



## *Islamic Solidarity Fund for Development (ISFD)*

**14<sup>th</sup> ANNUAL REPORT**

1442-1443H (2021)



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# List of **Abbreviations**

<b>APIF</b>	Awqaf Properties Investment Fund
<b>AWP</b>	Annual Work Programme
<b>BOD</b>	Board of Directors of the ISFD
<b>BOG</b>	Board of Governors
<b>BTVET</b>	Business, Technical and Vocational Education and Training
<b>COMCEC</b>	Standing Committee for Economic and Commercial Cooperation of the Organisation of Islamic Cooperation
<b>CSO</b>	Civil Society Organisation
<b>EEP</b>	Economic Empowerment Programme
<b>GDP</b>	Gross Domestic Product
<b>GHI</b>	Global Hunger Index
<b>GNI</b>	Gross National Index
<b>HDI</b>	Human Development Index
<b>ICD</b>	Islamic Corporation for the Development of the Private Sector
<b>ICERI</b>	ICIEC-ISFD COVID-19 Emergency Response Initiative
<b>ICIEC</b>	Islamic Corporation for the Insurance of Investment and Export Credit
<b>IDP</b>	Internally displaced persons
<b>IsDB</b>	Islamic Development Bank
<b>ISFD</b>	Islamic Solidarity Fund for Development
<b>ITFC</b>	International Islamic Trade Finance Corporation
<b>IWIF</b>	Ihsan Waqf Investment Fund
<b>KAAP</b>	King Abdullah Programme for Charity Works
<b>LDMCs</b>	Least Developed Member Countries
<b>LLF</b>	Lives and Livelihoods Fund
<b>MC</b>	Member countries
<b>MC</b>	Member country
<b>MPI</b>	Multidimensional poverty index
<b>MSME</b>	Micro, Small, and Medium Enterprises
<b>NGO</b>	Non-Governmental Organisation
<b>OIC</b>	Organisation of Islamic Cooperation
<b>P5P</b>	President's Five-Year Programme
<b>PwC</b>	PricewaterhouseCoopers
<b>QnP</b>	Quality and Prioritisation
<b>SDGs</b>	Sustainable Development Goals
<b>SERVE</b>	Strengthening the Economic Resilience of Vulnerable Enterprises
<b>SME</b>	Small and Medium Enterprises
<b>SPRP</b>	Strategic Preparedness and Response Programme
<b>STI</b>	Science, Technology, and Innovation
<b>TVET</b>	Technical and Vocational Education and Training
<b>UN</b>	United Nations
<b>UNDP</b>	United Nations Development Programme
<b>WBG</b>	Waqf BID-Guinea (IsDB-Guinea Waqf)

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## *In the name of Allah, the Beneficent, the Merciful*

H.E. the Chairwoman, ISFD Board of Governors,

Dear Madam Chairwoman,

Assalamu Alaikum Warahmatullah Wabarakatuh.

In accordance with the Regulations of the Islamic Solidarity Fund for Development, and in my capacity as Chairman of the Board of Directors, I have the honour to submit for the kind attention of the esteemed Board of Governors the Annual Report of the Islamic Solidary Fund for Development for 1442-1443 (2021).

The report covers the operations and activities as well as the audited financial statements of the ISFD for the year ending 31 December 2021.

Please accept, Madam Chairwoman, the assurances of my highest consideration.

**Dr. Muhammad Al Jasser**

President of the IsDB,

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



# Members of the **ISFD Board of Directors 2021**



H.E. Dr. Muhammad Al Jasser



Hon. Hassan Jaafar Abdulrahman



Hon. Hamed Arabi Elhouderi



Hon. Abdulghaffar Al Awadhi



H.E. Dr. Hamad Sulaiman Al Bazai



Hon. Khalaf Sultan Al Dhaheri



Hon. Bader Ahmad Al-Emadi



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Hon. Mrs. Anuska Ramdhani



Hon. Khalifa SARR



Hon. Dr. Mahmoud ISA-DUTSE



Hon. Tamerlan TAGHIYEV



Hon. Eric Mbaihasra

# The Islamic Solidarity Fund For Development **In Brief**

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



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



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



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

## The Fund's Priority Areas include:




**Human development**  
(education, health, water and sanitation)




**Agricultural and rural development;**



**Basic rural infrastructure development;**



**Capacity building;**



**Women and youth empowerment.**



### **POVERTY** - what does it mean?

For the ISFD and the IsDB at large, poverty is a multidimensional phenomenon that goes beyond traditional income poverty. It also involves acute deprivations in health, education, and living standards, including housing, water, and sanitation.



# Chairman's Message



2021 was another challenging year. The COVID-19 pandemic, which had begun a year earlier, continued to have a horrendous impact on lives and livelihoods worldwide. Not only did the pandemic lead to economic decline, but it also shifted the frontiers of poverty in a manner that eroded the gains made earlier and pushed several million people into poverty. This is particularly true for OIC member countries that account for 40% of the global poor, albeit representing only 22% of the world population.

But that year was also full of hope and optimism. Despite the emergence of the Delta and Omicron variants of the disease, the world remained on a recovery trajectory. Among the OIC member countries, recovery was expected to be at 2.5% for high-income countries, 8.5% for upper-middle-income countries, 3.5% for lower-middle-income countries, and 2.8% for low-income countries. Even though uneven across geographical regions and income groups, the recovery was sufficient for hope. The role the Islamic Solidarity Fund for Development (ISFD) played in the recovery efforts of member countries has been remarkable.

As the poverty alleviation arm of the IsDB Group, the ISFD responded to the challenges posed by COVID-19 in a strategic and impactful manner. The Fund's initial allocation of USD50 million within the IsDB Group's Strategic Preparedness and Response Programme (SPRP) framework

was quickly increased to USD232 million in response to the growing demand from member countries. In 2021 alone, the ISFD provided over USD62 million in concessional loans and grants to member states. Close to 40% of these resources went to the health sector. In addition, the education and agriculture sectors each accounted for 15% of the ISFD's approvals for 2021.

Whether providing support to member countries through its flagship programs, such as SERVE, TADAMON, and ICERI, or stand-alone projects and other arrangements with the IsDB Group, the ISFD has always considered the relevance, efficiency, and sustainability of its interventions. In this regard, the recently published Development Effectiveness Report emphasizes that these considerations indeed underpin ISFD's support to member countries, standing at over USD1 billion since inception.

Despite the challenging circumstances, the implementation of the Fund's 2030 Strategy has continued satisfactorily. Significant progress has been made in the strategy's ten initiatives. I am confident these achievements will deepen the Fund's impact on poverty reduction in member states.

I recognize the trust and confidence the member countries have in the ISFD. Despite the year's difficulties, several member countries have responded positively to our resource mobilization drive by paying their commitments to the Fund either fully or partially. I would therefore like to register my gratitude for this mark of confidence. I would also wish to appeal to those member countries that have yet to follow suit to support the Fund through commitments and contributions. It is only through such gestures of solidarity that we can collectively achieve the ISFD's vision of "Reduced Poverty" in OIC member countries.

## **Dr. Muhammad Al Jasser**

President of the IsDB,  
Chairman of the ISFD Board of Directors

# Executive Summary

If COVID-19 began in 2020, it was only in 2021 that its impact on the world became clearer. Businesses and production were upset, and trade in goods and services was disrupted. This translated into a negative growth of the world economy of -3.1% in 2020. This, in turn, engendered an economic crisis that had an acute adverse impact on women, youth, the poor, and workers in the informal sectors.

For OIC countries, the economic decline was 1.7% in 2020. This relatively low decline masks significant regional variations. Although all of the four income groups recorded negative growth rates in 2020, high-income countries contracted the most.

## SIGNIFICANT BUT UNEVEN RECOVERY

Despite the negative impact of COVID-19, the global economy began a growth trajectory by the beginning of the year. Trade-in goods began to rebound, and food commodity prices showed signs of stabilization. Remittances too began to recover.

However, the recovery was uneven. Major economies registered the largest rebounds due to massive fiscal support and greater access to the vaccine. The uneven recovery was also seen among OIC member countries. High-income economies, which grew on average by 3.5% during 2010-2019, were expected to recover at 2.5% in 2021 and 4.2% in 2022. Upper-middle-income economies were expected to grow by 8.5% in 2021. As for lower-middle-income economies, growth was projected to be at 3.5% in 2021 and 4.6% in 2022. Lower-income countries would grow by 2.8% in 2021 and 4.4% in 2022.

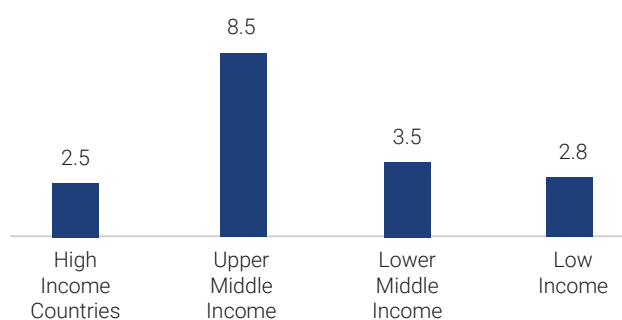
The uneven recovery is partly due to the large disparities in vaccine access and policy support.

## DEEPENING POVERTY

As a bloc, the OIC accounts for 22% of the world's population; yet it only generates 7% of global GDP while accounting for 40% of the world's poor.

Recent data released by the World Bank shows that despite significant progress in poverty reduction across the world, income poverty as well as multidimensional poverty

Growth Projection in OIC in 2021 (in %)



remain high among OIC member countries. As a result of the pandemic, the total extreme poverty headcount in ISDB member countries rose by 9% in 2020. The increase was sharper in the MENA region (16%). For fragile countries, the number of people living in extreme poverty rose by 10%. In total, 51 million people were pushed into poverty in OIC member countries.

## FOOD INSECURITY

In addition to the economic crises and the associated decline in income, the pandemic caused a decline in food production, disrupted supply chains, and created food price inflation. These developments have deepened food insecurity worldwide and in OIC member countries.

## ROLE OF THE ISFD IN POVERTY REDUCTION

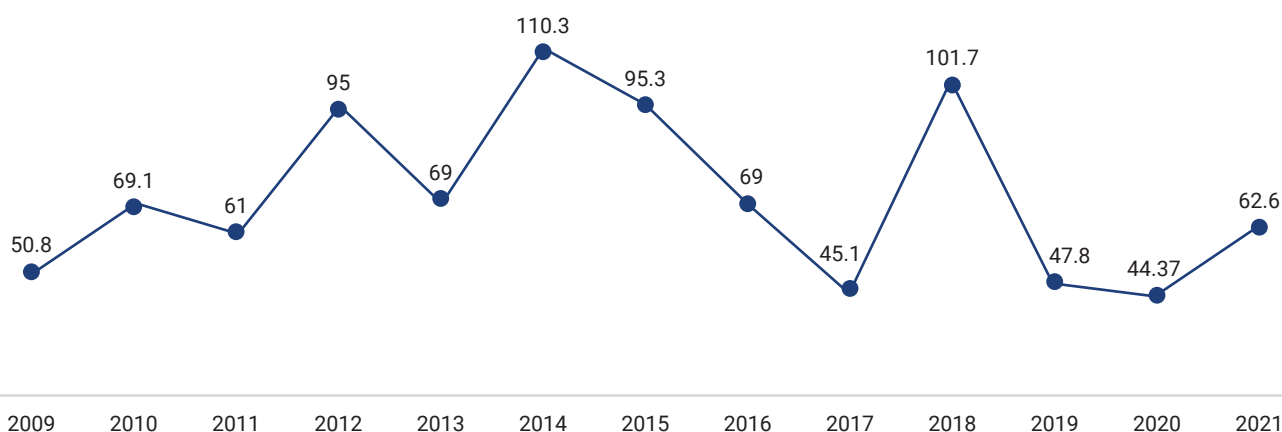
Since its inception, the Fund has provided close to USD1 billion in the form of concessional loans and grants to member countries. The Fund's financing increased from USD50.8 million in 2009 to USD69 million in 2010 before declining to USD61 million in 2011. Funding picked up in 2012 to USD95 million but declined again to USD69.8 million in 2013. The best year for the Fund was 2014 when approvals reached USD110 million. The following three years saw a gradual decline in approvals, from USD95 million in 2015 to USD69 million in 2016 and USD45 million in 2017. Approvals rose to USD101.7 million in 2018 before declining to USD47.8 million in 2019 and USD44.37 million in 2020. Despite the challenges that the COVID-19 pandemic has posed, the Fund's approvals rose to USD62.6 million in 2021, representing an increase of about 41% in relation to the 2020 figures.

## ISFD OPERATIONS IN 2021

Of the USD62.6 million that the ISFD approved in 2021, USD31 million went to member countries in the form of concessional loans, while USD31.6 went as grants.

Projects financed during the year range from health, education, and sanitation projects to projects supporting refugees and Awqaf real estate projects.

### ISFD Approvals 2009-2021 (in USD million)

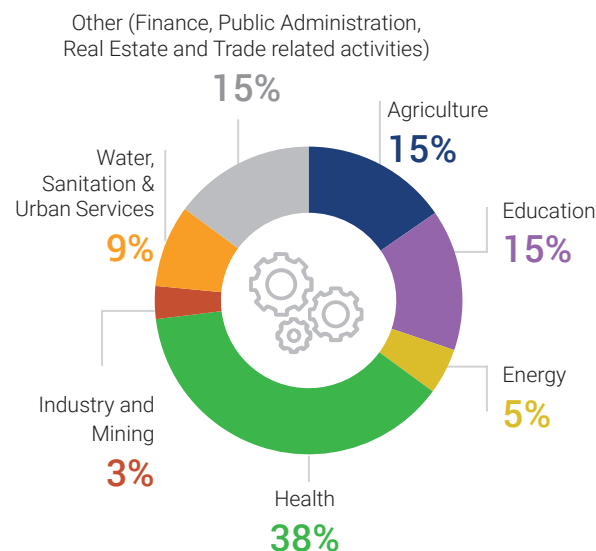


## KEY SECTORS

The health sector accounted for 38% of ISFD financing in 2021. Support to member countries in this area focused on importing the COVID-19 vaccine, providing medical equipment, scholarships, training for ophthalmologists, and cataract treatment campaigns. Education and agriculture each accounted for 15% of the Fund's financing in 2021. Water, sanitation, and urban services accounted for 9%,

while energy accounted for 5% of financing. In addition, support was provided to member countries through ISFD flagship programs, LLF and stand-alone projects. The total cost of the projects and programs that benefited from ISFD financing in 2021 was USD733 million. This represents a leverage ratio of 1:12.

### Approvals by Sector in 2021



## REGIONAL COVERAGE

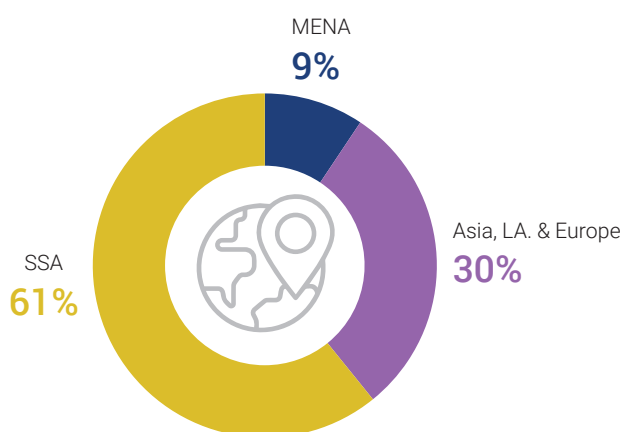
About 61% of ISFD's financing in 2021 went to Sub-Saharan Africa. This was followed by Asia, Latin America and Europe (30%), and MENA (9%).



## DEVELOPMENT RESULTS

An ISFD-commissioned report, the Development Effectiveness Report (DER), assessed ISFD projects in several countries on the basis of their relevance, effectiveness, efficiency, and sustainability. The projects were found to be relevant, effective, efficient, and sustainable. In particular, the report reveals that the ISFD support has facilitated the construction of more than 700 schools that supported over 51,000 students. ISFD funding also made healthcare accessible to 73 million people and created jobs for 2.8 million people across the ten countries.

### Approvals by Region in 2021 in %



the effectiveness and impact of the ISFD in executing its poverty reduction mandate.



Health Project Beneficiaries	Jobs Created	Women and Girls empowered	Food Security Beneficiaries	Number of Schools Built	Students Supported	Teachers Trained or supported
73,575,181	2,812,839	33,958	105,452	769	51,453	4,650

## ALIGNMENT WITH SUSTAINABLE DEVELOPMENT

The ISFD supported sectors that form the core of the Sustainable Development Goals (SDGs). Projects in agriculture and rural development, health, basic education, energy, water and sanitation, and youth employment are fully aligned with and will contribute to the realization of the SDGs.

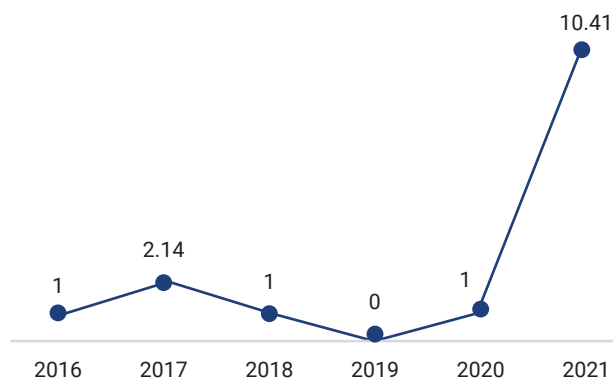
## ISFD TRANSFORMATION INITIATIVES

During 2021, the ISFD focused on the implementation of its 2030 Strategy, which was developed in 2020 as part of the Fund's transformation program. About ten initiatives have been identified, ranging from the development of policy frameworks, business processes, and delivery mechanisms to organization transformation and data and IT infrastructure enhancement. So far, the ISFD has delivered on most of these initiatives. It is hoped that this progress will enhance

## RESOURCE MOBILISATION

The 2030 Strategy also provides for enhanced efforts to secure additional capital contributions from member countries. Efforts in this area yielded good results in 2021, as a total of USD10.41 million was mobilized from member countries as a capital contribution.

### Capital Resources Mobilised from Member Countries 2016-2021 (in USD million)



## CORPORATE GOVERNANCE

The ISFD Board of Governors (BoG) met physically at its 14th Annual Meeting held in Tashkent on 4 September 2021. Among the highlights of the meeting was the adoption of the ISFD Annual Report 1441/1442 (2020) and the appointment of external auditors. The BoG also adopted Resolution ISFD/BG/4-442, which provides the timeframe within which member countries are expected to pay their capital commitments in full.

During the year, the Board of Executive Directors (BED) held five sessions (73rd to 77th sessions) to consider various financing proposals, policies, the work program and budget, and other important strategic matters.

## ISFD FINANCES

As at 31 December 2021, total assets of the ISFD stood at USD3,158 million, down by USD21.0 million against the December 2020 position of USD3,179 million. The decrease is due to capital withdrawal by a member country, although this was partly offset by the net income of USD20.5 million.

Treasury assets, which stood at USD2,522 million, represented about 80% of total assets.

As at 31 December 2021, the Fund's net assets stood at USD3,002 million, reflecting a decrease of USD21 million compared to the balance of USD3,024 million as at 30 December 2020. Several factors account for the changes in the Fund's resources, including the withdrawal of a member country from the Fund and expected credit loss impairment.

In millions	Year ended 31 December 2021	Year ended 31 December 2020
Total Asset	3,158	3,179
Net Asset	3,002	3,023

## INCOME

The ISFD's gross income for the period ended 31 December 2021 was USD57 million. Gross income for 2020 was USD78 million. Net income for the year ended 31 December 2021 was USD20.5 million, while net income for the previous year was USD72.2 million. The decline in income is due mainly to the decline in treasury income and impairment as per FAS30.

In thousands	Year ended 31 December 2021	Year ended 31 December 2020
Gross Income	57,167	78,214
Net Income	20,458	72,214

## DISBURSEMENT

Up to December 2021, the disbursement rate of projects and programs reached 59.5% of total approvals. The improvement in disbursement followed the introduction of several measures, including new procurement policy and procedures, as well as new criteria for assessing project quality and readiness.





PART  
01

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# Post-Covid Recovery and its Challenges

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# Post-Covid Recovery and its Challenges

The year 2021 began with considerable challenges as well as with hope and optimism. The COVID-19 pandemic, which had gripped the world since early 2020, continued to ravage human health and health systems worldwide, with over 85 million confirmed cases and more than 5 million deaths reported in 190 countries by January 2021.<sup>1</sup>

The year was also one of hope. Despite the continued ravages of the disease, the prospects of effective vaccine becoming available gave hope for a return to normalcy and a long-anticipated economic recovery. It is this recovery, albeit elusive, that the ISFD has adopted as the main theme for this 2021 Annual Report.

