |
| 25 | Iraq | 1,000,000 | 1,000,000 |
| 26 | Suriname | 500,000 | 500,000 |
| 27 | Azerbaijan | 300,000 | 424,000 |
| 28 | Turkmenistan | 300,000 | 300,000 |
| 29 | Uzbekistan | 300,000 | 300,000 |
| 30 | Mozambique | 200,000 | 200,000 |
| | **SUB-TOTAL** | **1,509,800,000** | **1,509,962,000** |

| | | | |
|---|---|---|---|
| **Committed But Partially Paid** | | | |
| 1 | Iran | 100,000,000 | 65,000,000 |
| 2 | Sudan | 36,100,000 | 944,000 |
| 3 | Bangladesh | 13,000,000 | 7,000,000 |
| 4 | Benin | 12,250,000 | 945,000 |
| 5 | Togo | 2,000,000 | 1,000,000 |
| 6 | Gambia | 1,220,000 | 12,000 |
| 7 | Sierra Leone | 1,000,000 | 300,000 |
| 8 | Palestine | 500,000 | 186,000 |
| | **SUB-TOTAL** | **166,055,000** | **75,387,000** |
| **Committed But Not Paid** | | | |
| 1 | Senegal | 10,000,000 | - |
| 2 | Cote d'Ivoire | 5,000,000 | - |
| 3 | Mauritania | 5,000,000 | - |
| 4 | Mali | 4,000,000 | - |
| 5 | Chad | 2,000,000 | - |
| 6 | Niger | 2,000,000 | - |
| 7 | Maldives | 1,000,000 | - |
| 8 | Comoros | 650,000 | - |
| 9 | Guinea-Bissau | 200,000 | - |
| 10 | Uganda | 100,000 | - |
| 11 | Albania | 10,000 | - |
| | **SUB-TOTAL** | **29,960,000** | |
| **No Commitment** | | | |
| 1 | Afghanistan | | - |
| 2 | Djibouti | | - |
| 3 | Guyana | | - |
| 4 | Kyrgyz Republic | | - |
| 5 | Libya | | - |
| 6 | Somalia | | - |
| 7 | Tajikistan | | - |
| 8 | UAE | | - |
| **1** | **Islamic Development Bank** | **1,000,000,000** | **1,000,000,000** |
| | **Grand Total (USD)** | **2,705,830,000** | **2,585,221,000** |

**ISFD Resources in Kind:**

**Benin Waqf US$5.355 million**

# FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the year ended 31 December 2018

EY
Building a better working world

**Ernst & Young & Co. (Certified Public Accountants)**
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## INDEPENDENT AUDITOR'S REPORT

Your Excellencies the Chairman and Members of the Board of Governors
Islamic Development Bank
Jeddah
Kingdom of Saudi Arabia

### Report on the financial statements

We have audited the accompanying statement of financial position of The Islamic Solidarity Fund for Development (the "Fund") of the Islamic Development Bank as at 31 December 2018, and the related income statement, statements of changes in net assets and cash flows for the year then ended. These financial statements and the Fund's undertaking to operate in accordance with Shari'ah are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2018, and the results of its activities and its cash flows for the year then ended in accordance with the Shari'ah Rules and Principles as determined by the Shari'ah Board of Islamic Development Bank and the financial accounting standards issued by the AAOIFI.

For Ernst & Young

Ahmed I. Reda
Certified Public Accountant
License No. 356

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
EY
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

11 March 2019
04 Rajab 1440 H

Jeddah

18/34/MNA

**THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT**
**Statement of Financial Position**
**As at 31 December 2018**
(All amounts in thousands of United States Dollars)

| | Notes | **31 December 2018** | 31 December 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| **Treasury assets** | | | |
| Cash and cash equivalents | 4 | **133,921** | 28,646 |
| Commodity placements | 5 | **609,795** | 288,965 |
| Wakala placements | 6 | **500,454** | 500,309 |
| Investments in syndicated Murabaha | 7 | **-** | 4,015 |
| Investments in Sukuk | 8 | **1,371,611** | 1,855,835 |
| **Loans (Qard) and other assets** | | | |
| Loans (Qard) | 9 | **176,403** | 156,332 |
| Accrued income and other assets | 10 | **11,629** | 12,272 |
| **Investment assets** | | | |
| Investments in equity capital | 11 | **77,645** | 32,613 |
| Investment in an associate | 12 | **332** | - |
| Investments in syndicated Ijarah | 13 | **15,742** | 16,970 |
| Investment in funds | 14 | **143,993** | 125,280 |
| **Land** | 15 | **5,355** | 5,355 |
| **TOTAL ASSETS** | | **3,046,880** | 3,026,592 |
| **LIABILITIES** | | | |
| Accrued expenses and other liabilities | 16 | **3,276** | 5,060 |
| Grants payable | 18 | **109,479** | 88,520 |
| **TOTAL LIABILITIES** | | **112,755** | 93,580 |
| **NET ASSETS** | | **2,934,125** | 2,933,012 |
| **REPRESENTED BY:** | | | |
| Fund resources | 1 | **2,585,221** | 2,584,221 |
| Fund resources in kind | 15 | **5,355** | 5,355 |
| Retained earnings | | **334,028** | 325,486 |
| Equity preservation fund | 19 | **13,185** | 8,772 |
| Fair value reserve | | **(2,992)** | 11,548 |
| Pension fund reserve | | **(672)** | (2,370) |
| | | **2,934,125** | 2,933,012 |

The notes from 1 to 29 form an integral part of these financial statements.

**THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT**
**Income Statement**
**For the year ended 31 December 2018**
(All amounts in thousands of United States Dollars)

| | Notes | For the year ended 2018 | For the year ended 2017 |
|---|---|---|---|
| **Income from:** | | | |
| **Treasury assets** | | | |
| Commodity placements | | **14,505** | 19,796 |
| Wakala placements | | **13,127** | 309 |
| Investments in syndicated Murabaha | | **62** | 3,302 |
| Investments in Sukuk | 8 | **58,953** | 64,981 |
| **Loans (Qard) and other assets** | | | |
| Loans (Qard) service fees | | **2,214** | 3,166 |
| **Investment assets** | | | |
| Investment in equity capital | | **1,669** | - |
| Investment in an associate | 12 | **(918)** | - |
| Investment in syndicated Ijarah | | **629** | 549 |
| Investment in funds | | **4,658** | 3,664 |
| | | **94,899** | 95,767 |
| Provision for impairment | | **(5,119)** | (6,149) |
| **Total income** | | **89,780** | 89,618 |
| Employee related expenses | | **(3,243)** | (4,476) |
| General and administrative expenses | | **(2,318)** | (1,400) |
| **Net income for the year** | | **84,219** | 83,742 |

**THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT**
**Statement of Changes in Net Assets**
**For the year ended 31 December 2018**
(All amounts in thousands of United States Dollars unless otherwise stated)

| | Fund resources | Fund resources in kind | Retained earnings | Equity preservation Fund | Fair value reserve | Pension fund reserve | Total |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2017** | **2,532,076** | **5,355** | **324,654** | **4,469** | **8,324** | **(1,395)** | **2,873,483** |
| Contributions received during the year | 52,145 | - | - | - | - | - | 52,145 |
| Net income for the year | - | - | 83,742 | - | - | - | 83,742 |
| Fair value reserve (Note 14) | - | - | - | - | 3,224 | - | 3,224 |
| Grant allocation (Note 18) | - | - | (78,607) | - | - | - | (78,607) |
| Transfer to equity preservation fund (Note 19) | - | - | (4,303) | 4,303 | - | - | - |
| Pension fund reserve | - | - | - | - | - | (975) | (975) |
| **Balance at 31 December 2017** | **2,584,221** | **5,355** | **325,486** | **8,772** | **11,548** | **(2,370)** | **2,933,012** |
| Contributions received during the year | **1,000** | **-** | **-** | **-** | **-** | **-** | **1,000** |
| Net income for the year | **-** | **-** | **84,219** | **-** | **-** | **-** | **84,219** |
| Fair value reserve (Notes 11 & 14) | **-** | **-** | **-** | **-** | **(14,540)** | **-** | **(14,540)** |
| Grant allocation (Note 18) | **-** | **-** | **(71,264)** | **-** | **-** | **-** | **(71,264)** |
| Transfer to equity preservation fund (Note 19) | **-** | **-** | **(4,413)** | **4,413** | **-** | **-** | **-** |
| Pension fund reserve | **-** | **-** | **-** | **-** | **-** | **1,698** | **1,698** |
| **Balance at 31 December 2018** | **2,585,221** | **5,355** | **334,028** | **13,185** | **(2,992)** | **(672)** | **2,934,125** |

The notes from 1 to 29 form an integral part of these financial statements.

**THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT**
**Statement of Cash Flows**
**At 31 December 2018**
(All amounts in thousands of United States Dollars unless otherwise stated)

| | Notes | For the year ended 2018 | For the year ended 2017 |
|---|---|---|---|
| **Cash flows from operations** | | | |
| Net income for the year | | **84,219** | 83,742 |
| *Adjustment for non-cash items:* | | | |
| Unrealized fair value losses on investments in sukuk | 8 | **4,034** | 2,331 |
| Amortization of (discount)/premium on investments in sukuk carried at amortized cost | 8 | **(271)** | (173) |
| Accrued coupon income on sukuk | 8 | **3,980** | (910) |
| Share of loss on investment in an associate | | **918** | - |
| Accrued income on wakala placements | | **(145)** | (309) |
| Provision for impairment | | **5,119** | 6,149 |
| *Changes in operating assets and liabilities:* | | | |
| Loans (Qard) | | **(22,166)** | (29,436) |
| Accrued income and other assets | | **643** | 2,162 |
| Accrued expenses and other liabilities | | **(86)** | (887) |
| Grant payments | | **(50,305)** | (20,744) |
| **Net cash generated from operating activities** | | **25,940** | 41,925 |
| **Cash flows from investing activities** | | | |
| Commodity placements | | **(320,830)** | 196,178 |
| Wakala placements | 6 | **-** | (500,000) |
| Investments in syndicated murabaha | | **4,015** | 208,663 |
| Addition to investments in sukuk | 8 | **(25,069)** | (68,000) |
| Proceeds from redemption of investments in sukuk | 8 | **501,550** | 31,443 |
| Proceeds from sale of investments in sukuk | 8 | **-** | 14,000 |
| Investments in syndicated ijarah | 13 | **1,228** | 1,094 |
| Acquisition of equity capital | 11 | **(72,499)** | (3,333) |
| Proceeds on sale of equity capital | | **1,746** | - |
| Investments in funds | 14 | **(18,575)** | (6,407) |
| Proceeds on sale of investments in funds | 14 | **8,019** | 14,040 |
| Investment in an associate | 12 | **(1,250)** | - |
| **Net cash used in investing activities** | | **78,335** | (112,322) |
| **Cash flows from financing activity** | | | |
| Contributions received | | **1,000** | 52,145 |
| **Net change in cash equivalents** | | **105,275** | (18,252) |
| Cash equivalents at beginning of the year | | **28,646** | 46,898 |
| **Cash equivalents at end of the year** | 4 | **133,921** | 28,646 |

**THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT**
**Notes to the Financial Statements**
**At 31 December 2018**
(All amounts in thousands of United States Dollars)

## 1. INCORPORATION, ACTIVITIES AND OTHER

The Islamic Solidarity Fund for Development (ISFD) (the "Fund") 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 in Rabi al-Thani 1427H (May 2006) and was launched as a Waqf during the 32 nd Annual Meeting of the IsDB Board of Governors held in Dakar, Senegal, in Rabi al-Thani 1427H (May 2007).