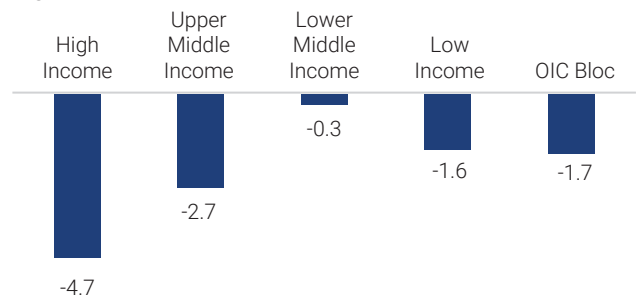
## SOCIO-ECONOMIC IMPACT OF THE COVID-19 PANDEMIC

If COVID-19 began in 2020, it was only in 2021 that its impact on the world became more apparent. Various assessments show that the pandemic has impacted the world in several ways. Businesses and production were upset, and trade in goods and services was disrupted. This translated into a negative growth of the world economy of -3.1% in 2020.<sup>2</sup> The contraction was deeper in the developed world (-4.6%) than in the developing world, where the contraction was -2.1%.<sup>3</sup> Globally, unemployment rates rose to 6.5%, the highest in the last three decades, and global trade in goods fell by 8.5% in 2020. The result was an economic crisis that had an acute adverse impact on women, youth, the poor, and workers in the informal sectors.<sup>4</sup>

For OIC countries, the economic decline was 1.7% in 2020. This relatively low decline masks significant regional variations. Although all the four income groups recorded a negative growth rate in 2020,<sup>5</sup> high-income countries contracted the most, mainly because of the decline in oil

revenue. Out of the 57 member countries of the OIC, 39 recorded a negative growth rate in 2020, with Libya recording the deepest economic decline (59.7%). At the far end of the spectrum was Guyana, whose newfound oil resources led to an economic growth of 43%.<sup>6</sup>

Figure 1.1: Economic Decline in the OIC Group in 2020



Source: IMF World Economic Outlook, October 2021



<sup>1</sup> According to the Johns Hopkins University.

<sup>2</sup> IMF, World Economic Outlook update, 12 October 2021

<sup>3</sup> SESRIC OIC Economic Outlook 2021 p.1

<sup>4</sup> IMF, World Economic Outlook, 12 October 2021.

<sup>5</sup> See Table 2.1 below for income groups.

<sup>6</sup> IMF, World Economic Outlook, 12 October 2021



In terms of mortality and morbidity, COVID 19 occasioned some 5 million deaths globally by the end of December 2021.<sup>7</sup> For OIC member countries, death from COVID-19 stood at around 210,000 by the year's end.<sup>8</sup>

## IMPORTANT BUT UNEVEN RECOVERY IN 2021

Despite the negative impact that COVID-19 has had, there were signs of recovery by the first quarter of 2021. The global economy began a growth trajectory, with trade in goods rebounding and food commodity prices beginning to stabilize. Remittances, too began to recover.<sup>9</sup>

Both the IMF and the World Bank estimated that the global economy would grow by anything between 5.6% and 5.9% in 2021, despite the re-emergence of the Omicron variant of the Coronavirus.<sup>10</sup>

The recovery was, however, uneven. Major economies registered the largest rebounds due to the massive fiscal support and greater access to the vaccine. The recovery in emerging markets and developing economies (EMDE) was stalled by elevated COVID-19 caseloads, obstacles to vaccination, and partial withdrawal of macroeconomic support. As a result, the recovery in EMDE regions was expected to be insufficient to reverse the damage from the pandemic. The recovery was expected to be strongest in East Asia and the Pacific. South Asia's recovery was hampered by the outbreak of the Delta variant in India.<sup>11</sup> In the Middle East, North Africa, Latin America, and the Caribbean, the pace of growth was expected to be less than the magnitude of the contraction in 2020.

As a region, Sub-Saharan Africa was expected to register a growth rate of 3.4% in 2021 and 3.9% in 2022 because of the expected increase in demand for and higher prices of commodities. Therefore, agriculture and industrial commodity exporters were likely to recover faster than economies heavily reliant on tourism, as international arrivals remained relatively low. However, food inflation remained a challenge throughout the region, rising from 2% in 2019 to 11% in 2021. In addition, political instability and conflict in many subregions were expected to further

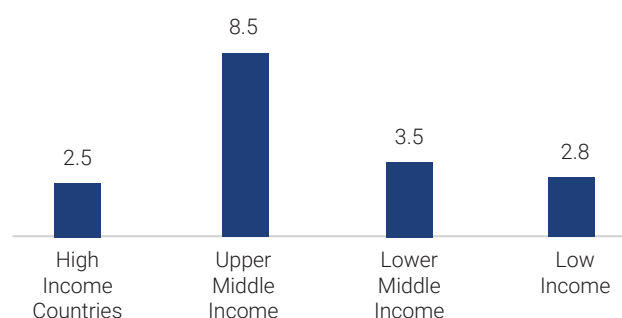
aggravate existing problems and undermine economic potential. As a result, the poverty rate was projected to remain elevated, increasing the absolute number of people in extreme poverty.<sup>12</sup>

Recovery in the OIC as a bloc was equally uneven among income groups. High-income economies, which grew on average by 3.4% during 2010-2019, were expected to recover at 2.5% in 2021 and 4.2% in 2022, a pace slower than in the other income groups. Upper-middle-income economies were expected to grow by 8.5% in 2021. As for lower-middle-income economies, growth was projected to be at 3.5% in 2021 and 4.6% in 2022. Lower-income countries would grow by 2.8% in 2021 and 4.4% in 2022.<sup>13</sup>

The uneven recovery is largely attributable to large disparities in vaccine access and policy support. For example, while 60% of the population in advanced economies were fully vaccinated by October 2021 (and some were getting boosters), about 96% of those in low-income countries remained unvaccinated.<sup>14</sup>

Although the projections were made prior to the onset of the

**Figure 1.2: Growth Projection in the OIC Group in 2021 (%)**



Source: IMF World Economic Outlook, October 2021

Omicron variant in November 2021, they generally remained valid because, as The Economist asserts, Omicron has not done too much to upset the recovery trajectories.<sup>15</sup>

<sup>7</sup> Johns Hopkins University Data: <https://www.arcgis.com/apps/dashboards/bda7594740fd40299423467b48e9ecf6>.

<sup>8</sup> OIC General Secretariat, <https://www.oic-oci.org/covid-19/?lan=en>.

<sup>9</sup> Venkat Gopalakrishnan, Divyanshi Wadhwa Sara Haddad ad Paul Blake, 2021 Year Review in 11 Charts: The Inequality Pandemic (World Bank, December 2021).

<sup>10</sup> IMF World Economic Outlook: Recovery During a Pandemic, October 2021; World Bank Global Economic Prospect, June 2021.

<sup>11</sup> World Bank Data as reported in SESRIC, OIC Economic Outlook 2021.

<sup>12</sup> The United Nations World Economic Situation and Prospects 2022, p. IX.

<sup>13</sup> World Bank Data as reported in SESRIC, OIC Economic Outlook 2021, pp. 34-35.

<sup>14</sup> IMF, World Economic Outlook, October 2021.

<sup>15</sup> The Economist, 29 January 2022.



**PALAM**  
**BID-SEN**  
COMITE TOUSA NIGIL  
VILLAGE PATHELE 1  
UNITE DE TRITURATION de GEMBOLA  
THIOM  
OPERATEUR TECHNIQUE : FERREYER/02

PART  
02

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# Poverty in OIC Member Countries

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## Poverty in OIC Member Countries

OIC member countries fall under four distinct income groups: Seven countries are classified as high-income; 14 are upper-middle income, 20 are lower-middle income, and 16 low-income countries. High-income countries have a GNI per capita higher than USD12,696. Upper-middle-income countries have a GNI per capita ranging between USD4,096 and USD12,695. On the other end, lower-middle-income countries have a GNI per capita of between USD1,046 and USD4,095, and low-income countries have a GNI per capita of less than USD1,045.

In 2021, the population of the 57 member countries stood at 1.65 billion. Although these countries represent 22% of the world population, they account only for 7% of global GDP. At the same time, they account for 40% of the world's poor.

**Table 2.1: Income Groups of OIC Member Countries**

High-Income Countries	Upper-Middle Income Countries	Lower-Middle Income Countries	Low-Income Countries
Bahrain	Albania	Algeria	Afghanistan
Brunei Darussalam	Azerbaijan	Bangladesh	Burkina Faso
Kuwait	Gabon	Benin	Chad
Oman	Guyana	Cameroon	The Gambia
Qatar	Iraq	Comoros	Guinea
Saudi Arabia	Jordan	Cote D'Ivoire,	Guinea-Bissau
United Arab Emirates	Kazakhstan	Djibouti	Mali
	Lebanon	Egypt	Mozambique
	Libya	Indonesia	Niger
	Malaysia	Iran	Sierra Leone
	Maldives	Kyrgyz Republic	Somalia
	Surinam	Mauritania	Sudan
	Turkey	Morocco	Syria
	Turkmenistan	Nigeria	Togo
		Pakistan	Uganda
		Palestine	Yemen
		Senegal	
		Tajikistan	
		Tunisia	
		Uzbekistan	

Source: World Bank 2020 data as cited in SESRIC OIC Economic Outlook 2021

### INCOME POVERTY IN OIC MEMBER COUNTRIES

Recent data released by the World Bank shows that despite significant progress in poverty reduction across the world, income poverty as well as multidimensional poverty remain high among OIC member countries. Overall, 14.2% of the population in OIC member countries live on less than USD2 per day.<sup>16</sup>

Poverty incidence is higher among populations in rural areas and fragile countries across IsDB member countries. The decline in poverty rates in Asia, Latin America, and Europe has been offset by the increasing rate (in absolute numbers) of impoverished people in MENA and Sub-Saharan Africa, especially in those classified as fragile and conflict-affected situations (FCS). In 2021, more than 90% of the rural population and 70% of the populations in fragile situations lived in extreme poverty.<sup>17</sup>

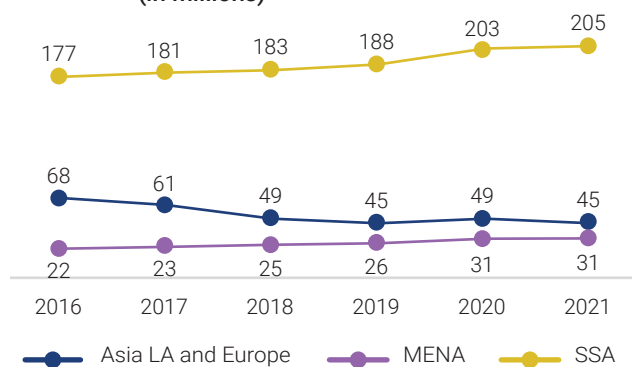


<sup>16</sup> IsDB, Economic Context and Development Challenges of IsDB Member Countries 2021 | IsDB Strategy Documents 2021.

<sup>17</sup> IsDB Report on Tackling Poverty and Building Resilience in Member Countries 2021.

In 2020, the total extreme poverty headcount in IsDB member countries rose by 9% as a result of the pandemic. The increase was sharper in the MENA region (16%). For fragile countries, the number of people living in extreme poverty rose by 10%.<sup>18</sup> In total, 51 million people were pushed into poverty in OIC member countries.<sup>19</sup>

**Figure 2.1: Number of People Living in Extreme Poverty in IsDB Member Countries by Regions (in millions)**



Source: IsDB, *Economic Context and Development Challenges of IsDB Member Countries 2021* IsDB Strategy Documents 2021.



Regionally, 73% of the population of OIC member countries in Sub-Saharan Africa lived in extreme poverty in 2021, according to a recent IsDB report. As Table 2.2 shows, the proportion of the poor population in the region grew from 66% in 2016 to 72% in 2020, before jumping to 73% in 2021. During the same period, the proportion of the poor in the Middle East and North Africa region grew from 8% in 2016 to 11% in 2021. The only OIC region that registered a decline in the proportion of poor people is Asia, Latin America, and Europe, where the figures declined from 25% in 2016 to 16% in 2021.

**Table 2.2: Proportion of the Extreme Poor in the OIC regions (2020)**

Project Title	2016	2017	2018	2019	2020	2021	
IsDB Regions	Asia, Latin America & Europe	25%	23%	19%	17%	17%	16%
	Middle East & North Africa	8%	9%	10%	10%	11%	11%
	Sub-Saharan Africa	66%	68%	71%	73%	72%	73%
Other categorisations	LDMC	57%	57%	57%	57%	56%	56%
	FCS	62%	64%	68%	70%	71%	73%
By area	Urban	7%	8%	9%	9%	9%	9%
	Rural	93%	92%	91%	91%	91%	91%
By sex	Male	49%	49%	49%	49%	49%	49%
	Female	51%	51%	51%	51%	51%	51%

Source: ERS-IsDB Calculations based on World Data Lab estimates and projections, October 2021



<sup>18</sup> IsDB, *Economic Context and Development Challenges of IsDB Member Countries 2021* IsDB Strategy Documents 2021.

<sup>19</sup> IsDB, *Economic Context and Development Challenges of IsDB Member Countries 2021* IsDB Strategy Documents 2021.

<sup>20</sup> IsDB, *Draft Report on Tackling Poverty and Building Resilience in Member Countries*, November 2021.

## MULTIDIMENSIONAL POVERTY IN OIC MEMBER COUNTRIES

Multidimensional poverty has been a worrying phenomenon in OIC member countries, with 464 million people considered multidimensionally poor in 2020.

A recent joint analysis of the IsDB Institute and the Oxford Poverty and Human Development Initiative (OPHI) shows that, in total, 464 million people (almost one in every three) are living in multidimensional poverty, and 83% of them live in rural areas. In 14 of the IsDB member countries, most of the population lives in multidimensional poverty. By contrast, in 8 of the high-income countries, less than 1% of the total population lives in poverty. However, in low-income countries, such as Niger, Burkina Faso, and Chad, 8 out of 10 people are considered multidimensionally poor. In absolute terms, Nigeria (with 91 million people) and Pakistan (with 81 million people) have the largest number of poor people.<sup>20</sup>

## FOOD SECURITY IN OIC MEMBER COUNTRIES

In addition to the economic crises and the associated decline in income, the pandemic caused a decline in food production, disrupted supply chains, and created food price inflation. These developments have deepened food insecurity worldwide and in OIC member countries.

Measured by the Global Hunger Index, food insecurity is based on the following three equally weighted indicators:

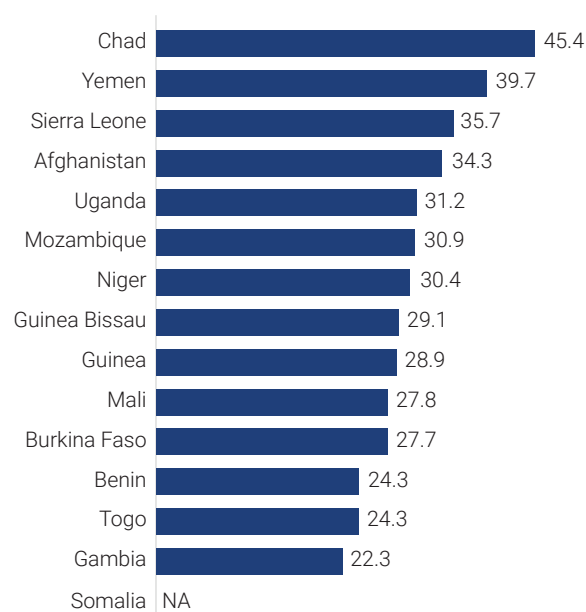
- ▶ The proportion of undernourished people.
- ▶ Children under five years of age who are underweight.
- ▶ The mortality rate among children under 5.

Performance on the Hunger Index is measured on a scale of 0 to 100, with 0 being the best score (no hunger) and 100

being the worst. Scores between 35 and 50 are considered 'alarming,' while scores above 50 are considered 'extremely alarming.'

Existing data shows that among OIC member countries, food insecurity is more rampant among the low-middle income countries and the low-income countries. Most countries in the lower-middle-income category have moderate to serious levels of hunger.<sup>21</sup> Similarly, all the countries in the low-income group are food deficient. Of the 15 countries in this group, 11 have a 'serious' hunger situation, three an 'alarming' situation, and one a 'moderate' hunger situation. Of the 15 countries for which data is available, 13 (or 85%) are from Sub-Saharan Africa.<sup>22</sup>

**Figure 2.2: 2018 Hunger Index of the OIC Low Income Member Countries**



<sup>21</sup> 2018 Global Hunger Index.

<sup>22</sup> The other two are Afghanistan and Yemen.









PART  
03

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# Role of the ISFD in Poverty Reduction

## in OIC Member Countries

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# Role of the ISFD in Poverty Reduction in OIC Member Countries

The ISFD was established as a special endowment fund (Waqf) within the IsDB, pursuant to a decision adopted during the Third Extraordinary Summit of the OIC, held in Makkah in 2005. The Fund has a target capital of USD10 billion, to be contributed by governments and institutions in member countries.

Since its inception, the Fund has focused on poverty reduction in OIC member countries by providing concessional finance for programs that:

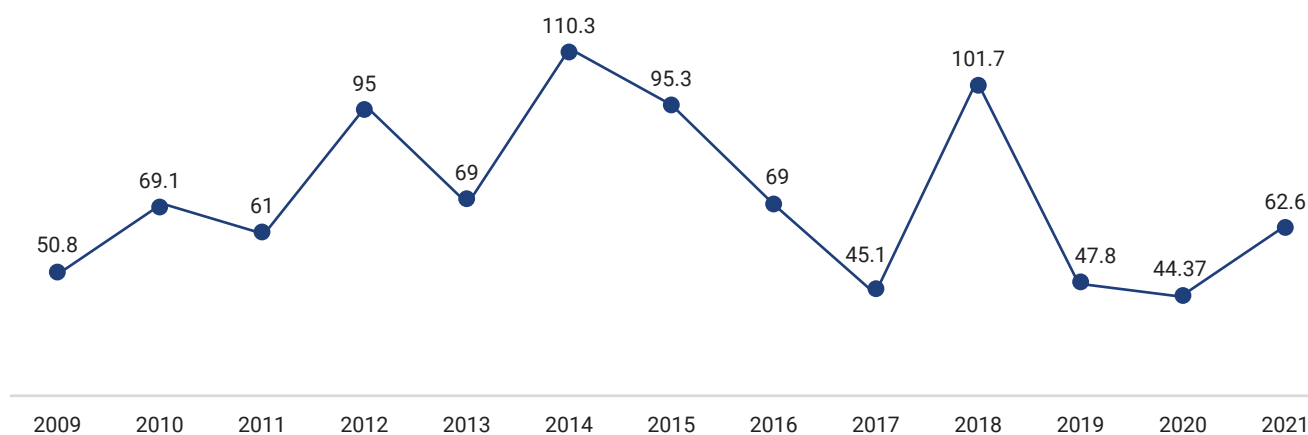
- ▶ promote pro-poor growth.
- ▶ support human development, especially healthcare and education.
- ▶ provide social safety nets for the poor; and
- ▶ enhance good governance and access to public services by the poor.

As a Waqf, ISFD operations are financed generally through the net income realized from the investment of its capital resources. However, the Board of Directors has recently authorized the ISFD to fund some economic empowerment programs from its capital resources. This will allow it to invest directly with the poor to enhance their employment and income generation opportunities.

## 3.1: ISFD OPERATIONS SINCE INCEPTION

Since its inception, the Fund has provided close to USD1 billion in concessional loans and grants to finance projects and programs in member countries. The Fund's financing increased from USD50.8 million in 2009 to USD69 million in 2010 before declining to USD61 million in 2011. Funding picked up in 2012 to USD95 million but fell again to USD69.8 in 2013. The best year for the Fund was 2014 when approvals reached USD110 million. The following three years saw a gradual decline in approvals from USD95 million in 2015 to USD69 million in 2016 and USD45 million in 2017. Approvals rose to USD101.7 million in 2018 before declining to USD47.8 million in 2019 and USD44.37 million in 2020. Despite the challenges that the COVID-19 pandemic has posed, the Fund's approvals rose to USD62.6 million<sup>21</sup> in 2021, representing an increase of about 41% compared to the 2020 figures.

Figure 3.1: ISFD Approvals 2009-2021 (in USD million)



Source: Economic Research and Statistics Division

<sup>23</sup> Includes approvals for scholarships (USD0.680 million) and approvals made through ICERI (USD0.589 million).

In addition to direct approvals, the financing of the Fund has had a significant leverage ratio that makes considerable resources available to the beneficiaries. For example, the total cost of the projects that benefited from ISFD approval in 2021 stands at USD733 million, including ISFD funding of USD62.6 million. This gives ISFD financing a leverage ratio of 1:12.

## REGIONAL COVERAGE

The 2021 allocation to programs and projects brought the cumulative ISFD allocations since inception to USD919.7 million. Although the ISFD seeks to fight poverty in all member countries, the least developed member countries (LDMCs) have so far formed the majority of the beneficiaries. In 2021 alone, about 63% of the funding went to LDMCs. This concentration is in accordance with the IsDB Policy on Poverty Reduction, which stipulates that 80% of ISFD annual financing should go to LDMCs and 20% to poverty pockets in non-LDMCs. The deviation from the policy guidelines in 2021 was accounted for by the health challenges that affected the entire membership of the OIC.

## DEVELOPMENT RESULTS OF ISFD INTERVENTIONS

An ISFD-commissioned report, the Development Effectiveness Report (DER), gives an in-depth insight into

the impact of ISFD intervention in member countries over the years.

The report assesses the projects based on their relevance, effectiveness, efficiency, and sustainability. The projects were found to be relevant as they pertained to aspects of poverty reduction. They were generally effective and met or exceeded their targets.

The projects have also been found to be generally sustainable. The health and education projects have brought lasting benefits, including a reduction in malaria incidence and a change in behavior about using insecticide-treated mosquito nets. The polio eradication project has also brought lasting results, as Pakistan was taken off WHO's list of countries with new polio cases. The agriculture projects have also resulted in changes in agricultural practices.

The report further reveals that ISFD's support to member countries has had a significant impact, especially in low-income countries. For example, ISFD financing has facilitated the construction of more than 700 schools that supported over 51,000 students. ISFD funding also made healthcare accessible to 73 million people and created job opportunities for 2.8 million people across the ten countries subject to the evaluation.

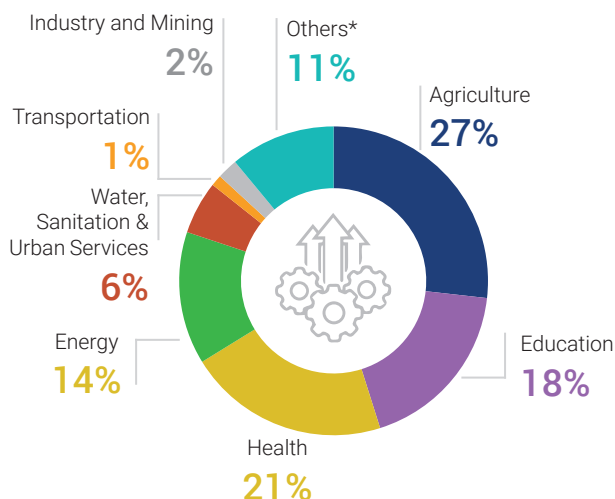
**Table 3.1: Summary of the Impact of ISFD Support to Member Countries**

Health Project Beneficiaries	Jobs Created	Women and Girls empowered	Food Security Beneficiaries	Number of Schools Built	Students Supported	Teachers Trained or supported
73,575,181	2,812,839	33,958	105,452	769	51,453	4,650

Source: ISFD Development Effectiveness Report



**Figure 3.2: ISFD's Operations by Sector 2009-2021 in %**



\*Others include finance, public administration, real estate, and trade-related activities.

Source: Economic Research and Statistics Division 2021

### ALIGNMENT WITH THE SUSTAINABLE DEVELOPMENT GOALS

As Figure 3.2 shows, ISFD approvals covered the key sectors that form the core of the SDGs. For example, it is expected that projects in agriculture and rural development, health, basic education, energy, water and sanitation, and youth employment will contribute to realizing SDG-1 (ending poverty), SDG-2 (zero hunger), SDG-3 (good health and well-being), SDG-4 (quality education), SDG-6 (clean water and sanitation), SDG-7 (affordable and clean energy), SDG-8 (decent work and economic growth), SDG-10 (reduced inequalities), SDG-12 (responsible consumption and production), and SDG-17 (partnerships for the goals).

**Figure 3.3. Sustainable Development Goals**



### 3.2: ISFD OPERATIONS IN 2021

In 2021, ISFD approvals amounted to USD62.6 million. Of this amount, USD31 million went to member countries in concessional loans, while USD31.6 went as grants.<sup>24</sup>

**Figure 3.4: ISFD Loans and Grants in 2021 in USD million**



Projects financed during the year range from health, education, and sanitation projects to projects supporting refugees and Awqaf real estate projects.

The ISFD continued to play a key role in the IsDB Group's support to member countries' response to the COVID-19 pandemic, both through the Group's Strategic Preparedness and Response Programme (SPRP) and through other flagship programs, such as TADAMON, SERVE, IVAC, and ICERI, as well as through the LLF. This accounts for the fact that 38% of ISFD financing in 2021 went to the health sector. Support to member countries in this area took the form of grants and loans for the importation of the COVID-19 vaccine, the provision of medical equipment, scholarship and training for ophthalmologists, and a cataract treatment campaign.

Education and agriculture each accounted for 15% of the Fund's financing in 2021. Water, sanitation, and urban services accounted for 9%, while energy accounted for 5% of financing. The rest of the financing went to other activities, including finance, public administration, and real estate development for poverty reduction.



<sup>24</sup> ISFD operations figures include approvals for scholarships (USD0.680 million) and approvals made through ICERI (USD0.589 million), making a total of USD1.27 million. This accounts for the difference between the figures provided by the Economic Research and Statistics Division and figures reported in this report.

## ISFD Response to Covid-19

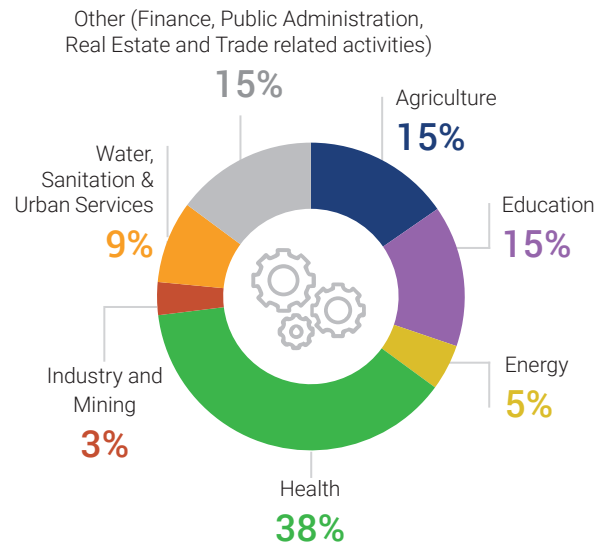


The ISFD's support to member countries' response to COVID-19 began in 2020 under the IsDB Group's Strategic Preparedness and Response Programme for the COVID-19 Pandemic (SPRP).

Initially, the ISFD BoD approved an amount of USD50 million in February 2020 as the Fund's support to member countries' response to the pandemic. However, on account of the increasing demand, the initial amount increased to USD232 million by December 2021. Out of this amount, USD16.6 million went as grants, while USD215.4 million went as loans. About 35% of the funding (USD82 million) went to stand-alone projects in 8 countries: Burkina Faso, Chad, Comoros, Guinea Bissau, Kyrgyzstan, Mali, Sudan, and Yemen. The rest was dispensed through regional programmes, such as SERVE, ICERI, IVAC, and TADAMON accelerator. About 60% of the funding was disbursed by 31 December 2021.

The total size of projects approved under flagship programmes and stand-alone projects reached an amount of USD883.66 million, which gives ISFD funding a leverage ratio of 1: 6

Figure 3.5: ISFD Approvals by Sector in 2021

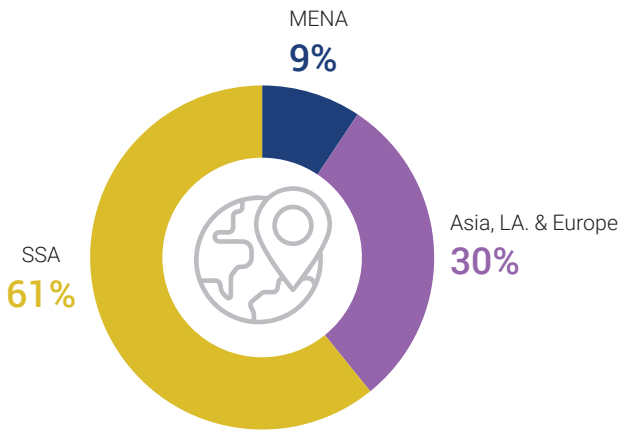


The total cost of the projects and programs that benefited from ISFD financing in 2021 is USD734 million. This represents a leverage ratio of 1:12 for ISFD financing.

In terms of regional coverage, Sub-Saharan Africa accounted for 61% of ISFD's financing in 2021. This was followed by Asia, Latin America, Europe (30%), and the Middle East and North Africa - MENA - (9%).



Figure 3.6: ISFD Approvals by Region in 2021 in %



As figure 3.7 shows, the largest country financing in 2021 went to Uzbekistan, followed by Togo, Uganda, Senegal, and Bangladesh. Financing to these countries ranges from USD10 million to USD5 million. Benin, Chad, and Cote d'Ivoire each received financing in excess of USD4 million during 2021.

Figure 3.7: ISFD Approvals by Country in 2021 (in m \$)

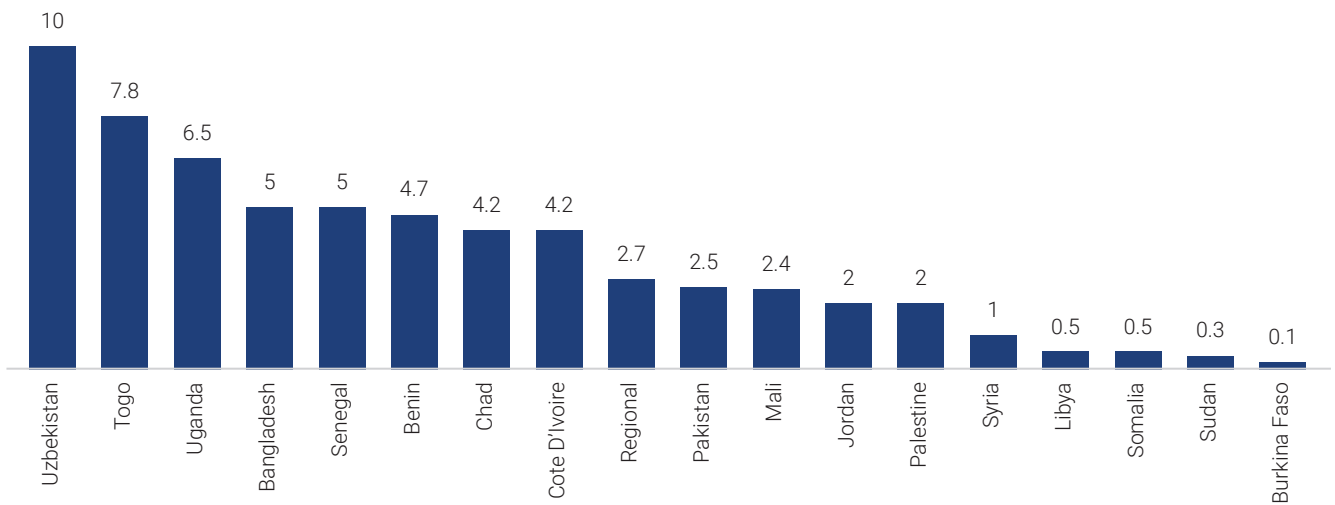


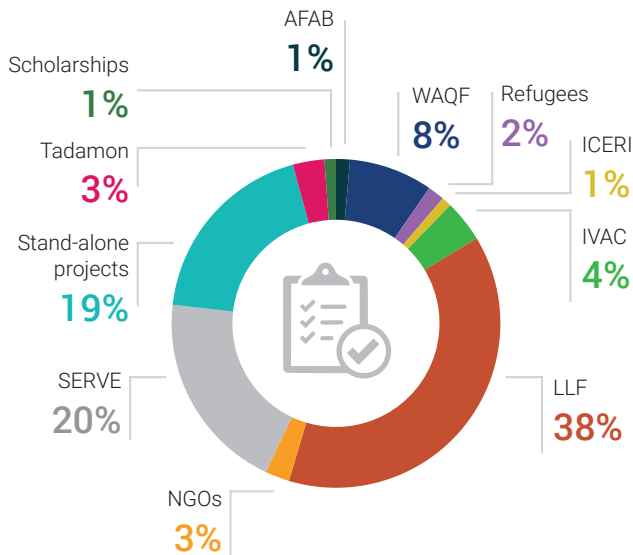
Table 3.2 ISFD Grants and Loans Approved in 2021 (In M USD)

Programme/Project	Project Code	Country	Amount	Type	Project Size
LIVES AND LIVELIHOODS FUND (LLF)	BGD1066	Bangladesh	5	grant	66
	BEN1015	Benin	4.66	grant	53
	TCD1029	Chad	4.05	grant	48.5
	CIV1021	Cote D Ivoire	4.24	grant	55.7
	MLI1020	Mali	2.45	grant	23.4
	TGO1013	Togo	2.8	grant	39.8
THE ALLIANCE TO FIGHT AVOIDABLE BLINDNESS (AFAB)	BFA1034/BFA1037	Burkina Faso	0.131	grant	0.131
	TCD1032/TCD1035	Chad	0.179	grant	0.179
	zzz2680/91/99	Not assigned	0.51	grant	1.47
TADAMON	LBY1008	Libya	0.45	grant	1.45
	SOM1020	Somalia	0.45	grant	3.35
	SDN1050	Sudan	0.25	grant	1.75
STRENGTHENING THE ECONOMIC RESILIENCE OF VULNERABLE ENTREPRISES (SERVE)	JOR1029	Jordan	2	Loan	52
	UZB1037	Uzbekistan	10	loan	100
WAQF (SENEGAL)	SEN1053	Senegal	5	Loan	24.2
IVAC	PAK1054	Pakistan	2.5	Loan	72.5
ECONOMIC EMPOWERMENT FOR PALESTINIAN PEOPLE	PSE1108	Palestine	2	grant	2
SUPPORT TO THE EDUCATION OF SYRIAN CHILDREN AFFECTED BY WAR	SYR10004	Syria	1	grant	2
ICIEC-ISFD COVID EMERGENCY RESPONSE INITIATIVE (ICERI)		Tunisia	0.042	grant	4.9
		Senegal	0.074	grant	9.9
		Mauritania	0.024	grant	2.9
		Mozambique	0.098	grant	8.7
		Nigeria	0.177	grant	41.7
		Gambia	0.174	grant	1.547
REGIONAL NGO EMPOWERMENT	zzz2658		1.45	grant	1.45
TADAMON	zzz2702		0.73	grant	0.73
<b>Stand Alone</b>					
IRRIGATION SCHEMES DEVELOPMENT IN UGANDA	UGA1037	Uganda	6.5	Loan	90
SUPPORT TO BASIC EDUCATION DEVELOPMENT PROJECT (PAAQET), TOGO	TGO1017	Togo	5	Loan	24
SCHOLARSHIPS PROGRAMME			0.68	grant	0.68
		TOTAL	62.619		733.937
		Loans	31		338.7
		grants	31.619		395.237

Source: ISFD

**FLAGSHIP PROGRAMMES:** ISFD's support to member countries comes under flagship programs, although individual projects too received appropriate attention.<sup>25</sup> As Figure 3.8 shows, projects financed in 2021 fall under ten programs and two stand-alone projects. These are summarised in the following paragraphs and Annex 2 of this report.

**Figure 3.8: Approvals by Programmes & Projects in 2021**



**ALLIANCE TO FIGHT AVOIDABLE BLINDNESS (AFAB):**

A grant of approximately USD0.8 million was approved to combat blindness in member countries under AFAB. All 13 countries – Burkina Faso, Chad, Comoros, Côte d’Ivoire, Djibouti, Guinea, Guinea-Bissau, Mauritania, Mali, Mozambique, Niger, Somalia, and Togo – benefited under this program. In addition, support was provided in the form of medical equipment, scholarships, and training for ophthalmologists and cataract treatment campaigns.



**IsDB, ISFD Launch Activities of the Alliance to Fight Avoidable Blindness in Niger**

12 July 2021

[www.cnbcfrica.com/2021](http://www.cnbcfrica.com/2021)

**Jeddah:** The Islamic Development Bank (IsDB) and the Islamic Solidarity Fund for Development (ISFD) have collaborated with the National Eye Health Programme (PNZO) to launch the 2nd phase (Generation II) of the Alliance to Fight Avoidable Blindness (AFAB) by conducting two cataract surgery campaigns in the cities of Diffa and Magaria in Niger. Under these campaigns, financed by the Arab Bank for Economic Development in Africa (BADEA), 8,001 patients have been given vision screening and 1,029 cataract treatments surgeries conducted, in addition to providing post-surgical monitoring and visits to patients.

These campaigns are a part of a continued commitment to performing 100,000 surgeries in the next five years under the IsDB’s Regional Cooperation and Integration Department initiative.

Dr. Amza Abdou, the National Coordinator of the Eye Health Programme (PNZO) in Niger, has Expressed thanks and gratitude to the IsDB Group and BADEA for the consistent efforts made in supporting the Government of Niger in fighting avoidable blindness and improving the quality of life of persons with visual disabilities. “We hope that this exemplary south-south cooperation remains sustainable, as the proportion of the population suffering from blindness remains high in Niger”, he added. To build on the success of Generation I, the IsDB and the ISFD have decided to introduce Generation II of the Alliance that aims to benefit 13 IsDB member countries, namely Burkina Faso, Chad, Comoros, Côte d’Ivoire, Djibouti, Guinea, Guinea-Bissau, Mauritania, Mali, Mozambique, Niger, Somalia, and Togo.

<https://www.cnbcfrica.com/2021/islamic-development-bank-isdb-islamic-solidarity-fund-for-development-isfd-launches-the-activities-of-the-alliance-to-fight-avoidable-blindness-second-generation-afab-in-niger/>

**WAQF (SENEGAL):** USD5 million went as a concessional loan to Senegal for the Waqf program, which sought to finance a real-estate project in Dakar. The returns on this investment are expected to finance the modernization of traditional schools in Senegal.

<sup>25</sup> The 10 flagship programmes are Tadamon, ICERI, IVAC, NGOs Empowerment, SERVE, Refugees, Awqaf, AFAB, LLF, and the Scholarships Programme.



**SUPPORT TO THE EDUCATION OF SYRIAN CHILDREN AFFECTED BY WAR:** USD1 million went to support the education of Syrian children affected by the war, both within and outside Syria.

**ICIEC-ISFD COVID EMERGENCY RESPONSE INITIATIVE (ICERI):** As part of the joint effort of the IsDB Group entities to fight the negative impact of COVID-19, the ISFD allocated a grant of USD0.7 million as a premium discount and/or first loss buffer to facilitate the import of medical goods and essential commodities through credit insurance. The grant is being implemented and managed by the ICIEC. It is meant to help LDMCs and severely affected member countries access to finance and facilitate the import of medical equipment, pharmaceutical products, and other related items needed to fight against COVID-19 and secure essential commodities such as food and oil and gas, among other things.

Under this program, a grant of USD0.590 million was allocated to six countries: The Gambia, Mauritania, Mozambique, Nigeria, Senegal, and Tunisia.

**IVAC:** IVAC was planned to adopt a holistic approach focusing on the phases of vaccine development, manufacturing, procurement, and delivery to its end beneficiaries. But it was decided to keep the initiative focused on vaccine procurement for member countries. The IsDB BED approved an allocation of USD10 million in April 2021 as a contribution of the ISFD to the IVAC program. Pakistan received USD2.5 million as a concessional loan under the IVAC scheme.

**LIVES AND LIVELIHOOD FUNDS:** Six countries, namely Bangladesh, Benin, Chad, Cote D'Ivoire, Mali, and Togo, benefited from a grant of USD23.2 million under the LLF program. Projects financed under the LLF cover integrated sanitation and hygiene, nutrition and early childhood development, poultry and fisheries value chain, community health and nutrition, maternal and child health (MCH), and rural electrification.

**STRENGTHENING THE ECONOMIC RESILIENCE OF VULNERABLE ENTREPRISES (SERVE):** The objective of SERVE is to build the resilience of micro, small, and medium enterprises (MSMEs) to overcome the impact of the pandemic by providing the needed liquidity for business continuity and job preservation. The project has three components: (1) Line of Finance to Islamic Micro-Finance Institutions (IMFIs), (2) Line of Finance to Islamic Partner Banks and Financial Institutions, and (3) Project Audit and Monitoring. Under this program, a USD12-million concessional loan was provided to Jordan and Uzbekistan in 2021.