The Fund's targeted capital (Fund's resources) is USD10 billion. The Fund has been established within the IsDB Group on the basis of voluntary contributions by all Member Countries of the Bank, irrespective of their development status.

The purpose of the Fund is to help to 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).

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.

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

As a 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 Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") and the Shari'ah rules and principles as determined by the Shari'ah Board of the Bank. In accordance with the requirements of AAOIFI, for matters for which no AAOIFI standard exists, the Fund seeks guidance from the relevant International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (IASB).

### Basis of measurement

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

- Investment in funds are measured at fair value through net assets; and
- A portfolio of investments in Sukuk are measured at fair value through income statement designated as such at time of initial recognition.

### 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**
**At 31 December 2018**
(All amounts in thousands of United States Dollars)

## 3. SIGNIFICANT ACCOUNTING POLICIES

### a) Financial assets and liabilities

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

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 favourable to the entity.

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 unfavourable to the entity.

The table below summarises Fund's major financial assets and liabilities and their measurement and recognition principles. Detailed accounting policies are provided in the relevant sections below.

| Item | Recognition principles |
|---|---|
| Cash equivalents | Cost less impairment |
| Commodity placements | Amortised cost less impairment |
| Wakala placements | Amortised cost less impairment |
| Syndicated Murabaha | Amortised cost less impairment |
| Investments in Sukuk classified as either: | Fair value through income statement; or Amortised cost less impairment |
| Investment in syndicated Ijarah | Disbursement less impairment |
| Loans (Qard) | Disbursements plus accrued service fee less impairment |
| Investments in equity capital | Fair value through members equity for listed or cost less impairment for unlisted investment |
| Investment in funds | Fair value through net assets |

### b) Offsetting of financial assets and liabilities

Financial assets and liabilities are offset only when there is a legal right to set off the recognised amounts and the Fund intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under FAS issued by AAOIFI, or for gains and losses arising from a group of smaller transactions.

### c) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank balances and commodity 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.

### d) Commodity placements

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

**THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT**
**Notes to the Financial Statements**
**At 31 December 2018**
(All amounts in thousands of United States Dollars)

### e) Wakala Placements

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 an agency contract (the "Wakala") in return for a specified fee. 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 default, negligence or violation of any of the terms of the Investment Wakala. Wakala fee is accrued on a time apportioned basis over the period of the contract based on the principal amounts outstanding.

### f) Investments in syndicated Murabaha

The Fund participates in syndicated Murabaha transactions originated by IsDB's affiliate International Islamic Trade Finance Cooperation (ITFC).

The amounts receivable from Investments in syndicated Murabaha are stated at the selling price less unearned income to the reporting date, less repayments received and any provision for impairment.

### g) Investments in Sukuk

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 income statement.

Sukuk is measured at amortised cost only if it is managed on a contractual yield basis or it is not held for trading and has not been designated at fair value through the income statement.

Sukuk classified and measured at fair value through income statement are initially recognized at fair value at the date the contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period with the resulting gain or loss recognized in the income statement. Transaction costs are expensed immediately on the date the contract is entered into.

### h) Investment in syndicated Ijarah

Investment in syndicated Ijarah is measured at amounts disbursed less provision for any impairment.

### i) Loans (Qard)

Loan (Qard) is recognized when cash is disbursed to the borrowers. Amounts receivable from loans (qard) represent amounts disbursed in respect of projects plus the loan (qard) service fees due, less repayments received and less provision for impairment.

### j) Investments in equity capital and investment in funds

Investments in equity capital and investment in funds 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 arising from the change in their fair value are recognized directly in the fair value reserve in the statement of changes in net assets until the investment is derecognized or determined to be impaired, at which time the cumulative gain or loss previously recorded in the statement of changes in net assets is recognized in the income statement. Investments in equity capital or investment in funds whose fair value cannot be reliably measured are carried at cost less provision for any impairment in the value of such investments.

**THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT**
**Notes to the Financial Statements**
**At 31 December 2018**
(All amounts in thousands of United States Dollars)

## k) Land

Land is measured at cost less impairment.

## l) Revenue recognition

*Commodity placements through banks*

Income from placements with other Islamic banks and Islamic windows of conventional banks is recognized on a time apportioned basis over the period of the contract based on the principal amounts outstanding.

*Wakala placements*

Wakala fee is accrued on effective yield basis over the period of the contract based on the principal amounts outstanding.

*Investments in syndicated Murabaha*

Income from investments in syndicated Murabaha is accrued on a effective yield basis over the period from the date of the actual disbursement of funds to their scheduled repayment dates.

*Investments in Sukuk*

Income from investments in Sukuk is accrued on an effective profit rate method and is recognised in the income statement and where the Sukuk is classified and measured at fair value, the fair value gains and losses (realized and unrealized) resulting from the re-measurement of the fair values at the reporting date are also recognised in the income statement.

*Dividend income from investments in equity capital and investment in funds*

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

*Loan (Qard)service fees*

ISFD charges loan (qard) service fee only to cover its 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.

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

*Investment in syndicated Ijarah*

Income from investments in syndicated Ijarah is recognised on the effective yield method (which represents ijarah rental net of depreciation against ijarah assets).

## m) Grant allocation

The Fund's Board of Directors have the authority to allocate grants from ISFD's normalized net income (net income adjusted for unrealized gains/losses, to be charged to statement of changes in assets). These grant allocations are recorded as liabilities until disbursed to the beneficiaries.

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## n) Impairment of financial assets

*Amortized cost or cost less impairment*

If there is objective evidence that an impairment loss has been incurred, the amount of impairment is measured as the difference between the carrying amount of the asset and its expected recoverable amount. Impairment losses are recognised in income statement.