**TADAMON:** The TADAMON Programme has the following three components: (1) Emergency Medical Response through Civil Society Organisations (CSOs), (2) Education in Emergency, and (3) Building Community Resilience. The program seeks to build partnerships with a variety of implementing partners, NGOs, International NGOs, and CSOs that are qualified and interested in contributing to fighting this global pandemic. The total program cost is USD55 million. During the year, a grant of approximately USD1.9 million was approved under the program for Libya, Somalia, and Sudan, as well as for other interventions that are regional in nature under the United Nations Development Programme (UNDP).

**STAND-ALONE PROJECTS:** During the year, two stand-alone projects were approved. These were a project aimed at supporting basic education development in Togo for USD5 million and an irrigation scheme development project in the Unyama, Namalu, and Sipi regions in Uganda for an amount of USD6.5 million.

**SCHOLARSHIPS:** During the year, the sum of USD0.68 million was approved under the scholarship program for the benefit of 85 students from various member countries.

### 3.3: IMPLEMENTATION OF THE 2030 STRATEGY

In addition to direct support to member countries during the year, the ISFD also focused on the implementation of its 2030 Strategy, which was developed in 2020 as part of the Fund's transformation program that seeks to enhance the effectiveness and impact of the ISFD in delivering on its poverty reduction mandate.

Under the new strategy, the ISFD seeks to create an impact on poverty reduction while leveraging the IsDB's institutional strength in its future operations. Resource mobilization constitutes a strategic priority for the Fund, and LDMCs remain the focus of its interventions. Sectors will also be strategically selected in accordance with the conditions and drivers of poverty in individual countries.



The new 2030 Strategy envisages a much stronger focus on core development areas and capabilities. It is structured around five pillars: 1) operations, 2) resources, 3) capabilities, 4) governance, and 5) performance. Considering the evolving impact of COVID-19, health is retained as a strategic focus area to enable the ISFD to enhance the resilience of OIC countries in facing this pandemic and any future epidemic or pandemic.

The strategy will be delivered through a transformed ISFD business model that encompasses the development of flagship programs that seek to meet basic needs in education, health, and socio-economic development.

## TEN TRANSFORMATION INITIATIVES

The 2030 Strategy will be implemented in phases. Phase I, "Fix the Basics," includes ten initiatives. Table 3.3 summarises progress in all ten initiatives:

**Table 3.3 Progress on the Implementation of the 10 Initiatives**

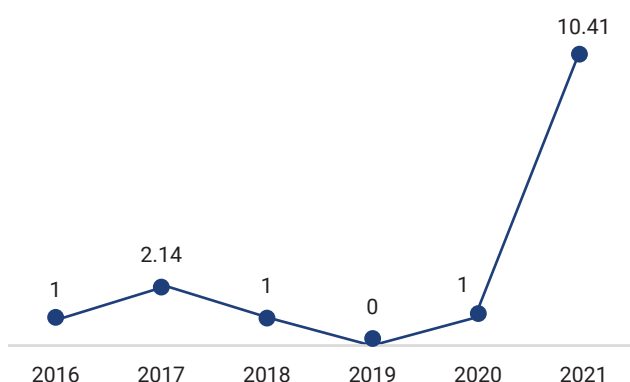
Programme/Project	Project Size
<b>Policy Framework and Policy Review:</b>	The objective of this initiative is to provide the ISFD with a holistic policy framework to guide future operations and ensure smooth implementation. Within this context, the ISFD has developed policies in various areas, including financing (loans and grants), risks, investment, and general financial management
<b>Business Process Architecture and SLA Framework IsDB/ISFD:</b>	This initiative seeks to formalize ISFD business processes and service level agreements (SLAs) to guide the ISFD's relations with IsDB units and external parties. In 2021, the ISFD developed clear procedural guidelines and business flow charts as well as SLAs with several departments and units.
<b>Organisation Transformation and Expert Hiring:</b>	This initiative aims to bring about institutional reforms that will equip the ISFD with the right resources (both human and material) to allow it to deliver on its strategy. Within this context, the ISFD proposed the establishment of an Executive Committee to fast track decision processes and foster greater efficiency.
<b>Poverty Alleviation Strategy Operationalisation and Impact</b>	This initiative aims to strengthen the ISFD's capacity to have a stronger impact on poverty reduction in member countries. Within this initiative, the ISFD and relevant ISFD business units have re-directed their collaboration to the main focus areas of the ISFD 2030 Strategy: Education, Economic Empowerment, Community Development, and Health, to allocate 80-90 % of the resources to the LDMCs.
<b>Pipeline and Work Programme Review</b>	This initiative seeks to ensure that the project pipeline and work plan 2021-2023 are aligned with the 2030 Strategy. This was completed during the year.
<b>Resource Mobilisation Operationalisation</b>	The objective of this initiative is to standardize existing resource mobilization instruments and develop new ones. In this regard, the ISFD developed a new Resource Mobilisation Policy that details the nature and processes of mobilizing funds, including capital resources, IWIFs, Cash Waqf Sukuk, and Investments and Governance mechanisms.
<b>Country Funds Pilot</b>	This initiative focuses on shifting the ISFD's poverty alleviation operations and resource mobilization toward a business model closer to member countries. The objective is to establish programs that address country-specific poverty drivers while targeting donors who may prefer to fund poverty alleviation in a specific country. It includes launching and testing five country funds to establish lessons learned for successful future roll-out of the country fund. During the year, a concept note was developed and circulated for discussion. Based on the expert assessment, it was suggested to postpone the implementation of the country fund initiatives until clear progress is registered in similar resource mobilization initiatives such as IWIF.
<b>Review of Brand Communications</b>	The objective of this initiative is to increase the visibility of the ISFD through rebranding and effective communication of ISFD development results. During the year, the ISFD contracted the services of a reputable branding company to drive this initiative. A first draft of the ISFD new brand and communication strategy has been completed.
<b>Financial Management</b>	The objective of this initiative is to codify key processes and develop tools and governance mechanisms to ensure the financial sustainability of the ISFD. During the year, the ISFD developed the Financial Management Model, the Draft Financial Management Policy, and job descriptions for financial management roles within the Fund.
<b>Data and IT Enablement</b>	The objective of this initiative is to provide the ISFD with an appropriate IT infrastructure. During the year, the ISFD, in collaboration with the IMDT Department, developed a blueprint for ISFD IT requirements and will initiate implementation during 2022.

Source: Progress Report on ISFD Transformation

## RESOURCE MOBILISATION

The 2030 Strategy provides an enhanced effort to secure additional capital contributions from member countries while ensuring that ISFD financing serves as seed money that will be adequately leveraged. Efforts in this area yielded good results in 2021. As Figure 3.8 shows, a total of USD10.41 million was mobilized from member countries as a capital contribution, the largest amount in a number of years.

**Figure 3.9: Capital Resource Mobilized from Member Countries 2016-2021 (in USD million)**



As Table 3.4 shows, contributions were received from 5 countries (Mali, Benin, Bangladesh, Mauritania, and Cote D'Ivoire) during the year.

**Table 3.4 Capital Contributions in 2021 in USD million**

Country	Payment	Amount
Mauritania	Payment of full commitment	5.1
Mali	Payment of part of the commitment	2
Bangladesh	Payment of annual installment	2
Benin	Payment of the 1st Instalment	0.33
Cote D'Ivoire	Payment of part of the commitment	0.98
<b>Total</b>		<b>10.41</b>

The strategy also foresees resource mobilization through diversified and innovative instruments, such as Ihsan Waqf Investment Funds (IWIFs) and Cash Waqf Sukuks. The objective is to target multiple sources, including private sector donors. The IWIF initiative, in particular, has a pipeline of 8 funds which are at varying stages of development (see Table 3.5).

**Table 3.5 Pipeline of IWIFs**

Country/Institution	Target (USD million)
Alquds & Empowerment Fund	100
UNHCR	500
IWIF with Libya	200
Kizilay/Turkey	250
Investcorp	250
Ministry of Finance / Morocco	100
KAU- Saudi Arabia/KSA	100
Pakistan Poverty Alleviation Fund	100





PART  
04



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# Corporate Governance

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# Corporate Governance

The ISFD Board of Governors held its 14th Annual Meeting in Tashkent on 4 September 2021 (27 Muharram 1443) under the chairmanship of H.E. Sardor Umurzakov, Deputy Prime Minister, Minister of Investments and Foreign Trade of Uzbekistan, IsDB Governor for the Republic of Uzbekistan, and Chairman of the Board of Governors of the ISFD.

## ACTIVITIES OF THE BOARD OF GOVERNORS

Among the highlights of the meeting was the adoption of the ISFD Annual Report 1441/1442 (2020). This was done vide Resolution No. ISFD/BG/1-442.

The BoG approved the recommendation to appoint Deloitte & Touche as auditors for the ISFD accounts for the Financial Year 1443/1444 (2022) and adopt draft Resolution ISFD/BG/2-442 to this effect.

The BoG also adopted Resolution ISFD/BG/4-442, which provides the timeframe within which member countries are expected to pay their capital commitments in full. This timeframe has been set as follows: six years for low-income countries, five years for lower-middle-income countries, four years for upper-middle-income countries, and three years for high-income countries.<sup>26</sup>



## ACTIVITIES OF THE BOARD OF EXECUTIVE DIRECTORS

The BoD oversees the activities of the Fund under the powers delegated to it by the BoG. The BoD meets four times a year. It is responsible for approving financing (loans and grants) proposals, policies, and the administrative budget; for stipulating the terms and conditions of the ISFD financing and operational procedures; and making decisions on strategic matters in accordance with the powers conferred on it by the ISFD Regulations.

In 2021, the BoD held five sessions, representing the 73<sup>rd</sup> to 77<sup>th</sup> sessions.

The BoD met at its 73<sup>rd</sup> session on 28 February 2021, which was the Board's first meeting of the year. The meeting was chaired by HE Bandar Hajjar, President of the IsDB and Chairman of the IsDB Group. The virtual meeting was attended by all the members.

Among the strategic and policy matters that the BoD considered at this meeting was the draft agenda of the 14th Annual Meeting of the BoG. The draft agenda was adopted vide Resolution ISFD/BOD/28/02/021(73)1.

The BoD also reviewed and adopted the recommendations of the Finance and Risk Management Committee regarding the payment proposal of the Republic of Benin. The proposal was approved vide Resolution ISFD/BOD/28/02/021(73) 2. During the discussion, the BoD expressed satisfaction with the steps that management had taken to develop a new schedule for the payment of commitments. The BoD appealed to member countries to pay their contributions. The BoD also cleared and recommended the audited financial statements of the ISFD for the year 2020 for BoG approval vide Resolution ISFD/BOD/28/02/021(73)4.

<sup>26</sup> See Table 2.1 for the income groups.

The BoD met at its 74th session virtually on 25 April 2021. All the members were in attendance. The BoD reviewed and adopted the revised agenda of the 14th Annual Meeting of the BoG. It also endorsed the logistical and other arrangements for the first in-person annual meeting since the onset of the COVID-19 pandemic. The BoD reviewed and cleared the draft ISFD Annual Report 2020. The Board equally considered and approved the proposal to consolidate the Al Quds Ihsan Waqf Investment Fund and Al Quds Empowerment Fund vide Resolution ISFD/BOD/25/04/021(74)7. This followed the review and consideration of the item by the Finance and Risk Management Committee.

During the same session, the BoD considered the proposal for the ISFD's participation in the extension of the IsDB Group's Strategic Preparedness and Response Programme for the COVID-19 Pandemic. In this regard, the BoD approved the allocation of USD40 million for the program's extension. This is composed of the following:

- I. USD20 million as loan to member countries through the Strengthening the Economic Resilience of Vulnerable Enterprises (SERVE) Programme.
- II. USD10 million as loan through the insurance/guarantee scheme - ICERI.
- III. USD10 million as loan through IVAC.

The BoD reviewed the schedule of implementation of the ISFD Transformation Initiatives and commended the management's efforts towards the enhancement of the Fund. Members urged the expeditious implementation of the various initiatives.

The BoD met at its 75th session on 20 June 2021, with all the members in attendance. Key highlights of the session included the consideration and adoption of the Report of the Audit Committee of the Board, the approval of the Audited Financial Report of the ISFD, and a review of the management's progress report on the implementation of the management's action plan regarding the recommendations of the Audit Reports on ISFD Investment and Operations. The BoD took note of the updates.

The BoD also approved the proposal to award the contract for the investment of USD350 million of ISFD capital funds to Russels Investment as a fiduciary manager. At the end of the session, HE Dr. Bandar Hajjar informed the BoD members about the end of his term of office as President of the IsDB and Chairman of the IsDB Group.

The 75<sup>th</sup> Session of the BoD resumed in an in-person format at Tashkent, Tajikistan, on 1 September 2021, under the chairmanship of Dr. Muhammad Al Jasser, in his capacity as the new IsDB President and Chairman of the IsDB Group. In attendance were 11 members of the BoD, including the Chairman. Six members did not attend. Among the





highlights of the session was the request of the BoD for the ISFD Management to provide additional information regarding the progress made on the consolidation of the Al Quds Waqf Investment Fund and the Al Quds Empowerment Fund. It should be recalled that, at its 74th session in April 2021, the BoD had approved the merger of the two funds. In addition, amendments to the structure of the Economic Empowerment Fund for the Palestinian People were presented to the Board as an item for information.

The BoD met at its 76th session on 26 September 2021 under the chairmanship of Dr. Muhammad Al Jasser. All BoD members attended the virtual meeting. Key strategy and policy matters that the BoD looked at include:

- ▶ **CONVERSION OF THE SECOND INSTALMENT OF THE ISFD CONTRIBUTION TO THE CAPITAL OF STI FROM GRANT TO EQUITY:** During the consideration of this item, BoD members expressed the view that, since STI investment returns were high, the second installment of the ISFD contribution to STI should not be a grant as that would deprive the ISFD of high returns. The Chairman reiterated the management's commitment to that position. However, the matter was deferred to the subsequent session for further consideration.
- ▶ **ISFD INVESTMENT:** With regard to the item relating to

the proposal to outsource ISFD Investment, the BoD had a preliminary discussion of the matter but decided to postpone the final decision on the matter. In this regard, it urged the Investment Department to revisit the proposal in light of the comments of the BoD members.

- ▶ **DAKAR WAQF PROJECT.** This item was considered by the Operations and Development Effectiveness Committee (ODEC) that recommended further consultation. It was felt that since the project was being funded jointly by the ISFD and the APIF, the returns that the financing of the two funds attracts should not be markedly different (APIF Financing has a mark-up of 5.5%; the ISFD's financing was priced at 2%). As a result of the different pricing, the BoD recommended that the ISFD and the APIF consult further and submit the project in subsequent meetings.
- ▶ **CONTRIBUTION OF IRAN TO ISFD CAPITAL:** This item was discussed in camera.

The ISFD BoD met at its 77th session on 19 December 2021. All BoD members attended the virtual meeting. Under the strategy and policy matters, the BoD considered and approved the outline of the 14th ISFD Annual Report-2021 (1442-1443) as well as the ISFD Annual Work Programme 2022 and Budget 2022, which was as follows:

- ▶ Operations financing: Approximately ID137.5 million (USD192.6 million).



- ▶ Administrative budget: ID6.7 million (USD9.4 million).
- ▶ Capital expenditure: ID250,000 (USD350,000).

The BoD also considered and approved the recommendations of the 11th Meeting of the ISFD Audit Committee.

During the same session, the BoD approved the following three projects:

- a. ISFD Financing for the Construction of a Commercial and Residential Waqf Complex in Dakar for the Benefit

of the Daras Schools – Senegal (Loan USD5 million).

- b. Irrigation Scheme Development Project in the Unyama, Namulu, and Sipi Regions – Uganda (Loan USD6.5 million).
- c. Support to Basic Education Development Project Phase 4 – Togo (Loan USD5 million).





PART  
05

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# Financial Overview

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## Financial Overview

The approved target capital of the ISFD stands at USD10.0 billion. The capital commitments as at the end of 2021 amounted to USD2.6 billion, representing 27% of the target capital (Annex I). These commitments are composed of USD1.6 billion committed by 49 member countries and USD1.0 billion committed by the IsDB. The largest pledges were made by Saudi Arabia (USD1.0 billion) and Kuwait (USD300.0 million)<sup>27</sup>. No new commitments were made in 2021.

### CAPITAL RESOURCES OF THE ISFD

Paid-up capital reached USD2.595 billion at the end of 2021, with member countries contributing USD1.585 billion and the IsDB USD1 billion. There were five new payments of USD10.4 million in 2021.<sup>28</sup>

### COMPLEMENTARY RESOURCES

The ISFD is working towards broadening the base of its resource pool to get closer to its development mandate. It aims to obtain complementary resources through (i) specialized trust funds for poverty alleviation; (ii) Waqf land development in member countries; (iii) co-financing with development partners; and (iv) partnership with philanthropists, social investors, and the private sector. So far, the ISFD has focused on Waqf (endowment) projects, while efforts are being made to leverage other complementary resources.



In 2012, the ISFD BoG adopted a resolution calling on member countries to take all measures to support the efforts of the ISFD in resource mobilization, such as allocating a suitable Waqf to the ISFD to 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. At the end of 2021, two countries, Benin and Burkina Faso, had allocated plots of land to the ISFD.

### INVESTMENT OF CAPITAL RESOURCES

As per the provisions of its Regulations, the ISFD maintains separate accounts as well as separate records of its capital resources and operations. All operations and activities of the Fund are carried out in accordance with Shariah law governing Islamic Waqf.

The Regulations of the Fund provide that its accounts be held in any currency, currencies, or unit of account that the ISFD BoD may deem appropriate. However, for now, the BoD has decided to use the US dollar as a unit of account for the Fund.

The Fund's accounts are maintained by the IsDB Finance Control Department, and its capital resources are currently invested by the treasury and investments departments of the Bank.

The ISFD is required to invest its capital and retained earnings that are not immediately required for financing its operations to maximize the income that can be used to finance its projects and programs. As a Waqf (i.e., a trust), paid-up capital is not used in the Fund's operational

<sup>27</sup> In 2021, Iran withdrew its membership of the ISFD and the country's contribution of USD65million was refunded.

<sup>28</sup> See Table 3.3 above.

activities. To maximize income, liquidity is maintained only to the extent necessary to meet the Fund's current cash requirements and undisbursed commitments in the short term. All ISFD capital resources are invested in accordance with the approved Investment Policy of the ISFD.

The ISFD liquid assets consist of contributions made to the Fund's capital, as well as accumulated net surplus (income) of the Fund. These funds are primarily invested in Commodity Murabaha and Sukuk.

Since 2019, the ISFD has embarked upon initiatives aimed at supplementing its interventions in member countries. These include a direct investment of part of its capital resources in poverty alleviation projects and programs, IWIF, Cash Waqf Sukuk, and the Global Economic Empowerment Programme.

## ISFD ASSETS

As at 31 December 2021, the total assets of the ISFD stood at USD3,158 million, down by USD21.0 million against the December 2020 position of USD3,179 million. The decrease is due to capital withdrawal by a member country, although this was partly offset by the net income of USD20.5 million.

Treasury assets stood at USD2,522 million, representing about 80% of total assets.

As at 31 December 2021, the Fund's net assets stood at USD3,002 million, reflecting a decrease of USD21 million, as compared to the balance of USD3,024 million as at 31 December 2020.



Major movements in the resources of the ISFD are accounted for by the following:

- a. Withdrawal of a member country's contribution of USD65 million.
- b. USD16 million of expected credit loss (ECL) following the adoption of FAS30/IFRS 9
- c. Grant allocations of USD5.8 million
- d. Release of market value losses on four equities (+USD22 million) and net fair value gains on equities and funds (+USD17 million) and other movements on fair value reserve (-USD6 million).
- e. + USD2.6 million, representing the ISFD's share of the Actuarial valuation gain in the Pension Fund.
- f. Net income of USD20.5 million.
- g. USD10.4 million capital contribution from the following countries:
  - i. Mali USD2 million.
  - ii. Mauritania USD5.1 million.
  - iii. Bangladesh USD2 million.
  - iv. Benin USD0.3 million.
  - v. Cote D'Ivoire USD0.98 million.

**Table 5.1 ISFD Assets in USD million**

	Year ended 31 December 2021	Year ended 31 December 2020
Total Asset	3,158	3,179
.Net Asset	3,002	3,023

## INCOME

The ISFD's gross income for the year ended 31 December 2021 was USD57 million. Gross income for the corresponding 2020 was USD78 million. Net income for the year ended 31 December 2021 was USD20.5 million, while net income for the previous year was USD72.2 million.

Two main factors account for the decline in net income.

- a. Income from treasury assets that represents a major source of revenue for the Fund (82%-91% of gross income for 2021 and 2020, respectively) declined by USD28 million to USD46.6 million in 2021. Of which, the decline in commodity Murabaha (by USD9 million)

and Wakala placement incomes (by USD5 million) is primarily attributed to Libor rates that have been falling during 2020 and 2021 (average 6M Libor of 0.20% in 2021 vs. 0.70% in 2020). Sukuk's income decrease is mainly attributed to coupon rate (down by USD8 million) and market value losses (by USD5 million).

- b. In 2018, the ISFD acquired four listed equities (National Refinery Limited, Middle East Healthcare, Fujairah Cement Industries, Crescent Steel) for USD72.5 million. Since then, market values of these equities have generally been declining and, as at 31 December 2021, equaled USD36.1 million or 50% of their original cost. In 2018-2020, market value losses were recorded through the statement of changes in net assets (USD22.1 million losses). However, since the market values have been steadily declining for most of the period since their acquisition, the ISFD's auditor Deloitte insisted on impairing these equities in 2021 through the statement of activities (profit and loss) on the premise that market value declines are both prolonged (since 2018) and significant (50% from their cost). "Prolonged or significant" decline is the prerequisite for impairment in accordance with FAS 30 "Impairment and credit losses." Hence, the losses (USD22.1 million) that have been previously (until 2020) recorded in the statement of changes in net assets (equity), as well as USD6.3 million market value losses incurred in 2021, totaling USD28.4 million, have been routed through the statement of activities (profit and losses) in 2021.

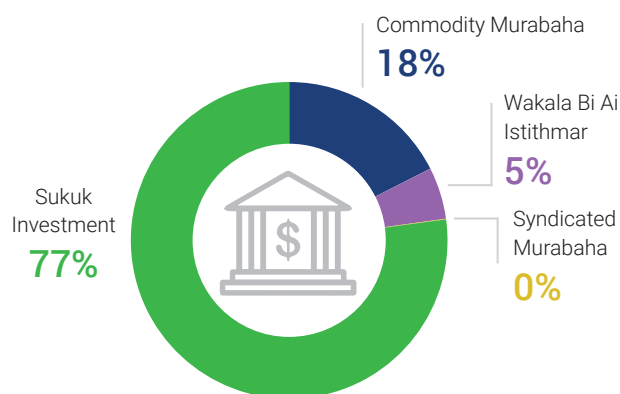
**Table 5.2 Total and Net Income in USD million**

	Year ended 31 December 2021	Year ended 31 December 2020
Gross Income	57.167	78.214
Net Income	20.458	72.214



Income from treasury assets, amounting to a gross total of USD46.64 million, constituted the bulk of the revenue for the year. These assets are made up of Commodity Murabaha, Wakala Syndicated Murabaha, and Sukuk investments. Figure 5.1 and Table 5.3 respectively show the sources of treasury income in proportion and value.

**Figure 5.1: Sources of Treasury Income by %**



**Table 5.3 Gross Income from Treasury Assets in USD Thousands**

	Year ended 31 December 2021	Year ended 31 December 2020
Commodity Murabaha Placements	8,173	16,914
Wakala Bi Ai Istithmar	2,470	7,774
Syndicated Murabaha	32	1,031
Sukuk Investment	39,650	47,254

Source: Audited Financial Statements 2021

## INVESTMENTS AND RELATED INCOME

The ISFD's investment portfolio mainly comprises investments in equity capital, real estate, equity funds, and associate entities.

In 2021, investments increased by USD9.35 million from USD267 million in 2020 to USD276 million. This increase was primarily driven by investments in Musharakah Fund (USD5.0 million), Istisnaa Fund (USD6.6 million), and Syndicated Ijarah Fund (USD6.9 million). However, the increase was partly offset by a USD9.2 million decrease in investments in Equities and Funds.

The ISFD's investment income as at 31 December 2021 increased by USD1.5 million from USD5.491 million to USD6.957 million on account of:

- I. the increase in dividend income from investment equity and funds.
- II. the income from Investment in Istisna'a Fund.
- III. the decrease in income from Ijarah projects.

Return on investments at 2.4% showed improvement on account of more dividend receipts in 2021. However, return on treasury assets reduced by 0.9% due to declining reference rate environment, and return on Fund resources decreased to 0.7% from 2.4% primarily due to USD26 million increase in impairment loss, as well as falling Libor rates.

## WAQF LANDS

### Benin

The land allocated to the ISFD in Benin has been valued at USD5.3 million (valuation done in 2014). A feasibility study undertaken by INFRAPPP, an international consulting firm based in Spain, put the project cost at about USD22 million. Projections show a pre-tax IRR of 13.3% based on an equity-debt ratio of 45%-55%. In accordance with the financing plan, the ISFD BoD approved an ISFD equity contribution of USD9.7 million from its own resources, and the APIF offered a loan of USD6 million. The Banque Africaine Pour l'Industrie et le Commerce has offered an Istisnaa financing of USD6

million.

However, on 28 April 2020, as preparations to launch the project were gaining momentum, the ISFD received an email communication from the Office of the President of Benin followed by an official letter, dated 9 June 2020, from the Honourable Minister of Planning and Development. Both the email and the official letter informed the Fund about the decision of the Government of Benin to change the land initially allocated to the ISFD with another plot of land in Cotonou. The new land is undergoing valuation.

### Burkina Faso

In a letter dated 30 December 2016, addressed to the IsDB President, the Minister of Economy, Finance and Development of Burkina Faso confirmed the allocation of a plot of land to the ISFD. An arrêté No 2017-0861/MINEDID/SG/DGI/DADF, dated 8 August 2017 and signed by the Minister of Economy, Finance and Development, has been issued as the title document to the land.

HOREB EXPERTISE, a consultancy firm based in Burkina Faso, has undertaken an independent valuation of the land. Accordingly, the value of the land stands at USD1.896 million.

## DISBURSEMENTS



The total disbursement achieved from ISFD resources under approved projects and programs has reached up to date USD75.4 million, representing 59.5% of total project approvals.<sup>29</sup>

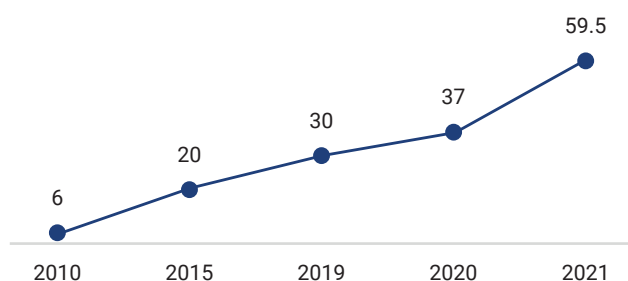
The rate of disbursement of ISFD project financing (loans and grants) has generally been low compared to approvals. As Figure 5.2 shows, disbursement increased gradually from 6% in 2010 to 30% in 2019. The level rose to 37% in 2020. By the end of 2020, cumulative disbursements reached USD406.9 million, compared to USD803.5 million of approvals (USD781.7 million for loans and USD21.8 million for grants). Accordingly, the cumulative undisbursed commitments increased from USD32.4 million in 2010 to USD406.9 million by the end of 2020, representing a disbursement rate of 37% in 2020.

To raise the level of disbursement, the Bank has introduced measures, including new procurement policy and procedure, country platform, and quality and prioritization criteria for improving project selection, quality, and readiness.

As a result of those efforts, disbursement has improved considerably so that by the end of December 2021, the rate increased to 59.5%.

## ISFD INVESTMENT POLICY

**Figure 5.2: Disbursement Rate of ISFD-Funded Projects 2010-2021 in %**



ISFD Investment objective relates closely to its corporate objectives, which include:

- ▶ fighting poverty and hunger and promoting pro-poor growth.
- ▶ providing financial support to enhance the productive capacity and sustainable means of income generation for the poor; and
- ▶ emphasizing human development, especially reducing illiteracy and eradicating diseases/epidemics.

For the period ended 31 December 2021, ISFD Investment

returns remained low. The main driver of the low yield return is the low-interest rate in the market and the composition of the current strategic asset allocation (SAA), and the delay in the implementation of the new ISFD Investment Policy.

There is a significant gap between the target SAA and the current allocation, especially in the developed equity (20% target vs 0% current), private equity (15% target vs 3.95% current), real estate (20% target vs 1.35% current), Sukuk (12.5% target vs 34.4% current), and Murabaha (12.5% target vs 46.09% current).

It is expected that this gap between the SAA target and the current allocation will be addressed gradually through the implementation of the new Investment Policy and hiring External Fund Managers (EFMs), such as Russel Investment, Acadian, Axiom, and Metropolis, and the finalization of investment management agreements with them.

## ISFD APPROVAL CAPACITY

The ISFD provides financial support by way of allocations of grants and loans. As approved loans take time to be disbursed, it was realized that the impact of loan approvals also took time to feed through to the investment portfolio. Hence, the Fund adopted a methodology over the period 2008-2019, which sets its approval capacity at 2.5 times its net income of the previous financial year. However, as a significant part of the ISFD approvals portfolio started to mature, the threshold had to be brought down again. For 2020-2022, the approvals-to-net income ratio was reduced to 1:1.



<sup>29</sup> In 2021, Iran withdrew its membership of the ISFD and the country's contribution of USD65million was refunded.



# ANNEXES

## Annex I: ISFD Grants and Loans Approved in 2021 (in M USD)

Programme/Project	Project Code	Country	Amount	Type	Project Size
LIVES AND LIVELIHOODS FUND (LLF)	BGD1066	Bangladesh	5	grant	66
	BEN1015	Benin	4.66	grant	53
	TCD1029	Chad	4.05	grant	48.5
	CIV1021	Cote D Ivoire	4.24	grant	55.7
	MLI1020	Mali	2.45	grant	23.4
	TGO1013	Togo	2.8	grant	39.8
THE ALLIANCE TO FIGHT AVOIDABLE BLINDNESS (AFAB)	BFA1034/BFA1037	Burkina Faso	0.131	grant	0.131
	TCD1032/TCD1035	Chad	0.179	grant	0.179
	zzz2680/91/99	Not assigned	0.51	grant	1.47
TADAMON	LBY1008	Libya	0.45	grant	1.45
	SOM1020	Somalia	0.45	grant	3.35
	SDN1050	Sudan	0.25	grant	1.75
STRENGTHENING THE ECONOMIC RESILIENCE OF VULNERABLE ENTERPRISES (SERVE)	JOR1029	Jordan	2	Loan	52
	UZB1037	Uzbekistan	10	loan	100
WAQF (SENEGAL)	SEN1053	Senegal	5	Loan	24.2
IVAC	PAK1054	Pakistan	2.5	Loan	72.5
ECONOMIC EMPOWERMENT FOR PALESTINIAN PEOPLE	PSE1108	Palestine	2	grant	2
SUPPORT TO THE EDUCATION OF SYRIAN CHILDREN AFFECTED BY WAR	SYR10004	Syria	1	grant	2
ICIEC-ISFD COVID EMERGENCY RESPONSE INITIATIVE (ICERI)		Tunisia	0.042	grant	4.9
		Senegal	0.074	grant	9.9
		Mauritania	0.024	grant	2.9
		Mozambique	0.098	grant	8.7
		Nigeria	0.177	grant	41.7
		Gambia	0.174	grant	1.547
REGIONAL NGO EMPOWERMENT	zzz2658		1.45	grant	1.45
TADAMON	zzz2702		0.73	grant	0.73
Stand Alone					
IRRIGATION SCHEMES DEVELOPMENT IN UGANDA	UGA1037	Uganda	6.5	Loan	90
SUPPORT TO BASIC EDUCATION DEVELOPMENT PROJECT (PAAQET), TOGO	TGO1017	Togo	5	Loan	24
SCHOLARSHIPS PROGRAMME			0.68	grant	0.68
<b>TOTAL</b>			<b>62.619</b>		<b>733.937</b>
			<b>31</b>	<b>Loans</b>	<b>338.7</b>
			<b>31.619</b>	<b>grants</b>	<b>395.237</b>

# Annex II: Summary Description of Projects and Programmes Approved in 2021

## LIVES AND LIVELIHOOD FUNDS

Total Project Cost	: USD286 million
ISFD Contribution	: USD23.2 million
Beneficiary Countries	: Bangladesh Benin Chad Cote D Ivoire Mali Togo

Launched in 2016, the LLF comprises a pool of IsDB ordinary capital resources, ISFD, and other Donor Grant funds held in a trust account and administered by the IsDB. For the Least Developed Member Countries (LDMCs), the LLF Facility blends 35% pure grant funds with the IsDB financing, yielding a grant element of over 35%. For the lower-middle-income countries (LMICs), the LLF Facility blends 10% of pure grant funds with the IsDB financing, yielding over 15% grant element. In 2021, the following six projects totaling USD39.8 were approved.

### CLOSING GAPS: COMMUNITY HEALTH, HUMAN RESOURCES, AND NUTRITION PROJECT, BENIN

The project will contribute to achieving Benin's objectives of the National Health Programme (NHDP 2018- 2025). The specific objectives are to i) improve access to primary healthcare and nutrition services for targeted areas and ii) Strengthen the surveillance and prevention of epidemics and infectious diseases in the communities. The project will be executed along with the following components: i) provision of community health care through the recruitment and deployment of community health care workers and qualified health care personnel, ii) development and dissemination of a national nutrition strategy with a focus on vulnerable urban populations, iii) strengthening, monitoring, evaluation, and data management.

### INTEGRATED NUTRITION AND EARLY CHILDHOOD DEVELOPMENT PROJECT, COTE D'IVOIRE

The project aims at supporting the Government's efforts to achieve the targets of the National Development Plan (2021-2025) and interventions that take into consideration the Nurturing Care Framework for Early Childhood Development (ECD). The project's overarching objective is to reduce the stunting rate by 5% among children 0-59 months in 11 administrative regions of the country. The project will

contribute to the achievement of the following nutrition and early childhood development outcomes: (i) reduced maternal, and child (0-5-year-old) morbidity and mortality attributed to nutrition; (ii) Reduced chronic malnutrition in the project areas; (iii) reduced acute malnutrition to 5% (from 6% to 5%); (iv) reduced low birth weight ; (v) reduced iron deficiency anemia among women of reproductive age ; (vi) increased use of improved drinking water at the household level; and (vii) reduced household food insecurity;

### STRENGTHENING MATERNAL AND CHILD HEALTH (MCH) SERVICES IN CHAD

The project will contribute to the achievement of the objectives of the National Health Development Strategy (2022-205). It seeks to (1) provide emergency obstetric and neonatal care (EMONC) in all targeted health facilities to contribute to the reduction of maternal and neonatal mortality (2)strengthen the health system at the national, provincial, and community levels; (3) reinforce the leadership of the Ministry of Public Health and National Solidarity (MPHNS) and the Ministry of Economy, Development Planning and International Cooperation (MEDIC).

### POULTRY AND FISHERIES VALUE CHAIN DEVELOPMENT PROJECT TO IMPROVE INCOME AND NUTRITION

IN MALI The overall objective of the project is to improve food and nutrition security through smallholder poultry and aquaculture production and increase the economic empowerment of smallholder producers in Western Sahel of Mali, targeting women and youth smallholder producers. This will be achieved through the improved resilience of poultry and fish systems, the increased productivity of poultry and aquaculture systems, and increased access and equitable consumption of nutritious diets. It is anticipated that the project will cover the Western Sahel regions of the country and will directly benefit 120,000 poultry and fish farmers and indirectly benefit around 2 million families. About 60% of the direct beneficiaries will be women; 20% will be the youth.

### DECENTRALIZED RURAL ELECTRIFICATION THROUGH MINI SOLAR POWER PLANTS IN TOGO

The project aims to provide access to a sustainable supply of electricity to rural populations of Togo living in dense and sparsely populated areas that are far from the existing

grid. The project targets 22,484 households, 102 health centers, 1,462 commercial activities, 372 schools, and 1,092 productive consumers.

## INCLUSIVE AND INTEGRATED SANITATION AND HYGIENE PROJECT IN 10 PRIORITY TOWNS IN BANGLADESH

This project aims to ensure good quality lives and livelihoods of 1.4 million citizens of Bangladesh through safe, adequate, equitable, sustainable sanitation, hygiene facilities, and services with a special focus on the urban poor, women, and children, guided by the City-wide Inclusive Sanitation (CWIS) approach. The project's scope covers ten selected priority towns: Narsingdi, Shariatpur, Cumilla, Lakshmipur, Jamalpur, Notore, Pabna, Sirajgani, Bagerhat, and Patuakhali.

### THE ALLIANCE TO FIGHT AVOIDABLE BLINDNESS (AFAB)

Total Project Cost	:	USD1.78 million
ISFD Contribution	:	USD0.310 million
Beneficiary Countries	:	Burkina Faso Chad

The Alliance to Fight Avoidable Blindness is a partnership program formed to address blindness that can be prevented or cured in IDB member countries. The Alliance brings together Ministries of Health through National Programs for Control of Blindness, non-governmental organizations, training centers, and donor institutions.

The Second Generation of the Alliance's overall goal is to improve the quality of life of persons with visual disabilities and uplift their socio-economic status in ISDB member countries. The specific objective is to provide comprehensive, accessible, and sustainable eye care services in the selected member countries.

### TADAMON

Total Project Cost	:	USD7.28 million
ISFD Contribution	:	USD1.88 million
Beneficiary Countries	:	Libya Somalia Sudan

Tadamon Platform was developed as a facility under the "ISFD NGOs Empowerment for Poverty Reduction Programme." It seeks to serve as a "networking platform" for citizens and the private sector to facilitate the financing of humanitarian and development work of CSOs. In addition,

it seeks to link NGO crowdfunding campaigns and help them use blockchain technology to mobilize additional financing.

The support provided to the three countries under the TADAMON Programme in 2021 is to : (i) contribute to the health emergency response through early detection, investigation of COVID-19 cases, and control measures amongst vulnerable populations (IDPs, Refugees), including behavioral change communication; and (ii) build community resilience through the provision of support to the most vulnerable including women, children, youth, refugees and IDPs, to sustain a livelihood for economically impoverished, and ensure continued skills development for both youth and adults; (iii) provide education in emergency activities that will directly benefit people (children and adult) suffering from the incidences of the COVID 19.

The support is being implemented through the Civil Society Organizations closer to vulnerable communities and work to complement member countries' efforts in addressing the pandemic's impact. The CSOs will help reach hard-to-reach communities and those at risk of being left behind.

### STRENGTHENING THE ECONOMIC RESILIENCE OF VULNERABLE ENTERPRISES (SERVE)

Total Project Cost	:	USD152 million
ISFD Contribution	:	USD12 million
Beneficiary Countries	:	Jordan Uzbekistan

The SERVE Program was jointly launched by ISFD and ISDB (Economic Empowerment Department) with the aim to build the resilience of affected Micro-Small-Medium Enterprises (MSMEs) to endure and overcome the pandemic crisis. The projects in Jordan and Uzbekistan are part of this program.

**Jordan:** The ultimate objective of this project is to support the SMEs in the tourism sector to stay financially resilient and remain in business. The support provides a line of finance to increase the coverage for the working capital needs of the SMEs.

The project is expected to protect around 11,000 jobs. More than 60% of the jobs are for the youth, and 20% for women.

The project entails training some 80 representatives/ professionals from managerial or senior technical levels in e-commerce, e-procurement, data analytics, and technologies. The representatives/ professionals from small enterprises will represent 70% of the total beneficiaries. About 40% of the beneficiaries will be women.

**Uzbekistan:** The Project is formulated as part of the IsDB's support under SPRP to Uzbekistan and consistent with the "Restore" track of SPRP that targets medium-term actions to overcome the peak effects of the pandemic on the economy by supporting Micro-Small-Medium Enterprises (MSMEs) in order to sustain economic activity and preserve jobs.

The project directly supports Government's efforts in achieving Sustainable Development Goals (SDG), including Poverty Reduction (SDG-1); Decent Works and Economic Growth (SDG8), and Reduced Inequality (SDG-10).

The project is aligned with new priority areas of the IsDB strategy in supporting the MC in boosting recovery from the pandemic as well as tackling poverty and building resilience. The project is in line with the IsDB's Member Country Partnership Strategy for Uzbekistan (2018-2021) that identifies areas of cooperation in (i) Development of the Islamic finance sector and (ii) Support to MSMEs, which will continue to be one of the key pillars in IsDB and GOU cooperation in coming years.

The project's objective is to build the resilience of vulnerable MSMEs to overcome the impact of the pandemic crisis in Uzbekistan by providing the needed liquidity for business continuity and job preservation.

### WAQF SENEGAL

Total Project Cost : USD24.2 million  
 ISFD Contribution : USD5 million  
 Beneficiary Countries : Senegal

The project entails the construction of a commercial and residential complex in Dakar and renting out the premises. The objective is to generate regular income for the High Waqf Authority (HAW) of Senegal that will sustainably support the development and modernization of the Daras schools.

The project will enable the Government to address one of the critical challenges the education sector faces: quality education for those who chose "Dara" education. Specifically, it will address Dara schools' inadequate and unsuitable physical infrastructure and equipment needs.