*Fair value through net assets*

An assessment is made at each statement of financial position date to determine whether there is objective evidence that an investment may be impaired. In case of investments carried at fair value through net assets, a significant or prolonged decline in fair value of the investment below the cost is considered in determining whether the assets are impaired. If any evidence exists of significant or prolonged impairment for the investment carried at fair value through net assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the investment in equity previously recognised in the net assets, is removed from net assets and recognised in the income statement. Impairment losses on equity investments previously recognised in the income statement are not subsequently reversed through the income statement.

## o) Foreign currency transactions and translations

Foreign currency transactions that require settlement in a foreign currency are translated into the functional currency of the Fund (USD) at the exchange rates at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the exchange rate at the date that the fair value is determined.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences resulting from the settlement of foreign currency transactions and arising on translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

## p) Zakat and tax

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

## q) 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.

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**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 advices and expectations of future events that are believed to be reasonable under the circumstances. The most significant judgments and estimates are summarised below:

***Significant Judgments***

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.

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.

***Significant estimates***

Provision for impairment of financial assets: The Fund exercises judgment in the estimation of provision for impairment of financial assets. The methodology for the estimation of the provision is set out in the Significant Accounting Policies section "Impairment of financial assets".

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.

Post-employee benefits plan: 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.

## 4. CASH AND CASH EQUIVALENTS

| | Note | 2018 | 2017 |
|---|---|---|---|
| Commodity placements with maturities less than 3 months | 5 | **133,921** | 28,646 |
| | | **133,921** | 28,646 |

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

## 5. COMMODITY PLACEMENTS

| | Note | 2018 | 2017 |
|---|---|---|---|
| Commodity placements through banks | | **735,921** | 313,246 |
| Accrued income | | **7,795** | 4,365 |
| Commodity placements with maturities less than 3 months | 4 | **(133,921)** | (28,646) |
| | | **609,795** | 288,965 |

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## 6. WAKALA PLACEMENTS

| | **2018** | 2017 |
|---|---|---|
| Wakala placements | **500,000** | 500,000 |
| Accrued income | **454** | 309 |
| | **500,454** | 500,309 |

In 2017, ISFD entered into two Wakala agreements, amounting to USD 200 million and USD 300 million, with Islamic Development Bank – Ordinary Capital Resources maturing in 2023.

## 7. INVESTMENTS IN SYNDICATED MURABAHA

| | **2018** | 2017 |
|---|---|---|
| Gross amounts receivable | **-** | 4,030 |
| Less: unearned income | **-** | (15) |
| | **-** | 4,015 |

All receivables have been collected in full during the year and no further disbursements have been made during 2018.

## 8. INVESTMENTS IN SUKUK

| | Counterparty rating | | | | | |
|---|---|---|---|---|---|---|
| **31 December 2018** | **AAA** | **AA+ to AA-** | **A+ to A-** | **BBB to BBB-** | **Unrated** | **Total** |
| Sukuk classified as fair value though income statement: | | | | | | |
| - Governments | **-** | **40,302** | **-** | **34,162** | **13,330** | **87,794** |
| - Financial institutions | **-** | **-** | **-** | **-** | **32,133** | **32,133** |
| | **-** | **40,302** | **-** | **34,162** | **45,463** | **119,927** |
| Sukuk classified at amortised cost: | | | | | | |
| - Governments | **-** | **-** | **47,873** | **776,456** | **2,054** | **826,383** |
| - Financial institutions | **85,077** | **25,215** | **101,417** | **18,522** | **-** | **230,231** |
| - Other entities | **-** | **94,083** | **50,388** | **50,599** | **-** | **195,070** |
| | **85,077** | **119,298** | **199,678** | **845,577** | **2,054** | **1,251,684** |
| **Total** | **85,077** | **159,600** | **199,678** | **879,739** | **47,517** | **1,371,611** |

| | Counterparty rating | | | | | |
|---|---|---|---|---|---|---|
| **31 December 2017** | **AAA** | **AA+ to AA-** | **A+ to A-** | **BBB to BBB-** | **Unrated** | **Total** |
| Sukuk classified as fair value though income statement: | | | | | | |
| - Governments | - | 56,326 | - | 250,954 | - | 307,280 |
| - Financial institutions | - | - | 24,034 | 20,042 | - | 44,076 |
| - Other entities | - | - | - | 10,019 | 46,458 | 56,477 |
| | - | 56,326 | 24,034 | 281,015 | 46,458 | 407,833 |
| Sukuk classified at amortised cost: | | | | | | |
| - Governments | - | 50,290 | - | 1,011,031 | - | 1,061,321 |
| - Financial institutions | 89,136 | - | 187,104 | 20,849 | - | 297,089 |
| - Other entities | - | - | 64,295 | 25,297 | - | 89,592 |
| | 89,136 | 50,290 | 251,399 | 1,057,177 | - | 1,448,002 |
| **Total** | **89,136** | **106,616** | **275,433** | **1,338,192** | **46,458** | **1,855,835** |

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The movement of the investments in Sukuk is as follows:

| | **For the year ended 31 Dec 2018** | For the year ended 31 Dec 2017 |
|---|---|---|
| Balance at beginning of the year | **1,855,835** | 1,834,526 |
| **Movements during the year** | | |
| Additions | **25,069** | 68,000 |
| Redemption of Sukuk | **(501,550)** | (31,443) |
| Sale of Sukuk | **-** | (14,000) |
| Amortisation of discount/(premium) on Sukuk carried at amortized cost | **271** | 173 |
| Unrealized fair value losses | **(4,034)** | (2,331) |
| Movement in accrued income on Sukuk carried at amortized cost | **(3,980)** | 910 |
| **Balance at end of the year** | **1,371,611** | 1,855,835 |

Income from investments in Sukuk is comprised of the following:

| | **For the year ended 31 Dec 2018** | For the year ended 31 Dec 2017 |
|---|---|---|
| Coupon income | **61,855** | 67,132 |
| Amortization of discount/(premium) on Sukuk carried at amortised cost | **271** | 173 |
| Gain/(loss) from sale of Sukuk | **861** | 7 |
| Unrealised fair value losses | **(4,034)** | (2,331) |
| | **58,953** | 64,981 |