### ECONOMIC EMPOWERMENT FUND FOR PALESTINIAN PEOPLE

Total Project Cost : USD2 million  
 ISFD Contribution : USD2 million  
 Beneficiary Countries : Palestine

The establishment of the Economic Empowerment Fund for Palestinian People (EEFPP) was pursuant to a decision the IsDB Board of Executive Directors took in July 2018 to set up such a fund. The initial capital of the Fund is USD500 million. In February 2019, the ISFD BOD approved an ISFD contribution of USD50 million to the Fund to be paid over ten years. This year's payment is part of the annual installment payment of ISFD contribution.

The EEFPP will contribute significantly to the improvement of the living conditions and quality of life of the Palestinian families seeking productive lives and social equality. The EEFPP seeks to integrate some 300,000 Palestinian families into the economy by 2030.

### SUPPORT TO THE EDUCATION OF SYRIAN CHILDREN AFFECTED BY WAR

Total Project Cost : USD2 million  
 ISFD Contribution : USD1 million  
 Beneficiary Countries : Syria

The objective of this funding is to contribute to the support of Syrian Children's education wherever they are. The project includes the provision of learning materials, including books and other school supplies. The project is being implemented in partnership with a relief and development organization specialized in education for refugees and displaced persons.

### ICIEC-ISFD COVID EMERGENCY RESPONSE INITIATIVE (ICERI)

Total Project Cost : 69.64 million  
 ISFD Contribution : 0.59 million  
 Beneficiary Countries : Tunisia  
 Senegal  
 Mauritania  
 Mozambique  
 Nigeria  
 The Gambia

As part of the joint effort of the IsDB Group entities to fight COVID-19, the ISFD has allocated USD0.59 million grant to be used as a premium discount and/or first loss buffer to facilitate the importation of medical goods and essential commodities through credit insurance. The grant is being implemented and managed by ICIEC to give beneficiary countries' access to finance and facilitate the importation of medical equipment, pharmaceutical products, and other related items such as protective gear, testing kits, sanitizers, and ventilators needed for battling COVID-19. Essential commodities such as food items, oil, and gas are also included.

The key Results of ICERI include the following:

- ▶ Up to USD400 million volume of trade for procurement of essential medical equipment, medicines, and essential commodities facilitated for the beneficiary countries
- ▶ Subsidized transactions for the Member Countries
- ▶ Easy access to financing and goods

### REGIONAL NGO EMPOWERMENT FOR POVERTY REDUCTION PROGRAMME

Total Project Cost : USD1.45 million  
ISFD Contribution : USD1.45 million  
Beneficiary Countries : TBD

The Non-Governmental Organizations (NGOs) Empowerment for Poverty Reduction Program is an innovative initiative that seeks to lift people out of poverty. The program supports member countries (MCs) to attain the Sustainable Development Goals (SDGs). It seeks to contribute to reducing poverty in OIC MCs through development and humanitarian initiatives in hard-to-reach communities.

The key results of the program include:

- provide 15,000 refugees and orphans with access to quality basic education and relevant skills development.
- give 3,000 low-income families access to community livelihoods development through income-generating activities: and
- build the capacity of 500 NGOs/CSOs.

### IRRIGATION SCHEMES DEVELOPMENT IN UGANDA

Total Project Cost : USD90 million  
ISFD Contribution : USD6.5 million

The project entails the construction of irrigation schemes in Northern and Eastern Uganda, covering 7338 ha. ISFD financing will cover the development of 2900 ha. The objective is to improve household incomes, food security, and climate resilience through sustainable natural resources management and agricultural enterprise development.

The project has six components: (1) Agriculture Infrastructure Development; (2) Agribusiness Development; (3) Integrated Natural Resource Management; (4) Project Management and Coordination; (5) Project Financial Auditing, and (6) Contingency Emergency Response Component.

The project combines a horizontal 'market linkages' approach

aiming at building the capacity of market intermediaries (traders, agri-dealers, and farmer organizations) with a 'value chain' approach looking at seizing and facilitating opportunities for vertical integration between smallholders and agribusinesses

### SUPPORT TO BASIC EDUCATION DEVELOPMENT PROJECT (PAAQET), TOGO

Total Project Cost : USD24 million  
ISFD Contribution : USD5 million

The project's objective is to enhance equity and quality of education in Togo by facilitating schooling opportunities for 102,000 school children (including disabled and needy children). In addition, the project seeks to improve the average (primary/secondary) school completion rate. It also comprises training and capacity building of 6,000 primary and secondary school teachers as well as academic councilors and parent association members.

The project has the following five main components: (a) Equitable and sustainable access to quality education facilities and support, by supporting a schools construction & electrification program, communication and awareness campaigns in 140 communities; providing school uniforms and school kits; (b) Improved efficiency and quality of the education services, through teacher's capacity building (c) Improved governance of the education system through capacity building of school stakeholders and improving data quality and governance (d) Support to project management and financial audit (e) Contingency Emergency Response Component (CERC).

### SCHOLARSHIPS PROGRAMME

Total Project Cost : USD10 million  
ISFD Contribution : USD0.68 million  
Beneficiaries : 85 students from Several Least Developed Member Countries

The project's objective is to offer the opportunity to needy and talented young men and women from LDMCs and Muslim communities in UN LDCs to study bachelor's degree and or Technical Diploma and empower them to contribute to the development of their own countries and communities.

# Annex III: Statement of Contributions to ISFD Capital

At 31 December 2021

S. No	Country	Commitments (in USD 000's)	Paid Amount (in USD 000's)	Remarks
<b>Committed and Fully Paid</b>				
1	Saudi Arabia	1,000,000	1,000,000	Fully Paid
2	Kuwait	300,000	300,000	Fully Paid
3	Algeria	50,000	50,000	Fully Paid
4	Qatar	50,000	50,000	Fully Paid
5	Malaysia	20,000	20,000	Fully Paid
6	Kazakhstan	11,000	11,000	Fully Paid
7	Egypt	10,000	10,000	Fully Paid
8	Pakistan	10,000	10,000	Fully Paid
9	Indonesia	10,000	10,000	Fully Paid
10	Mauritania	5,000	5,000	Fully Paid
11	Morocco	5,000	5,000	Fully Paid
12	Oman	5,000	5,000	Fully Paid
13	Turkey	5,000	5,000	Fully Paid
14	Tunisia	5,000	5,000	Fully Paid
15	Gabon	4,000	4,000	Fully Paid
16	Brunei	3,000	3,000	Fully Paid
17	Jordan	3,000	3,000	Fully Paid
18	Yemen Republic	3,000	3,000	Fully Paid
19	Burkina Faso	2,200	2,238	Fully Paid
20	Bahrain	2,000	2,000	Fully Paid
21	Syria	2,000	2,000	Fully Paid
22	Cameroon	2,000	2,000	Fully Paid
23	Nigeria	2,000	2,000	Fully Paid
24	Guinea	2,000	2,000	Fully Paid
25	Lebanon	1,000	1,000	Fully Paid
26	Iraq	1,000	1,000	Fully Paid
27	Suriname	500	500	Fully Paid
28	Azerbaijan	300	424	Fully Paid
29	Uzbekistan	300	300	Fully Paid
30	Mozambique	200	200	Fully Paid

S. No	Country	Commitments (in USD 000's)	Paid Amount (in USD 000's)	Remarks
<b>Committed and Fully Paid</b>				
1	Sudan	36,100	944	1st Instalment
2	Bangladesh	13,000	10,000	1st-10th Instalments
3	Benin	6920	1270	1st-2nd Instalment
4	Cote d'Ivoire	5,000	980	1st Instalment
5	Mali	4,000	2,000	1st Instalment
6	Togo	2,000	1,000	1st Instalment
7	The Gambia	1,220	12	1st Instalment
8	Sierra Leone	1,000	300	1st Instalment
9	Palestine	500	186	1st Instalment
10	Turkmenistan	300	100	1st Instalment
<b>Committed but Not Paid</b>				
1	Senegal	10,000	-	No payment
2	Chad	2,000	-	No payment
3	Niger	2,000	-	No payment
4	Maldives	1,000	-	No payment
5	Comoros	650	-	No payment
6	Guinea-Bissau	200	-	No payment
7	Uganda	100	-	No payment
8	Albania	10	-	No payment
<b>No Commitment</b>				
1	Afghanistan		-	No commitment
2	Djibouti		-	No commitment
3	Guyana		-	No commitment
4	Iran		-	No Commitment
5	Kyrgyz Republic		-	No commitment
6	Libya		-	No commitment
7	Somalia		-	No commitment
8	Tajikistan		-	No commitment
9	UAE		-	No commitment
10	IsDB	1,000,000	1,000,000	Fully Paid
<b>GRAND TOTAL</b>		<b>2,600,500</b>	<b>2,531,544</b>	
<b>ISFD RESOURCES IN KIND:</b>				<b>(In USD 000's)</b>
1	Benin Waqf Land			5.355
2	Burkina Faso			1.9



**ISDB**

**THE ISLAMIC SOLIDARITY FUND  
FOR DEVELOPMENT**

**Financial Statements and Independent Auditor's Report  
For the year ended 31 December 2021**



**THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT  
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
YEAR ENDED 31 DECEMBER 2021**

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Audit of the Financial Statements** **Opinion**

We have audited the accompanying financial statements of Islamic Development Bank – The Islamic Solidarity Fund for Development (the "Fund") which comprise the statement of financial position as of December 31, 2021, and the related statement of activities and changes in net assets and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2021, and the results of its activities and changes in net assets and its cash flows for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI").

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

### **Basis for Opinion**

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

### **Other Matter**

The financial statements of the Fund for the year ended December 31, 2020 were audited by another auditor who expressed an unmodified opinion on those statements on May 11, 2021.

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

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

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

**INDEPENDENT AUDITOR'S REPORT - CONTINUED**

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

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

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

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

**Auditor's Responsibilities for the Audit of the Financial Statements**

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

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


- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

**INDEPENDENT AUDITOR'S REPORT - CONTINUED**

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

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

Deloitte and Touche & Co.  
Chartered Accountants



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



13 Shawwal 1443H  
May 14, 2022

**THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2021**

(All amounts in thousands of United States Dollars unless otherwise stated)

	Notes	31 December 2021	31 December 2020
<b>ASSETS</b>			
Cash and cash equivalents	4	5,742	11,037
Commodity murabaha placements	5	1,085,379	921,224
Wakala placement	6	-	500,092
Investment in sukuks	8	1,069,476	1,178,818
Syndicated Murabaha	7	-	8,633
<b>Treasury assets</b>		<b>2,160,597</b>	2,619,804
Instalment sale	9	31,737	7,660
Loans (Qard)	10	320,040	273,550
<b>Loan and project assets</b>		<b>351,777</b>	281,210
Investment in syndicated istisna'a fund	18	11,921	5,305
Investment in syndicated ijarah	15	70,634	63,702
Investment in musharaka fund	17	5,000	-
Equity investments	13	60,042	81,607
Investment in an associate	14	89	153
Investment in funds	16	124,708	116,300
<b>Investment assets</b>		<b>272,394</b>	267,067
<b>Other Assets</b>			
Accrued income and other assets	12	352,920	5,513
Land	19	5,355	5,355
<b>TOTAL ASSETS</b>		<b>3,143,043</b>	3,178,949
<b>LIABILITIES</b>			
Accrued expenses and other liabilities	20	6,208	4,700
Grants payable	22	138,081	150,667
<b>TOTAL LIABILITIES</b>		<b>144,289</b>	155,367
<b>NET ASSETS</b>		<b>2,998,754</b>	3,023,582
<b>REPRESENTED BY:</b>			
Fund resources in cash	1	2,531,664	2,586,221
Fund resources in kind	19	5,355	5,355
Accumulated Surplus		421,406	428,969
Equity preservation fund	23	27,140	25,126
Fair value reserve		13,162	(19,465)
Pension fund reserve		27	(2,624)
		<b>2,998,754</b>	3,023,582

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

**THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED 31 DECEMBER 2021**

(All amounts in thousands of United States Dollars unless otherwise stated)

	Notes	31 December 2021	31 December 2020
<b>Income from:</b>			
<b>Treasury assets</b>			
Commodity murabaha placements		8,173	16,914
Wakala placement		2,470	7,774
Investments in sukuk	8	35,965	48,892
Syndicated Murabaha		32	1,031
<b>Loans and projects assets</b>			
Instalment sale		302	33
Loans (Qard)		3,268	2,007
<b>Investment assets</b>			
Investments in syndicated ijarah		3,233	3,377
Investment in syndicated istisna'a fund		498	-
Equity investments		452	-
Investment in an associate	14	4	(4)
Investment in funds		2,770	2,114
		<b>57,167</b>	<b>82,138</b>
Impairment charge		<b>(34,343)</b>	<b>(3,924)</b>
<b>Total income</b>		<b>22,824</b>	<b>78,214</b>
Employee related expenses		<b>(3,982)</b>	<b>(4,028)</b>
General and administrative expenses		<b>(2,384)</b>	<b>(1,972)</b>
<b>Net surplus for the year</b>		<b>16,458</b>	<b>72,214</b>

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

**THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS - CONTINUED**  
**YEAR ENDED 31 DECEMBER 2021**

(All amounts in thousands of United States Dollars unless otherwise stated)

	<b>Fund resources</b>	<b>Fund resources in kind</b>	<b>Accumulated Surplus</b>	<b>Equity preservation Fund</b>	<b>Fair value reserve</b>	<b>Pension fund reserve</b>	<b>Total</b>
<b>Balance at 1 January 2020</b>	2,585,221	5,355	402,565	18,068	(14,647)	(1,682)	2,994,880
Net surplus for the year	-	-	72,214	-	-	-	72,214
Change in fair value reserve, net (Notes 13 & 16)	-	-	-	-	(4,535)	-	(4,535)
Movement during the year (Note 14)	-	-	-	-	(283)	-	(283)
Grant allocation (Note 22)	-	-	(38,752)	-	-	-	(38,752)
Transfer to equity preservation fund (Note 23)	-	-	(7,058)	7,058	-	-	-
Movement during the year	-	-	-	-	-	(942)	(942)
Capital contribution	1000	-	-	-	-	-	1,000
<b>Balance at 31 December 2020</b>	<b>2,586,221</b>	<b>5,355</b>	<b>428,969</b>	<b>25,126</b>	<b>(19,465)</b>	<b>(2,624)</b>	<b>3,023,582</b>
Credit losses due to first time adoption of FAS 30 (note 3)	-	-	(16,594)	-	-	-	(16,594)
<b>Revised balance as at 1 January 2020 after FAS 30 adjustment</b>	<b>2,586,221</b>	<b>5,355</b>	<b>412,375</b>	<b>25,126</b>	<b>(19,465)</b>	<b>(2,624)</b>	<b>3,006,988</b>
Net surplus for the year	-	-	16,458	-	-	-	16,458
Change in fair value reserve, net (Notes 13 & 16)	-	-	-	-	32,695	-	32,695
Movement during the year (Note 14)	-	-	-	-	(68)	-	(68)
Grant allocation (Note 22)	-	-	(5,413)	-	-	-	(5,413)
Transfer to equity preservation fund (Note 23)	-	-	(2,014)	2,014	-	-	-
Movement during the year	-	-	-	-	-	2,651	2,651
Capital contribution net of return of capital	(54,557)	-	-	-	-	-	(54,557)
<b>Balance at 31 December 2021</b>	<b>2,531,664</b>	<b>5,355</b>	<b>421,406</b>	<b>27,140</b>	<b>13,162</b>	<b>27</b>	<b>2,998,754</b>

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

**THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED 31 DECEMBER 2021**

(All amounts in thousands of United States Dollars unless otherwise stated)

	Notes	For the year ended 31 December 2021	For the year ended 31 December 2020
<b>Cash flows from operations</b>			
Net surplus for the year		16,458	72,214
<i>Adjustment for non-cash items:</i>			
Unrealized fair value (gain)/loss on investment in sukus	8	3,685	(1,638)
Amortization of discount on investment in sukus carried at amortized cost	8	(285)	(1,330)
Accrued coupon income on sukus	8	770	1,405
Share of (profit)/loss on investment in an associate		(4)	4
Accrued Income on Wakala placement		92	165
Impairment charge		34,343	3,924
<i>Changes in operating assets and liabilities:</i>			
Loans (Qard)		(56,421)	(77,374)
Accrued income and other assets		14,873	19,043
Accrued expenses and other liabilities		4,159	(813)
Grant payments		(17,999)	(4,274)
Forex revaluation		20	-
<b>Net cash from operating activities</b>		<b>(309)</b>	11,326
<b>Cash flows from investing activities</b>			
Commodity Murabaha placements		(164,232)	(160,915)
Investments in syndicated murabaha		8,633	29,022
Investment in sukus	8	-	(10,000)
Proceeds from redemption of investments in sukuk	8	241,796	149,713
Investments in syndicated ijarah, net	15	(7,714)	2,005
Addition to Investments in funds	16	(4,290)	(3,981)
Proceeds from sale of investments in funds	16	13,866	3,688
Investment in Instalment sale		(26,679)	(7,660)
Investment in syndicated istisnaa fund		(6,809)	(5,305)
Investment in musharakah fund		(5,000)	-
<b>Net cash from/(used in) investing activities</b>		<b>49,571</b>	(3,433)
<b>Cash flows from financing activity</b>			
Contributions received		10,443	1,000
Return of capital		(65,000)	-
<b>Net cash (used in)/from financing activities</b>		<b>(54,557)</b>	1,000
<b>Net change in cash and cash equivalents</b>		<b>(5,295)</b>	8,893
Cash and cash equivalents at beginning of the year		11,037	2,144
<b>Cash and cash equivalents at end of the year</b>	4	<b>5,742</b>	11,037
<b>Non cash transactions</b>			
Transfer of Sukuk from Wakala Placement		137,720	-
Transfer of Wakala Placement to accrued income and other assets		362,280	-

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



**THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2021**

(All amounts in thousands of United States Dollars unless otherwise stated)

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**1. INCORPORATION, ACTIVITIES AND OTHER**

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

The Fund's targeted capital (Fund's resources) 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 Islamic 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 Islamic Shari'ah Rules and Principles as determined by the Shari'ah Board of the IsDB Group, its entities and funds. In accordance with the requirements of AAOIFI, for matters for which no AAOIFI standard exists, the Fund seeks guidance from generally accepted accounting principles as per the conceptual framework of AAOIFI provided they do not contradict the Rules and Principles of Islamic Shari'ah.

**Basis of measurement**

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

- Investment in funds are measured at fair value through changes in net assets;
- Equity investments are measured at fair value through changes in net assets
- Investment in associate is accounted for using the equity method of accounting; and
- A portfolio of investments in Sukuk are measured at fair value in arriving at the surplus in the Statement of Activities and Changes in Net Assets 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 - CONTINUED  
YEAR ENDED 31 DECEMBER 2021**

(All amounts in thousands of United States Dollars unless otherwise stated)

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**3. SIGNIFICANT ACCOUNTING POLICIES**

**a) Financial assets and liabilities**

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

**Financial assets**

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

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

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

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

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

For the purpose of these policy notes, fair value through statement of activities or charges thereto refers to fair value and/or charges being recognized in arriving at the income/surplus for the year and fair value through changes in net assets refers to fair value recognized directly in the net assets.

*Financial Assets*

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

- (i) Classification

*Debt-type instruments*

Debt-type instruments are investments that have terms that provide fixed or determinable payments of profits and capital. Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities.

Investments in debt-type instruments are classified into the following categories: 1) at amortised cost or 2) at fair value through statement of activities.

A debt-type investment is classified and measured at amortised cost only if the instrument is managed on a contractual yield basis or the instrument is not held for trading and has not been designated at fair value through the statement of activities.

Debt-type investments classified and measured at fair value through statement of activities include investments held for trading or designated at fair value through statement of activities. At inception, a debt-type investment managed on a contractual yield basis can only be designated at fair value through statement of activities if it eliminates an accounting mismatch that would otherwise arise on measuring the assets or liabilities or recognising the gains or losses on them on different bases.

**THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED 31 DECEMBER 2021**

(All amounts in thousands of United States Dollars unless otherwise stated)

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**a) Financial assets and liabilities (continued)**

*Equity-type instruments*

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

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

An investment is classified as held for trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Any investments that form part of a portfolio where there is an actual pattern of short-term profit taking are also classified as 'held for trading'. Equity-type investments designated at fair value through statement of activities include investments which are managed and evaluated internally for performance on a fair value basis.