## 9. LOANS (QARD)

| | **2018** | 2017 |
|---|---|---|
| Loans (Qard) | **181,538** | 159,372 |
| Less: Provision for impairment | **(5,135)** | (3,040) |
| | **176,403** | 156,332 |

The movement in provision for impairment against loans (qard) is summarized as follows:

| | **2018** | 2017 |
|---|---|---|
| Balance at the beginning of the year | **3,040** | - |
| Charge | **2,095** | 3,040 |
| Balance at the end of the year | **5,135** | 3,040 |

## 10. ACCRUED INCOME AND OTHER ASSETS

| | **Note** | **2018** | 2017 |
|---|---|---|---|
| Due from related parties | 17 | **11,138** | 11,807 |
| Accrued income | | **491** | 465 |
| | | **11,629** | 12,272 |

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## 11. INVESTMENTS IN EQUITY CAPITAL

| | **For the year ended 31 Dec 2018** | For the year ended 31 Dec 2017 |
|---|---|---|
| Balance at beginning of the year | **32,613** | 31,467 |
| Additions | **72,499** | 3,333 |
| Disposals | **(1,816)** | - |
| Net unrealised fair value losses (reported through equity) | **(25,721)** | - |
| Gain on disposal | **70** | - |
| Provision for impairment | **-** | (2,187) |
| **Balance at end of the year** | **77,645** | 32,613 |

The Fund's investment in equity capital represents investment of USD 30.9 million (2017: USD 32.6 million) in unlisted equity securities and USD 46.8 million (2017: Nil) in listed equity securities, respectively.

## 12. INVESTMENT IN AN ASSOCIATE

| | **For the year ended 31 Dec 2018** | For the year ended 31 Dec 2017 |
|---|---|---|
| Balance at beginning of the year | **-** | - |
| Addition | **1,250** | - |
| Share of net results | **(918)** | - |
| **Balance at end of the year** | **332** | - |

During the year ended 31 December 2018, investment in Al Ebda Microfinance Institute has been transferred to ISFD from IsDB for USD 1.25 million. ISFD holds a 25% stake in Al Ebda Microfinance Institute.

## 13. INVESTMENT IN SYNDICATED IJARAH

| | **For the year ended 31 Dec 2018** | For the year ended 31 Dec 2017 |
|---|---|---|
| Balance at beginning of the year | **16,970** | 18,064 |
| Repayments | **(1,228)** | (1,094) |
| **Balance at end of the year** | **15,742** | 16,970 |

## 14. INVESTMENT IN FUNDS

| | **For the year ended 31 Dec 2018** | For the year ended 31 Dec 2017 |
|---|---|---|
| Balance at beginning of the year | **125,280** | 130,611 |
| Additions | **18,575** | 6,407 |
| Disposals | **(8,019)** | (14,040) |
| Net unrealised fair value gains (reported through equity) | **11,181** | 3,224 |
| Provision for impairment | **(3,024)** | (922) |
| **Balance at end of the year** | **143,993** | 125,280 |

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## 15. LAND

The Government of the Republic of Benin (a member country) vide Article 3 of the Decree No. 2014-137 dated 20th February 2014 has 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 5.35 million and was recorded at fair value at the date of the contribution in the books of ISFD, with corresponding increase in the Fund resources. The allocated piece of Land is registered in the name of Islamic Development Bank for the benefit of ISFD.

## 16. ACCRUED EXPENSES AND OTHER LIABILITIES

| | Note | 2018 | 2017 |
|---|---|---|---|
| Due to related parties | 17 | **12** | 405 |
| Pension liability | | **1,313** | 2,720 |
| Accrued expenses and other liabilities | | **1,951** | 1,935 |
| | | **3,276** | 5,060 |

## 17. RELATED PARTIES

The Fund is managed by IDB and its transactions are done through IDB and its affiliated entities. Principal arrangements related to commodity placements, investments in syndicated Murabaha, investments in Sukuk, loans (qard), investments in equity capital, investment in syndicated Ijarah and investment in funds are between the IDB and/or its related entities and counter parties. ISFD participates in such arrangements with IDB and its related entities. Development activity transactions, which are entered into with Member Countries, represents all the financing activities (i.e. investments in syndicated Murabaha, Loans (qard) and investments in syndicated Ijarah) of the Fund and related income, which has been disclosed in the income statement.

During the year ended 31 December 2018, the Fund, purchased equity investment amounting to USD 72.5 million from IsDB at market value (Note 11).

During the year ended 31 December 2018, the Fund, purchased investment in an associate amounting to USD 1.25 million from IsDB (Note 12).

The balances arising from such transactions are as follows:

(i) Due from related parties

| | 2018 | 2017 |
|---|---|---|
| IsDB - Special Assistance Fund | **6,926** | 8,625 |
| IsDB - Ordinary Capital Resources | **4,098** | 3,160 |
| International Islamic Trade Finance Corporation ("ITFC") | **110** | - |
| IsDB – Waqf fund | **4** | - |
| Islamic Corporation for the Insurance of Investment and Export Credit ("ICIEC") | **-** | 22 |
| | **11,138** | 11,807 |

(ii) Due to related parties

| | 2018 | 2017 |
|---|---|---|
| Islamic Corporation for the Development of the Private Sector ("ICD") | **12** | 7 |
| International Islamic Trade Finance Corporation ("ITFC") | **-** | 268 |
| Islamic Corporation for the Insurance of Investment and Export Credit ("ICIEC") | **-** | 105 |
| IsDB –Pension Fund | **-** | 25 |
| | **12** | 405 |

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## 18. GRANT ALLOCATION

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 five annual instalments of USD 20 million each over five years, starting 1437H (2016). As at 31 December 2018, USD 40 million has been disbursed.

2. 10% of normalized net annual income (net income less unrealized marked to market Gains/Losses) and allocations as grants.

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 innovation Fund. The approved amount will be disbursed in two annual instalments of USD 50 million each. As at 31 December 2018, USD 50 million has been disbursed.

The Board of Directors of ISFD approved the following grants from ISFD's normalized net income (net income adjusted for unrealized gains/losses), charged to the statement of net assets:

| **Grant Allocation** | **2018** | 2017 |
|---|---|---|
| Grant Allocation - 10% | **(1,264)** | (8,607) |
| Lives and Livelihood Fund | **(20,000)** | (20,000) |
| Science, Technology Innovation Fund (STI) | **(50,000)** | (50,000) |
| **Total Grant allocation** | **(71,264)** | (78,607) |

The amount payable as at 31 December 2018 amounted to USD 109.5 million (31 December 2017: USD 88.5 million).

## 19. EQUITY PRESERVATION FUND

The Board of Directors of ISFD by resolution number BOD/16/03/437/ (54) Special/5 approved:

1. 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 (2016-2020) and 10% in the following years, and

2. 10% of the net income earned from contribution received from Member Countries and Fael Khair in the form of Waqf be added back to the principal amount of such Waqf's in order to preserve the Waqf's Capital.

Waqf contribution received from Member Countries and Fael Khair are in the form of Land, Building or Other Assets, etc.

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## 20. MATURITY PROFILE OF ASSETS AND LIABILITIES

| | Assets and liabilities maturity periods | | | | | |
|---|---|---|---|---|---|---|
| **31 December 2018** | **Less than 3 months** | **3 to 12 months** | **1 to 5 Years** | **Over 5 Years** | **No Fixed Maturity** | **Total** |
| **Assets** | | | | | | |
| Cash and Cash equivalents | 133,921 | - | - | - | - | **133,921** |
| Commodity placements | 194,982 | 414,813 | - | - | - | **609,795** |
| Wakalah placements | - | - | 500,454 | - | - | **500,454** |
| Investments in syndicated Murabaha | - | - | - | - | - | **-** |
| Investments in Sukuk | 1,911 | 72,937 | 643,979 | 652,784 | - | **1,371,611** |
| Loans (Qard) | 549 | 4,840 | 25,597 | 145,417 | - | **176,403** |
| Accrued income and other assets | 11,629 | - | - | - | - | **11,629** |
| Investments in equity capital | - | - | - | - | 77,645 | **77,645** |
| Investment in an associate | - | - | - | - | 332 | **332** |
| Investments in syndicated Ijarah | - | 752 | 7,520 | 7,470 | - | **15,742** |
| Investment in funds | - | - | - | - | 143,993 | **143,993** |
| Land | - | - | - | - | 5,355 | **5,355** |
| **Total assets** | **342,992** | **493,342** | **1,177,550** | **805,671** | **227,325** | **3,046,880** |
| **Liabilities** | | | | | | |
| Accrued and other liabilities | 1,963 | - | - | 1,313 | - | **3,276** |
| Grants payable | - | 50,000 | 59,479 | - | - | **109,479** |
| **Net assets** | **341,029** | **443,342** | **1,118,071** | **804,358** | **227,325** | **2,934,125** |

| | Assets and liabilities maturity periods | | | | | |
|---|---|---|---|---|---|---|
| 31 December 2017 | **Less than 3 months** | **3 to 12 months** | **1 to 5 Years** | **Over 5 Years** | **No Fixed Maturity** | **Total** |
| **Assets** | | | | | | |
| Cash and Cash equivalents | 28,646 | - | - | - | - | 28,646 |
| Commodity placements | 175,634 | 113,331 | - | - | - | 288,965 |
| Wakalah placements | - | - | - | 500,309 | - | 500,309 |
| Investments in syndicated murabaha | 4,015 | - | - | - | - | 4,015 |
| Investments in Sukuk | 326,172 | 217,815 | 694,250 | 617,598 | - | 1,855,835 |
| Loans (Qard) | - | 7,516 | 10,591 | 138,225 | - | 156,332 |
| Accrued income and other assets | 12,272 | - | - | - | - | 12,272 |
| Investment in equity capital | - | - | - | - | 32,613 | 32,613 |
| Investment in syndicated Ijarah | 478 | 956 | 4,780 | 10,756 | - | 16,970 |
| Investment in funds | - | - | - | - | 125,280 | 125,280 |
| Land | - | - | - | - | 5,355 | 5,355 |
| **Total assets** | 547,217 | 339,618 | 709,621 | 1,266,888 | 163,248 | 3,026,592 |
| **Liabilities** | | | | | | |
| Accrued and other liabilities | 2,340 | - | - | 2,720 | - | 5,060 |
| Grants payable | - | 50,000 | 38,520 | - | - | 88,520 |
| **Net assets** | 544,877 | 289,618 | 671,101 | 1,264,168 | 163,248 | 2,933,012 |

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## 21. 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 | | | | |
|---|---|---|---|---|---|
| **31 December 2018** | **Asia** | **Africa** | **Europe** | **Non-member countries** | **Total** |
| Cash and Cash equivalents | 120,000 | - | - | 13,921 | **133,921** |
| Commodity placements | 602,136 | - | - | 7,659 | **609,795** |
| Wakalah placements | 500,454 | - | - | - | **500,454** |
| Investments in Sukuk | 1,371,611 | - | - | - | **1,371,611** |
| Loans (Qard) | 71,946 | 104,457 | - | - | **176,403** |
| Accrued income and other assets | 11,629 | - | - | - | **11,629** |
| Investments in equity capital | 77,645 | - | - | - | **77,645** |
| Investment in an associates | 332 | - | - | - | **332** |
| Investment in syndicated Ijarah | 15,742 | - | - | - | **15,742** |
| Investment in funds | 143,993 | - | - | - | **143,993** |
| Land | - | 5,355 | - | - | **5,355** |
| **Total assets** | **2,915,488** | **109,812** | **-** | **21,580** | **3,046,880** |
| 31 December 2017 | | | | | |
| Cash and Cash equivalents | 28,646 | - | - | - | **28,646** |
| Commodity placements | 233,861 | - | - | 55,104 | **288,965** |
| Wakalah placements | 500,309 | - | - | - | **500,309** |
| Investments in syndicated Murabaha | - | 4,015 | - | - | **4,015** |
| Investments in Sukuk | 1,805,544 | - | - | 50,291 | **1,855,835** |
| Loans (Qard) | 69,245 | 87,087 | - | - | **156,332** |
| Accrued income and other assets | 12,272 | - | - | - | **12,272** |
| Investment in equity capital | 32,613 | - | - | - | **32,613** |
| Investment in syndicated Ijarah | 16,970 | - | - | - | **16,970** |
| Investment in funds | 125,280 | - | - | - | **125,280** |
| Land | - | 5,355 | - | - | **5,355** |
| Total assets | **2,824,740** | **96,457** | **-** | **105,395** | **3,026,592** |