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

(ii) Recognition and derecognition

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

(iii) Measurement

*Initial recognition*

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

*Subsequent measurement*

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

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

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

**THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED 31 DECEMBER 2021**

(All amounts in thousands of United States Dollars unless otherwise stated)

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**a) Financial assets and liabilities**

(iv) Measurement principles

*Amortised cost measurement*

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

*Fair value measurement*

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

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

<b>Item</b>	<b>Recognition principles</b>
Commodity murabaha placements	Amortized cost
Wakala placement	Amortized cost
Investments in sukuk classified as either:	Fair value through statement of activities; or amortized cost
Syndicated Murabaha	Amortized cost
Installment sale	Amortized cost
Loans (Qard)	Disbursements plus accrued service fee less impairment
Investment in syndicated istisna'a fund	Amortized cost
Investment in syndicated ijarah	Amortized cost less depreciation and impairment
Investment in musharaka fund	Fair value through
Equity investments	Fair value through changes in net assets
Investment in funds	Fair value through changes in net assets
Due from related parties	Amortized cost
Due to related party	Amortized cost
Grant payable	Amortized cost

**Offsetting of financial assets and liabilities**

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

**THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED 31 DECEMBER 2021**

(All amounts in thousands of United States Dollars unless otherwise stated)

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**b) Cash and cash equivalents**

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

**c) Commodity murabaha placements**

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

**d) Wakala placement**

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

In accordance with the wakala agreement, muwakkil authorized the Wakeel to commingle its investments with the Wakeel's own funds and the funds of the sukukholders with due authority to the Wakeel. Wakala funds are measured at the amount received during the time of contracting plus accrued profit less amounts settled.

**e) 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 the statement of activities.

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 statement of activities.

Sukuk classified and measured at fair value through statement of activities 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 statement of activities. Transaction costs are expensed immediately on the date the contract is entered into.

**f) Syndicated Murabaha**

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

**THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED 31 DECEMBER 2021**

(All amounts in thousands of United States Dollars unless otherwise stated)

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**g) Revenue recognition**

Commodity Murabaha placements through banks

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

Wakala placement

Wakala placement share of profit is recognized over the period of the contract.

Investments in Sukuk

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

Syndicated Murabaha

Income from syndicated murabaha is recognized on an effective yield basis over the period from the date of the actual disbursement of funds to their scheduled repayment dates.

Dividend income from equity investments and investment in funds

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

Investment in syndicated ijarah

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

Loan (Qard) service fees

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

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

**h) Grant allocation from net assets**

The Fund recognizes grants made or to be made, whether conditional or unconditional, as an appropriation from net assets when those are approved by the appropriate authority with a corresponding credit to liabilities. These grants are settled to the beneficiaries as and when the conditions are satisfied.

**i) Impairment of financial assets**

Impairment of Financial Assets held at amortized cost

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

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

**THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED 31 DECEMBER 2021**

(All amounts in thousands of United States Dollars unless otherwise stated)

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**j) Zakat and tax**

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

**k) Subsequent event**

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

**Critical accounting judgments and estimates**

The preparation of financial statements in accordance with FAS issued by AAOIFI requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and incomes and expenses. It also requires Management to exercise its judgment in the process of applying the Fund's accounting policies. Such estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including obtaining professional 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**

Expected credit losses against financial assets

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

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

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

**THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED 31 DECEMBER 2021**

(All amounts in thousands of United States Dollars unless otherwise stated)

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**SIGNIFICANT ESTIMATES (continued)**

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

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

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.

**Impact of COVID'19**

More than 2 years since the first case of the Coronavirus Disease 2019 ("COVID-19") was reported, the pandemic is still significantly impacting economic and social life in member countries. The anticipated recovery from COVID-19 in 2021 was disrupted by the arrival of new variants and high inflation. Several countries, including Saudi-Arabia reimposed mobility restrictions, while escalating energy prices and supply disruptions have produced high and broad-based inflation. The repercussions of the pandemic have stifled growth, with the aggregated output of IsDB member countries contracting by 1.7 percent in 2020.

Considering these factors, the Fund's management carried out an impact assessment on the overall Fund's operations and business aspects including factors like dealing with member countries, continued day to day business activities, financing, investment and collection as well as working capital projections, etc. and concluded that, as at the issuance date of these financial statements, the Fund did not have significant adverse impact on its operations and businesses due to COVID-19 pandemic and no significant changes are required to the judgements, assumptions and key estimates.

To preserve the health of the employees and support the prevention of contagion in the operational and administrative areas, the Fund took measures, in line with the recommendations of the World Health Organisation and Ministry of Health - Kingdom of Saudi Arabia, such as working from home, social distancing at work place, rigorous cleaning of workplaces and staff accommodation, distribution of personal protective equipment, testing of suspected cases, limiting non-essential travel, self-health declarations and measuring body temperature. In addition, the Fund's nature of activities facilitated seamless operations during the pandemic.

The operational and financial impacts of the COVID-19 pandemic to date have been reflected in these financial statements. The strong financial position, including access to funds, nature of activities coupled with the actions taken by the Fund to date and the continued operations ensures that the Fund has the capacity to continue through the challenges caused by impacts of the COVID-19 pandemic.

**The effect of new and revised financial accounting standards**

The following new FASs, which became effective for annual periods beginning on or after 1 January 2021, have been adopted in these financial statements.

FAS 30 Impairment, credit losses and onerous commitments

In these financial statements, the fund has applied FAS 30 Financial Instruments effective for annual periods beginning on or after 1 January 2021, for the first time.



**THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED 31 DECEMBER 2021**

(All amounts in thousands of United States Dollars unless otherwise stated)

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**The effect of new and revised financial accounting standards (continued)**

As permitted by the transitional provisions of FAS 30, the Fund elected not to restate comparative figures. Therefore, the comparative information for financial instrument impairment in 2020 is reported under FAS 11 and is not comparable to the information presented for 2021. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening net assets of the current period without restating prior year numbers.

Differences arising from the adoption of FAS 30 have been recognized directly in the changes in net assets as at 1 January 2021 and are disclosed below.

	Impairment allowance under FAS 11 as at 31 December 2020	Adjustment to credit losses on adoption of FAS 30	Credit loss under FAS 30 after adjustment as at 1 January 2021
Cash and cash equivalents	-	-	-
Commodity murabaha placements	-	77	77
Investment in Sukuk	-	1,076	1,076
Installment Sale	-	1,431	1,431
Loans (Qard)	5,085	13,254	18,339
Investment in syndicated ijarah	-	600	600
Investment in syndicated istisna'a fund	-	156	156
Equity Investments	18,181	-	18,181
Investment in funds	5,333	-	5,333
<b>Total</b>	<b>28,599</b>	<b>16,594</b>	<b>45,193</b>

The introduction of FAS 30 increased the total impairment allowance held by the Fund by approximately USD16.6 million from USD28.6 million as at 31 December 2020 to USD45.2 million as at 1 January 2021. The determination of impairment allowance under FAS 30 considers both the disbursed and the undisbursed counterparty exposure.

Other New FASs with no material impact

The adoption of following FASs has had either no or immaterial impact on the financial statements for the current and prior years.

- FAS 31 "Investment Agency (Al-Wakala Bi Al-Istithmar)" did not have a material impact since the Wakala placement was redeemed during the year.
- FAS 32 "Ijarah" did not have material impact on the Fund's financial statements as it does not have any significant ijarah transactions.
- The Fund has already applied provisions of FAS 33 "Investment in Sukuk, shares and similar instruments" in these financial statements.
- The Fund does not issue sukuk, hence FAS 34 "Financial reporting for Sukuk-holders" is not applicable to the Fund.
- The Fund does not apply provisions of FAS 35 "Risk Reserves" as it does not have Risk reserves.

**THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED 31 DECEMBER 2021**

(All amounts in thousands of United States Dollars unless otherwise stated)

**4. CASH AND CASH EQUIVALENTS**

	2021	2020
Cash at bank	435	1,970
Short-term commodity murabaha placements (note 5)	5,307	9,067
	<b>5,742</b>	11,037

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

**5. COMMODITY MURABAHA PLACEMENTS**

	2021	2020
Commodity Murabaha placements through banks	1,087,002	925,597
Accrued income	3,761	4,694
Short-term commodity murabaha placements (note 4)	(5,307)	(9,067)
Provision for impairment	(77)	-
	<b>1,085,379</b>	921,224

**6. WAKALA PLACEMENT**

	2021	2020
January 1	500,092	500,000
Income during the period	2,470	7,774
Less: Redemptions	(502,562)	(7,682)
	-	500,092

In 2017, ISFD entered into two wakala placement agreements, amounting to USD 500 million, with Islamic Development Bank – Ordinary Capital Resources to mature in 2023. An amount of USD137.7 million was redeemed during 2021. In December 2021, the Islamic Development Bank – Ordinary Capital Resources and the Fund agreed to early terminate the wakala placement agreement whereby the balance amount of USD 362.4 million due from IsDB-OCR under the arrangement was transferred to the interfund account (Note 21) to be settled in 2022.

**7. SYNDICATED MURABAHA**

	2021	2020
Gross amounts receivable (ITFC syndication)	-	8,666
Less: unearned income	-	(33)
	-	8,633

Investments in syndicated Murabaha for and on behalf of the Fund were made by The International Islamic Trade Finance Corporation ("ITFC"), an affiliated entity. In 2021, ISFD's investment has matured.

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**8. INVESTMENT IN SUKUKS**

	Counterparty rating					Total
	AAA	AA+ to AA-	A+ to A-	BBB to lower	Unrated	
<b>31 December 2021</b>						
Sukuk classified as fair value though statement of activities:						
- Governments	-	41,725	-	35,974	-	77,699
- Financial institutions	136,516	-	10,152	-	-	146,668
- Other entities	-	-	-	-	34,234	34,234
	<b>136,516</b>	<b>41,725</b>	<b>10,152</b>	<b>35,974</b>	<b>34,234</b>	<b>258,601</b>
Sukuk classified at amortised cost:						
- Governments	-	-	-	560,720	2,044	562,764
- Financial institutions	-	43,316	30,269	-	60,269	133,854
- Other entities	-	-	63,698	50,559	-	114,257
	-	<b>43,316</b>	<b>93,967</b>	<b>611,279</b>	<b>62,313</b>	<b>810,875</b>
<b>Total</b>	<b>136,516</b>	<b>85,041</b>	<b>104,119</b>	<b>647,253</b>	<b>96,547</b>	<b>1,069,476</b>

	Counterparty rating					Total
	AAA	AA+ to AA-	A+ to A-	BBB to lower	Unrated	
<b>31 December 2020</b>						
Sukuk classified as fair value though statement of activities:						
- Governments	-	42,753	-	36,920	-	79,673
- Financial institutions	-	-	9,972	-	-	9,972
- Other entities	-	-	-	-	37,856	37,856
	-	<b>42,753</b>	<b>9,972</b>	<b>36,920</b>	<b>37,856</b>	<b>127,501</b>
Sukuk classified at amortised cost:						
- Governments	-	-	-	678,556	2,054	680,610
- Financial institutions	84,682	43,335	60,426	67,796	-	256,239
- Other entities	-	-	63,881	50,587	-	114,468
	<b>84,682</b>	<b>43,335</b>	<b>124,307</b>	<b>796,939</b>	<b>2,054</b>	<b>1,051,317</b>
<b>Total</b>	<b>84,682</b>	<b>86,088</b>	<b>134,279</b>	<b>833,859</b>	<b>39,910</b>	<b>1,178,818</b>

The movement of the investments in sukuk is as follows:

	For the year ended 31 December 2021	For the year ended 31 December 2020
Balance at beginning of the year	1,178,818	1,316,968
<b>Movements during the year</b>		
Additions	137,720	10,000
Redemption of Sukuk	(241,796)	(149,713)
Amortisation of discount on Sukuk carried at amortized cost	285	1,330
Unrealized fair value (losses)/gains	(3,685)	1,638
Movement in accrued income on Sukuk carried at amortized cost	(770)	(1,405)
Less: Provision for impairment (Note 11)	(1,076)	-
Unrealized forex revaluation	(20)	-
<b>Balance at end of the year</b>	<b>1,069,476</b>	<b>1,178,818</b>

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**8. INVESTMENT IN SUKUKS (continued)**

Income from investments in Sukuk is comprised of the following:

	<b>For the year ended 31 December 2021</b>	For the year ended 31 December 2020
Coupon income	<b>39,365</b>	46,015
Amortization of discount on Sukuk carried at amortised cost	<b>285</b>	1,330
Gain from sale of Sukuk	-	(91)
Unrealised fair value losses/(gains)	<b>(3,685)</b>	1,638
	<b>35,965</b>	48,892

**9. INSTALMENT SALE**

	<b>2021</b>	2020
Gross amount receivable	<b>33,961</b>	7,615
Accrued Income	<b>378</b>	45
Less: Provision for impairment (Note 11)	<b>(2,602)</b>	-
	<b>31,737</b>	7,660

Provision for impairment of USD 2.6 million includes USD 1.43 million due to first time adoption of FAS 30 and USD 1.17 million relating to charge for 2021.

**10. LOANS (QARD)**

	<b>2021</b>	2020
Loans (Qard)	<b>335,056</b>	278,635
Less: Provision for impairment (Note 11)	<b>(15,016)</b>	(5,085)
	<b>320,040</b>	273,550

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

	<b>For the year ended 31 December 2021</b>	For the year ended 31 December 2020
Balance at the beginning of the year	<b>5,085</b>	5,085
Revised balance as at 1 January 2020 after FAS 30 adjust	<b>13,254</b>	-
(Reversal)/ Charge	<b>(3,323)</b>	-
Balance at the end of the year	<b>15,016</b>	5,085

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**11. IMPAIRMENT CHARGE PROVISION FOR IMPAIRMENT OF TREASURY, PROJECT AND INVESTMENT ASSETS**

Provision for impairment comprised of the following:

	31 December 2021				31 December 2020
	Stage 1	Stage 2	Stage 3	Total	
Commodity murabaha placements	77	-	-	77	-
Investment in sukuk	1,076	-	-	1,076	-
Installment sale	-	-	2,602	2,602	-
Investment in syndicated ijarah	782	-	-	782	-
Loans (Qard)	3,570	666	10,780	15,016	5,085
Investment in syndicated istisna'a fund	193	-	-	193	-
	<b>5,698</b>	<b>666</b>	<b>13,382</b>	<b>19,746</b>	5,085
Equity Investments				<b>54,457</b>	18,181
Investment in funds				<b>5,333</b>	5,333
				<b>79,536</b>	28,599

The movement in provision for impairment is as follows:

	For the year ended 31 December 2021	For the year ended 31 December 2020
Opening Balance	28,599	25,389
Impairment charge due to first time adoption of FAS 30 (Note 3)	16,594	-
Adjusted Opening Balance at 1 January 2021	45,193	
Charge for the year (sukuk, projects and equities)	34,343	3,924
Other adjustment	-	(714)
Closing Balance	<b>79,536</b>	28,599

Out of 33.7 million of impairment, USD 28.4 million relates to 4 listed equities acquired by the Fund in 2018. Since then, market values of these equities have been generally declining and at 31 December 2021 declined by USD 28.4 million from their original cost. In accordance with the Fund's policy, these declines are significant and hence the cumulative market value losses were charged as impairment in 2021. Of this amount, USD 22.1 million, representing balance accumulated under fair value reserve in the statement of changes in net assets, was released to the statement of activities.

**12. ACCRUED INCOME AND OTHER ASSETS**

	2021	2020
Due from related parties	351,776	5,442
Accrued ijarah income	1,144	71
	<b>352,920</b>	5,513

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**13. EQUITY INVESTMENTS**

	<b>For the year ended 31 December 2021</b>	For the year ended 31 December 2020
Balance at beginning of the year	81,607	69,529
Net unrealised fair value gains/(losses) reported through changes in net assets	14,711	16,002
Impairment provision	<b>(36,276)</b>	(3,924)
<b>Balance at end of the year</b>	<b>60,042</b>	81,607

The Fund's equity investments represent USD 21.5 million (2020: USD 25 million) invested in unlisted equity securities and USD 42.5 million (2020: USD 56.6 million) invested in listed equity securities.

**14. INVESTMENT IN ASSOCIATES**

	<b>For the year ended 31 December 2021</b>	For the year ended 31 December 2020
Balance at beginning of the year	153	440
Share of reserves of an associate recognised directly in net assets	<b>(68)</b>	(283)
Share of net results	4	(4)
<b>Balance at end of the year</b>	<b>89</b>	153

**15. INVESTMENT IN SYNDICATED IJARAH**

	<b>For the year ended 31 December 2021</b>	For the year ended 31 December 2020
Balance at beginning of the year	63,702	65,707
Disbursements	10,554	-
Redemptions	<b>(2,840)</b>	(2,005)
Provision for Impairment (Note 11)	<b>(782)</b>	-
<b>Balance at end of the year</b>	<b>70,634</b>	63,702

ISFD enters into non-sovereign ijarah projects syndicated with IsDB, whereby the latter acts as lead syndicate. Income on investment in syndicated ijarah amounted to USD 3.2 million (2020: USD 3.4 million)

**16. INVESTMENT IN FUNDS**

	<b>For the year ended 31 December 2021</b>	For the year ended 31 December 2020
Balance at beginning of the year	116,300	136,544
Additions	4,290	3,981
Disposals	<b>(13,866)</b>	(3,688)
Net unrealised fair value gains reported through net assets	17,984	(20,537)
Provision for impairment	-	-
<b>Balance at end of the year</b>	<b>124,708</b>	116,300

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**17. INVESTMENT IN MUSHARAKAH FUND**

	2021	2020
Investment in musharakah fund	<b>5,000</b>	-

In 2021, ISFD invested in Musharakah fund with the Economic Empowerment Fund for the Palestinian People (EEFPP). The total commitment to the fund equals to USD50 million which shall be disbursed in equal instalments of USD 5 million over the next 10 years.

**18. INVESTMENTS SYNDICATED ISTISNA'A FUND**

	2021	2020
Investment in syndicated istisna'a fund	<b>12,114</b>	5,305
Provision for Impairment (Note 11)	<b>(193)</b>	-
<b>Balance at end of the year</b>	<b>11,921</b>	5,305

In 2020, ISFD co-invested in Istisnaa project (ISFD's share is 22.3%) with Awqaf Properties Investment Fund (APIF) for a construction project.

**19. 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.

**20. ACCRUED EXPENSES AND OTHER LIABILITIES**

	2021	2020
Due to related parties (Note 21)	<b>272</b>	94
Pension liability	<b>1,053</b>	3,400
Accrued expenses and other liabilities	<b>4,883</b>	1,206
	<b>6,208</b>	4,700

**21. RELATED PARTIES**

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

The balances arising from such transactions are as follows:

(i) Due from related parties

	2021	2020
IsDB – Ordinary Capital Resources	<b>351,776</b>	5,435
IsDB – Special Account Resources Waqf Fund	-	7
	<b>351,776</b>	5,442

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**21. RELATED PARTIES (continued)**

(ii) Due to related parties

	2021	2020
Islamic Corporation for the Insurance of Investment and Export Credit ("ICIEC")	92	94
IsDB – Pension Fund	177	-
IsDB – Medical Fund	3	-
	<b>272</b>	94

In addition, the Fund entered into syndicated arrangements with OCR and ITFC. Balances and incomes on these transactions are disclosed in Notes 7 and 15.

**22. 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 line with Lives and Livelihood Fund's requirements for the underlying projects starting 1437H (2016). As at 31 December 2021, USD 71.1 million (2020: 58.3 million) has been disbursed.
2. 10% of normalized net annual income (net income less unrealized marked to market gains/(losses) as grant allocation.

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 (STI). The approved amount shall be disbursed in two annual instalments of USD 50 million each. As at 31 December 2021, USD 50 million has been disbursed the second tranche of USD 50 Million is subject to ISFD's BOD clearance.

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

<b>Grant Allocation</b>	2021	2020
Lives and Livelihood Fund	-	(20,000)
ICERI Program	-	(5,000)
Grant Allocation - 10%	<b>(1,413)</b>	(2,752)
UNDP & IDB & ISFD NGOs Empowerment Program	<b>(1,000)</b>	(2,000)
Other	<b>(3,000)</b>	(9,000)
<b>Total Grant allocation</b>	<b>(5,413)</b>	(38,752)

Grants payable as at 31 December 2021 amounted to USD 138.1 million (31 December 2020: USD 150.7 million) and is primarily comprised of amounts payable to STI of USD 50 million, LLF USD 28.9 million, General Grant Allocation of USD 30 million, ICERI Program USD 5 million. Further, Previous allocation to Ebola Prevention Program of USD 10 million is reallocated to the Tadamon Accelerator for Covid response USD 7 million and ISFD SPARK Guarantee Facility Fund of USD 3 million.



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**23. EQUITY PRESERVATION FUND**

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

**24. MATURITY PROFILE OF ASSETS AND LIABILITIES**

<b>31 December 2021</b>	<b>Assets and liabilities maturity periods</b>					<b>Total</b>
	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 Years</b>	<b>Over 5 Years</b>	<b>No Fixed Maturity</b>	
<b>Assets</b>						
Cash and cash equivalents	5,742	-	-	-	-	5,742
Commodity murabaha placements	319,578	765,801	-	-	-	1,085,379
Investment in sukuks	-	-	1,058,557	10,919	-	1,069,476
Installment sales	-	-	1,739	29,998	-	31,737
Investment in syndicated ijarah	1,954	3,735	19,751	45,194	-	70,634
Loans (Qard)	9,130	9,615	71,245	230,050	-	320,040
Investment in syndicated istisna'a fund	-	1,730	-	-	10,191	11,921
Investment in musharakah fund	-	-	-	5,000	-	5,000
Equity investments	-	-	-	-	60,042	60,042
Investment in an associate	-	-	-	-	89	89
Investment in funds	-	-	-	-	124,708	124,708
Accrued income and other assets	352,920	-	-	-	-	352,920
Land	-	-	-	-	5,355	5,355
<b>Total assets</b>	<b>689,324</b>	<b>780,881</b>	<b>1,151,292</b>	<b>321,161</b>	<b>200,385</b>	<b>3,143,043</b>
<b>Liabilities</b>						
Accrued expenses and other liabilities	4,497	-	-	-	1,711	6,208
Grants payable	-	85,914	52,167	-	-	138,081
<b>Net assets</b>	<b>684,827</b>	<b>694,967</b>	<b>1,099,125</b>	<b>321,161</b>	<b>198,674</b>	<b>2,998,754</b>

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**24. MATURITY PROFILE OF ASSETS AND LIABILITIES (continued)**

<b>31 December 2020</b>	<b>Assets and liabilities maturity periods</b>					<b>Total</b>
	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 Years</b>	<b>Over 5 Years</b>	<b>No Fixed Maturity</b>	
<u>Assets</u>						
Cash and cash equivalents	11,037	-	-	-	-	11,037
Commodity murabaha placements	-	826,127	95,097	-	-	921,224
Wakala due from	-	-	500,092	-	-	500,092
Investment in sukuku	94,772	127,886	935,901	20,259	-	1,178,818
Syndicated murabaha	8,633	-	-	-	-	8,633
Installment sale	-	-	7,660	-	-	7,660
Investment in syndicated ijarah	-	25,912	23,761	14,029	-	63,702
Loans (Qard)	-	5,157	23,227	245,166	-	273,550
Investment in syndicated istisna'a fund	-	-	-	-	5,305	5,305
Equity investments	-	-	-	-	81,607	81,607
Investment in an associate	-	-	-	-	153	153
Investment in funds	-	-	-	-	116,300	116,300
Accrued income and other assets	5,513	-	-	-	-	5,513
Land	-	-	-	-	5,355	5,355
<b>Total assets</b>	<b>119,955</b>	<b>985,082</b>	<b>1,585,738</b>	<b>279,454</b>	<b>208,720</b>	<b>3,178,949</b>
<u>Liabilities</u>						
Accrued expenses and other liabilities	1,300	-	-	-	3,400	4,700
Grants payable	-	91,657	59,010	-	-	150,667
<b>Net assets</b>	<b>118,655</b>	<b>893,425</b>	<b>1,526,728</b>	<b>279,454</b>	<b>205,320</b>	<b>3,023,582</b>

**25. CONCENTRATION OF ASSETS**

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

<b>31 December 2021</b>	<b>Member countries</b>				<b>Non-member Countries</b>	<b>Total</b>
	<b>Asia</b>	<b>Africa</b>	<b>Europe</b>	<b>S.America</b>		
Cash and cash equivalents	<b>200</b>	-	-	-	<b>5,542</b>	<b>5,742</b>
Commodity murabaha placement	<b>1,047,045</b>	-	-	-	<b>38,334</b>	<b>1,085,379</b>
Investment in sukuku	<b>1,069,476</b>	-	-	-	-	<b>1,069,476</b>
Syndicated Murabaha	-	-	-	-	-	-
Installment sale	-	<b>31,737</b>	-	-	-	<b>31,737</b>
Loans (Qard)	<b>108,313</b>	<b>207,594</b>	<b>341</b>	<b>3,792</b>	-	<b>320,040</b>
Investment in syndicated istisna'a fund	-	-	-	-	<b>11,921</b>	<b>11,921</b>
Investment in syndicated ijarah	<b>61,795</b>	<b>8,839</b>	-	-	-	<b>70,634</b>
Investment in musharaka fund	<b>5,000</b>	-	-	-	-	<b>5,000</b>
Equity investments	<b>38,539</b>	-	<b>13,170</b>	-	<b>8,333</b>	<b>60,042</b>
Investment in an associate	-	<b>89</b>	-	-	-	<b>89</b>
Investment in funds	<b>54,130</b>	-	<b>23,979</b>	-	<b>46,599</b>	<b>124,708</b>
Accrued income and other assets	<b>352,920</b>	-	-	-	-	<b>352,920</b>
Land	-	<b>5,355</b>	-	-	-	<b>5,355</b>
<b>Total assets</b>	<b>2,737,418</b>	<b>253,614</b>	<b>37,490</b>	<b>3,792</b>	<b>110,729</b>	<b>3,143,043</b>

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**25. CONCENTRATION OF ASSETS (continued)**

<b>31 December 2020</b>	<b>Member countries</b>			<b>Non-member</b>	<b>Total</b>
	<b>Asia</b>	<b>Africa</b>	<b>Europe</b>	<b>countries</b>	
Cash and cash equivalents	1,970	-	-	9,067	11,037
Commodity murabaha placements	900,764	-	-	20,460	921,224
Wakala Bi Al-Istithmar	500,092	-	-	-	500,092
Investments in sukuk	1,178,818	-	-	-	1,178,818
Syndicated murabaha	-	8,633	-	-	8,633
Installment sale	-	7,660	-	-	7,660
Investment in syndicated ijarah	54,539	9,163	-	-	63,702
Loans (Qard)	78,177	194,873	500	-	273,550
Investment in syndicated istisna'a fund	-	-	-	5,305	5,305
Equity investments	60,514	-	12,760	8,333	81,607
Investment in an associate	-	153	-	-	153
Investment in funds	66,737	-	29,138	20,425	116,300
Accrued income and other assets	5,513	-	-	-	5,513
Land	-	5,355	-	-	5,355
<b>Total assets</b>	<b>2,847,124</b>	<b>225,837</b>	<b>42,398</b>	<b>63,590</b>	<b>3,178,949</b>

**26. NET ASSETS AND LIABILITIES IN FOREIGN CURRENCIES**

The net assets in foreign currencies were as follows:

	<b>2021</b>	2020
Saudi Riyal	<b>39,585</b>	32,814
Euro	<b>(75)</b>	630
Islamic Dinar (ID)	<b>229</b>	(445)
PKR	<b>681</b>	-
QAR	<b>(100)</b>	-

**27. UNDISBURSED COMMITMENTS**

	<b>2021</b>	2020
Loans (Qard)	<b>401,456</b>	437,369
Investment in Musharakah Fund	<b>45,000</b>	-
Investment in Funds	<b>20,174</b>	30,211

**28. SHARI'AH BOARD**

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

- to consider all products introduced by the Bank, its affiliates and trust funds for use for the first time and rule on their conformity with the Rules and Principles of the Islamic Shari'ah, and lay down basic principles for drafting of related contracts and other documents;

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**28. SHARI'AH BOARD (continued)**

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

**29. RISK MANAGEMENT**

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

**a) Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Fund's credit risk arises mainly from its operating assets and treasury investments.

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 statement of financial position. The assets which subject the Fund to credit risk, principally consist of commodity placements, investment in sukuk, murabaha financing, loan and syndicated Ijarah.

The Fund's liquid fund investments portfolio is managed by the Bank's Treasury Department and comprise deals with reputable banks. Liquid fund investment in commodity placements, murabaha financing, sukuk whose ratings are acceptable to the Bank per its policies. The Fund's loan and syndicated Ijarah are covered, in most cases, by sovereign guarantees from Member Countries, or commercial bank guarantees from banks acceptable to the Bank per its policies. The Bank, its affiliates and its funds benefit from preferred creditor status on sovereign financing, which gives it priority over other creditors in the event of default thus constituting a strong protection against credit losses. Historically, the Fund has had a very low level of overdue balances. The management is of the opinion that, with the exception of what has already been provided for; additional significant credit loss is unlikely to occur.

Credit risk includes potential losses arising from a counterparty's (i.e., countries, banks/financial institutions, corporate, etc.) inability or unwillingness to service its obligation to the Fund. In this respect, the Fund 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.

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**29. RISK MANAGEMENT (continued)**

**a) Credit risk (continued)**

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

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

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

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

Expected Credit Risk for financial assets measured at amortized cost

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

Determining the stage for impairment

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

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

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

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**29. RISK MANAGEMENT (continued)**

**a) Credit risk (continued)**

**Determining the stage for impairment (continued)**

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

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

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

**Measurement of Expected Credit Losses (ECLs)**

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

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

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

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

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

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**29. RISK MANAGEMENT (continued)**

**a) Credit risk (continued)**

**Measurement of Expected Credit Losses (ECLs) (continued)**

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

**Exposure Amounts and ECL coverage**

The Fund recognizes 12-month ECL for stage 1 instruments and lifetime ECL for stage 2 instruments. For stage 3 instruments, the Fund calculates a loss allowance amount based on the difference between the carrying amount of the instrument and the net present value of expected future cash flows discounted at the instrument's original effective profit rate (EPR) where applicable.

Tables below present the breakdown of gross exposure amount (project and treasury assets and other investments debt-type that are subject to credit risk), impairment allowance, and the coverage ratio by exposure type for financial instruments measured at amortized cost as at 31 December 2021.

31 December 2021	Gross Exposure Amount				Impairment Allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Sovereign	870,945	14,749	86,845	972,539	4,590	657	9,651	14,898
Non-Sovereign	1,378,383	986	3,731	1,383,100	1,108	9	3,731	4,848
<b>Total December 2021</b>	<b>2,249,328</b>	<b>15,735</b>	<b>90,576</b>	<b>2,355,639</b>	<b>5,698</b>	<b>666</b>	<b>13,382</b>	<b>19,746</b>

31 December 2021	Coverage Ratio (Impairment Allowance / Exposure Amount)			
	Stage 1	Stage 2	Stage 3	Total
Sovereign	0.53%	4.45%	11.11%	1.53%
Non-Sovereign	0.08%	0.91%	100.00%	0.35%
<b>Total December 2021</b>	<b>0.25%</b>	<b>4.23%</b>	<b>14.77%</b>	<b>0.84%</b>

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.

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**29. RISK MANAGEMENT (continued)**

**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).

**c) Market risks**

The Fund is exposed to following market risks:

**Currency risk**

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

**Mark-up risk**

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

**d) Liquidity risk**

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

**e) Operational Risk**

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

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

**Shari'ah non-compliance risk (SNCR)**

The fund attaches value in safeguarding its operations from Shari'ah non-compliance risk (SNCR) as part of its operational risk management. Shari'ah compliance forms an integral part of the fund's purpose of establishment. Consequently, the fund effectively manages SNCRs through leveraging on the IsDB Group wide robust framework of procedures and policies. The business or risk-taking unit, as the 1st line of defence, embeds a culture of Shari'ah compliance, while the Shari'ah Compliance function of IsDB Group serves as the 2nd line of defence to strategically manage and monitor SNCRs pre-execution of transactions/operations. The IsDB Group Internal Shari'ah Audit function provides independent reasonable assurance as the 3rd line of defence post-execution of transactions/operations adopting a risk-based internal Shari'ah audit methodology.



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**29. RISK MANAGEMENT (continued)**

**f) Fair values of financial assets and liabilities**

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

The following table presents the Fund's assets and liabilities that are measured at fair value at 31 December 2021 and 2020.

**31 December 2021**

**Assets**

Financial assets at fair value through statement of activities:

- Investment in Sukuks

Financial assets at fair value through net assets

- Equity investments
- Investment in funds

	Level 1	Level 2	Level 3	Total
Investment in Sukuks	258,601	-	-	258,601
Equity investments	42,538	17,504	-	60,042
Investment in funds	-	-	124,708	124,708
<b>Total</b>	<b>301,139</b>	<b>17,504</b>	<b>124,708</b>	<b>443,351</b>

**31 December 2020**

**Assets**

Financial assets at fair value through statement of activities:

- Investment in Sukuks

Financial assets at fair value through net assets

- Equity investments
- Investment in funds

	Level 1	Level 2	Level 3	Total
Investment in Sukuks	89,645	37,856	-	127,501
Equity investments	56,589	25,018	-	81,607
Investment in funds	-	-	116,300	116,300
<b>Total</b>	<b>146,234</b>	<b>62,874</b>	<b>116,300</b>	<b>325,408</b>

There were no transfers between levels during the years ended 31 December 2021 and 31 December 2020.

**30. AAOIFI STANDARDS ISSUED BUT NOT YET EFFECTIVE**

The following new financial accounting standards of The Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") have been issued. The Fund intends to adopt these financial reporting standards when they become effective and is currently assessing the impact of these new financial accounting standards on its financial statements and systems.

**(i) Financial Accounting Standard – 36 "First Time Adoption of AAOIFI Financial Accounting Standards"**

This standard provides principles of financial reporting for Islamic financial institutions, to be applied in the financial statements prepared for the first time according to the AAOIFI FASs, and to prescribe the transitional effects arising at the time of adoption.

The standard became effective from the date of issuance. Management believes that FAS 36 shall not impact the financial statements as the Fund is not the first time adopter.

**(ii) Financial Accounting Standard – 37 "Financial Reporting by Waqf Institutions"**

This standard provides comprehensive accounting and financial reporting requirements for Waqf and similar institutions including general presentation and disclosures, specific presentation requirements (e.g. in case of Ghallah) and the key accounting treatments in respect of certain aspects specific to Waqf institutions.

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**30. AAOIFI STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)**

**(ii) Financial Accounting Standard – 37 “Financial Reporting by Waqf Institutions” (continued)**

This standard shall be applicable on the financial statements of the Fund for the periods beginning on or after 1 January 2022, with early adoption permitted. Complete set of financial statement will include additional statements such as:

- a) Statement of Ghallah for the period (it is a presentation statement which reflects the true nature of a waqf institution. It presents the computation of Ghallah and attribution of benefits included in the statement of financial activities and statement of changes in waqf equity.)
- b) Statement of changes in Waqf equity for the period (it presents the movement in different components of waqf equity during the period like movement related to Ghallah and benefits distribution within the movement of unappropriated surplus/accumulated deficit.)
- c) Statement of service performance and Waqf equity sustainability in notes to the financial statements (it provides non-financial information to understand the operational performance of the waqf institution in correlation to its financial activities and state of affairs.)

The FAS will have significant impact on the financial statements of the Fund due to it being a Waqf Fund and the management is currently assessing the specific impacts and changes which will be required in its 2022 financial statements.

**(iii) Financial Accounting Standard – 38 “Wa’ad, Khiyar and Tahawwut”**

This standard intends to set out principles for measurement, recognition and disclosure of Wa'ad (promise), Khiyar (option) and Tahawwut (hedging) transactions that are carried out by Islamic financial institutions.

This standard shall be applicable on the financial statements of the Fund for the periods beginning on or after 1 January 2022. The standard does not impact the Fund as it does not use any of the instruments in its contractual arrangements.

**(iv) Financial Accounting Standard – 39 “Financial Reporting for Zakah”**

This standard aims at setting out accounting treatment of Zakah in the books of an Islamic financial institution, including the presentation and disclosure in its financial statements. The objective of this standard is to establish the principles of financial reporting related to Zakah attributable to different stakeholders of an Islamic financial institution. This standard shall be effective for the financial periods beginning on or after 1 January 2023 with early adoption permitted. The Fund is currently evaluating the impact of this standard.

**(v) Financial Accounting Standard – 40 “Financial Reporting for Islamic Finance Windows”**

The objective of this standard is to establish financial reporting requirements for Islamic financial services offered by conventional financial institutions (in the form of Islamic finance windows). This standard shall be effective on the financial statements of Islamic finance window of conventional financial institutions for the periods beginning on or after 1 January 2024 with early adoption permitted.

**(vi) Financial Accounting Standard – 1 (Revised 2021) “General Presentation and Disclosures in the Financial Statements”**

The revised FAS 1 describes and improves the overall presentation and disclosure requirements prescribed in line with the global best practices and supersedes the earlier FAS 1. It is applicable on all the Islamic financial institutions and other institutions following AAOIFI FASs. This standard sets out the overall requirements for presentation of financial statements, the minimum requirements for the contents of the financial statements and a recommended structure of financial statements that facilitate faithful presentation in line with Shari'ah principles and rules and comparability with the institution's financial statements of previous periods, and the financial statements of other institutions. This standard shall be effective on the financial statements of the institutions beginning on or after 1 January 2023 with early adoption permitted. The Fund is currently evaluating the impact of this standard.

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### **31. LIBOR TRANSITION**

#### **Benchmark transition**

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

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

In the year 2021, various key milestones were overcome involving i) formulation of detailed implementation roadmap and action plan with the help of an external consultant, ii) formulation and incorporation of enhanced 'fallback' clause for all prospective contracts, iii) obtaining clearance from Shari'ah Technical Committee on use of CME Term SOFR (Chicago Mercantile Exchange 'CME' is an American global markets company. It is the world's largest financial derivatives exchange. CME Group estimates the Term SOFR Reference Rates benchmark as a daily set of forward-looking profit rates for 1-month, 3-month, 6-month and 12-month tenors) as preferred replacement rate to USD LIBOR, iv) revision in the Sovereign Pricing policy based on new benchmark rates, v) resource mobilization based on SOFR curve and maintaining the cost pass through mechanism to minimize the ALM (Asset and Liability Management) risks, and vi) initiation of system upgradation project to enable the use of new pricing policy and reference rates.

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

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

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

IsDB and its affiliates have started dialogue with its member countries and other partners to enable smooth transition to CME Term SOFR. IsDB is also engaging with external stakeholders to ensure an orderly transition responsive to regulatory and market developments.

#### **Risks arising from the benchmark reform**

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

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

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**31. LIBOR TRANSITION (continued)**

**Risks arising from the benchmark reform (continued)**

2. Legal risk: There is a possibility of not reaching an agreement with the counterparts on revised pricing particularly on the legacy contracts. This could be a result of having ineffective fallback clauses in the signed legal agreements. This risk has been addressed by appointing external Law firm to develop the 'Fallback' clause which has been added to all new contracts. Another Law firm is in process of onboarding to address the conversion of Legacy contracts.

3. IT and system risks: It is expected that the booking of new contracts and conversion of legacy contracts from old benchmark to new will require certain enhancements in system functionalities and processes. This risk is addressed by performing the testing on existing systems, by identifying gaps and by upgrading the Bank's core banking systems to the latest versions that offer the needed functionality required for utilizing the new reference rates.

**Progress towards adoption of alternative benchmark rates**

All newly transacted contracts that referenced a benchmark rate for pricing are already executed with the improved fallback clause. All the sovereign financing contracts will adopt the new pricing policy which is based on alternative benchmark rates.

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

**Profit rate benchmark transition for non-derivative financial contracts**

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

For the legacy contracts in Treasury portfolio, the strategy is to wait for the Issuer to propose the alternate pricing to all the issue participants. This is because Fund is only a participant investor amongst many other investors and hence cannot determine and negotiate an alternate rate on its own. In the absence of any such alternate rate from issuer, it is not possible nor logical to run the impact analysis. Therefore, for legacy treasury assets, strategy is to wait till Q3-Q4 2022 for issuer to propose an alternate rate and if not, Treasury will formulate an exit strategy for all such trades.

Same is the case of legacy contracts for non-sovereign financing. Fund is part of large PPP syndicates and hence Fund is unable to negotiate an alternate rate with the counterparty. The Syndicate leads are expected to propose alternate rates based on which, Fund will run the assessment and decide accordingly.

For legacy contracts on Capital Markets, the only exposure linked to LIBOR is a bilateral exposure with another group entity. Therefore, the strategy is to continue with it till the time we have clarity on all the viable alternate pricing options on the Treasury assets so that the same could be discussed and negotiated with the group entity to agree on one of them

For legacy contracts for sovereign financing, the Fund has decided to follow a gradual approach by allowing early adoption option to its member countries on selective basis. During this period, member countries will be offered the conversion option to the new Sovereign Pricing policy. The relevant regional hubs will accordingly present the new pricing policy and markup rate structure to the member countries.

**32. AUTHORIZATION FOR ISSUE**

The financial statements were authorized for issue in accordance with the resolution of the Board of Executive Directors dated 18 April 2022 (corresponding to 17 Ramadan 1443H).



Jeddah 22331-2444, Kingdom of Saudi Arabia

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