## 22. NET ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

The net assets in foreign currencies were as follows:

| | **2018** | 2017 |
|---|---|---|
| Euro | **75** | (2,787) |
| Islamic Dinar (ID) | **228** | 11,992 |
| Saudi Riyal | **39,615** | 33,395 |
| Other currencies | **857** | (3,053) |

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## 23. UNDISBURSED COMMITMENTS

| | **2018** | 2017 |
|---|---|---|
| Loans (Qard) | **377,530** | 352,120 |

## 24. SHARI'AH BOARD

The Fund's business 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 Shari'ah, and lay down basic principles for drafting of related contracts and other documents;
- to give its opinion on the 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 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 Shari'ah in the light of the opinions and directions given and the transactions reviewed.

## 25. RISK MANAGEMENT

The Fund is monitored by the IDB's Group Risk Management Department ("GRMD"). The Bank has a Group Risk Management Department ("GRMD") that is independent from all business departments as well as other entities of the Bank. The GRMD is responsible for identification, assessment, mitigating and reporting of all risks inherent in the Fund's activities to maintain its low risk profile. The Bank has also established a Group Risk Management Committee, which ensures that, based on the risk appetite there, are appropriate controls on all major risks arising from financing and investment operations through reviewing the risk management framework, policies, procedures, guidelines and risk reports.

### a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss. The Fund's credit risk arises mainly from its financial assets (other than equity securities).

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For all classes of financial assets held by the Fund, the maximum credit risk exposure to the Fund is their carrying value as disclosed in the relevant notes. The assets which subject the Fund to credit risk principally consist of cash and cash equivalent, commodity placements, wakala placements, investments in Sukuk, investments in syndicated Murabaha and Loans (Qard) which are mainly covered by sovereign guarantees and commercial bank guarantees acceptable to the Fund, in accordance with specific eligibility criteria and credit risk assessments. IDB and its related entities and managed funds benefit from preferred creditor status on sovereign financing, which gives them priority over other creditors in the event of default thus constituting a strong protection against credit losses.

The Bank has developed and put in place comprehensive credit policies and guidelines as a part of overall credit risk management framework to provide clear guidance on various types of financing.

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

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.

**b) 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).

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## c) Market risks

The Fund is exposed to following market risks:

i) 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 financing operations are USD-denominated, the same currency in which the Fund's resources – i.e. equity are denominated. The Fund does not trade in currencies. Therefore, it is not exposed to currency trading risk. The Fund has a conservative policy whereby the currency composition of the portfolio is monitored and adjusted regularly.

ii) Price risk

The Fund is not exposed to equity price risks arising from equity investments as the investments are held for strategic purpose rather than trading purposes. In view of the composition of investment, equity price risk is not significant.

iii) Mark-up risk

Mark-up risk arises from the possibility that changes in mark-up will affect the value of the financial instruments. The Fund may be exposed to mark-up risk on its investments in Sukuk. However, the Fund mitigates this risk by investing in fixed mark-up Sukuk.

## d) Liquidity risk

Liquidity risk is the risk that the Fund will be unable to meet its net funding requirements. To mitigate this risk, the Fund adopts a conservative approach by maintaining high liquidity levels invested in cash and cash equivalents, investments in syndicated Murabaha and commodity placements with short-term maturity of three to twelve months.

## e) Fair values of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The different levels of analyzing financial instruments carried at fair value, by valuation method have been defined as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – 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 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

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The table below analyses financial instruments carried at fair value, by valuation method.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **31 December 2018** | | | | |
| **Assets** | | | | |
| Financial assets at fair value through income statement: | | | | |
| - Investments in Sukuk | 74,464 | 45,463 | - | **119,927** |
| Equity type investment at fair value through equity | | | | |
| - Equity investments | 46,778 | - | - | **46,778** |
| Financial assets at fair value through net assets: | | | | |
| - Investment in funds | - | - | 143,993 | **143,993** |
| | **121,242** | **189,456** | **-** | **310,698** |
| 31 December 2017 | | | | |
| **Assets** | | | | |
| Financial assets at fair value through income statement: | | | | |
| - Investments in Sukuk | 361,375 | 46,458 | - | **407,833** |
| Financial assets at fair value through net assets: | | | | |
| - Investment in funds | - | - | 112,780 | **112,780** |
| | **361,375** | **159,238** | **-** | **520,613** |

## 26. COMPARATIVE FIGURES

Certain of the prior year figures have bene reclassified to conform to current year's presentation. At 31 December 2018, the Fund has applied consistent treatment of accrued income across all investments and various modes of finance. As such, accrued income is now presented together with their respective asset balances. As a result, presentation of the balances as at 31 December 2017 has been amended to reflect consistency and ensure comparability.

## 27. SEGMENT INFORMATION

Management has determined the chief operating decision maker to be the Board of Executive Directors as this body is responsible for overall decisions about resource allocation to development initiatives within its member countries. In order to ensure the availability of sufficient resources to enable it to meet its developmental objectives, the Fund actively engages in treasury and liquidity management. Development initiatives are undertaken through a number of Islamic finance products as disclosed on the face of the Statement of Financial Position which are financed centrally through the Fund's resources. Management has not identified separate operating segments within the definition of FAS 22 "Segment Reporting" since the Board of Executive Directors monitors the performance and financial position of the Fund as a whole, without distinguishing between the developmental activities and the ancillary supporting liquidity management activities or geographical distribution of its development programs. Further, the internal reports furnished to the Board of Executive Directors do not present discrete financial information with respect to the Fund's performance to the extent envisaged in FAS 22.

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## 28. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following new financial accounting standards have been issued except for FAS 29 "sukuk issuances" which is in the stage of exposure draft and is expected to be issued in near future. The Fund intends to adopt these financial reporting standards when they become effective and is currently assessing the impact of these new financial accounting standards on its financial statements and systems.

### *(i)* Financial Accounting Standard – 28 "Murabaha and other deferred payment sales"

FAS 28 intends to define the accounting and reporting principles and requirements for Murabaha and deferred payment sales transactions and different elements of such transaction. Additionally, the earlier standards did not discuss the issue of accounting for the purchaser in Murabaha and deferred payment sales transactions for which there was a dire need to prescribe accounting principles. This standard supersedes the earlier FAS 2 "Murabaha and Murabaha to the Purchase Orderer" and FAS 20 "Deferred Payment Sales".

This standard shall be effective on the financial statements of the Fund beginning on or after 1 January 2019. Early adoption of the standard is permitted.

### *(ii)* Financial Accounting Standard – 29 "Sukuk Issuances"

The standard aims to provide guidance for accounting, classification and presentation for Sukuk issuances primarily based on the Sukuk structure, which may include on balance sheet, as well as, off balance sheet accounting. These classifications depend on the control of such assets comprising of power to control and nature of control i.e. for risks and rewards as well as varying benefits to the institution or the fiduciary responsibility on behalf of the Sukuk-holders. This standard shall be applied for accounting and financial reporting for Sukuk issuance in the books of the issuer.

This standard shall be applicable on the financial statements of the Fund for the periods beginning on or after 1 January 2019.

### *(iii)* Financial Accounting Standard – 30 "Impairment and credit losses"

FAS 30 will be replacing FAS 11 "Provisions and Reserves" and has been developed on the new approach towards identification and recognition of impairment and credit losses, in particular the forward looking expected losses approach, as introduced under International Financial Reporting Standard (IFRS) 9 "Financial Instruments". FAS 30 shall also apply to off-balance sheet exposures.

This standard shall be effective from the financial periods beginning on or after 1 January 2020. Early adoption is permitted.

### *(iv)* Financial Accounting Standard – 31 "Investment Agency (Al-Wakala Bi Al-Istithmar)"

This standard intends to define the accounting principles and reporting requirements for investment agency (Al-Wakala Bi Al-Istithmar) transactions and instruments to be in line with the ever-changing global best practices, in hand of both the principal and the agent.

This standard shall be applicable on the financial statements of the Fund for the periods beginning on or after 1 January 2020.

### *(v)* Financial Accounting Standard – 33 "Investment in Sukuk, shares and similar instruments"

This standard improves upon and supersedes the AAOIFI's Financial Accounting Standard (FAS) 25 "Investment in Sukuk, Shares, and Similar Instruments" issued in 2010. This standard aims at setting out principles for the classification, recognition, measurement, presentation and disclosure of investment in Sukuk, shares and other similar instruments of investments made by Islamic financial institutions (IFIs / the institutions).

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The standard defines the key types of instruments of Shari'ah compliant investments and defines the primary accounting treatments commensurate to the characteristics and business model of the institution under which the investment is made, managed and held.

This standard shall be applicable on the financial statements of the Fund for the periods beginning on or after 1 January 2020.

***(vi)*** **Financial Accounting Standard – 34 "Financial reporting for Sukuk-holders"**

This standard intends to prescribe the accounting principles and reporting requirements for underlying assets of the Sukuk instrument. The objective of this standard is to establish the principles of accounting and financial reporting for assets and business underlying the Sukuk to ensure transparent and fair reporting to all relevant stakeholders particularly Sukuk-Holders.

This standard shall be applicable to Sukuk in accordance with the Shari'ah rules and principles issued by an Islamic Financial Institution or other institution (called "originator"), directly or through the use of a Special Purpose Vehicle (SPV) or similar mechanism. In respect of Sukuk which are kept on-balance sheet by the originator in line with the requirements of FAS 29 "Sukuk in the books of the originator", the originator may opt not to apply this standard. This Standard shall be effective from the financial periods beginning on or after 1 January 2020.

***(vii)*** **Financial Accounting Standard – 35 "Risk Reserves"**

The objective of this standard is to establish the principles of accounting and financial reporting for risk reserves established to mitigate various risks faced by stakeholders, mainly the profit and loss taking investors, of Islamic financial institutions. This standard shall apply to risk reserves that are established by an IFI entity, to mitigate the credit, market, equity investment, liquidity, rate of return or displaced commercial risks faced by stakeholders. On the other hand, operations risk is the responsibility of the IFI itself, so this standard shall not be applied on any risk reserve created to mitigate the operational risk.

This standard complements FAS 30 "Impairment, Credit Losses and Onerous Commitments" and they shall be adopted simultaneously. Both of standards FAS 30 and FAS 35 together supersedes the earlier FAS 11 "Provisions and Reserves".

This standard shall be applicable on the financial statements of the Fund for the periods beginning on or after 1 January 2021. Early adoption is permitted, only if the IFI decided to early adopt FAS 30 "Impairment, Credit Losses and Onerous Commitments".

## 29. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were authorized for issue in accordance with a resolution of the Board of Executive Directors on 23 February 2019 (corresponding to 18 Jumada II 1440 H).

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