

# THE ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT AND POVERTY REDUCTION IN OIC MEMBER COUNTRIES

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## THE CONTEXT

1. Although OIC member countries recorded relatively lower morbidity and mortality rates in the wake of the pandemic compared to Europe and America, they have continued to face poverty at many levels. Income poverty is widespread in lower middle-income and low-income countries. The proportion of the population living on less than USD 1.9 per day ranges from 15% to 53% in individual low-income countries. Similarly, the poverty headcount ratio in low-income countries is high. Of the 15 countries that constitute this group, six have about 50% of their population living below the poverty line; almost all low-income countries have over 35% of their population living below the poverty line. The scenario is just as dismal when considering the multi-dimensionally poor. Their proportion in the upper-middle income group of countries ranges from 8.6% in Iraq to 9.4% in Suriname and 14.8% in Gabon. In the lower middle-income countries, the poor account for 18.5% of the population in Morocco, 53.2% in Senegal, 52% in Sudan, and 51% in Nigeria. Multidimensional poverty in 14 of the 15 low-income countries ranges from 47% of the population in Yemen to 90.5% in Niger.
2. OIC member countries are also faced with food insecurity. According to the 2018 Global Hunger Index, almost all countries in the lower middle-income category, suffer moderate to serious levels of hunger. Similarly, all countries in the low-income group suffer from food deficit. Out of the 15 countries that constitute this group, 11 have a ‘serious’ hunger situation, three have 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. It is against this bleak backdrop that the ISFD provided support to member countries in 2020.<sup>1</sup>

## ISFD ROLE IN POVERTY REDUCTION IN MEMBER COUNTRIES

3. The ISFD was established as a special endowment fund (Waqf) within the IsDB, pursuant to a decision taken during the 3<sup>rd</sup> Extraordinary Summit of the OIC, held in Mecca in 2005. The Fund has a target capital of USD 10 billion, to be contributed by governments and institutions in member countries.
4. Since its inception, the Fund has focused on poverty reduction in OIC member countries by providing concessional finance for programmes that:
  - promote pro-poor growth;
  - support human development, especially healthcare and education;

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<sup>1</sup> See ISFD 13<sup>th</sup> Annual Report (2020) for details.

- provide social safety nets for the poor; and
  - enhance good governance and access to public services by the poor.
5. As a Waqf, ISFD operations are financed generally through the net income realised from the investment of its capital resources. However, the BOD has recently authorised the ISFD to fund some economic empowerment programmes from its capital resources. This will allow it to invest directly with the poor to enhance their employment and income generation opportunities.

## STATUS OF THE ISFD CAPITAL CONTRIBUTIONS

6. The commitments to the Fund's core capital as at 31 October 2021 amounted to around US\$2.60 billion, representing 26 % of the target capital. These commitments are composed of US\$1.60 billion, from 48 IsDB Member Countries (MCs), and US\$1.0 billion by the IsDB.
7. The Paid-up capital reached US\$2.529 billion as 31 October 2021. Of the cumulative payments, US\$1.529 billion was paid by member countries (Saudi Arabia US\$ 1 billion, Kuwait US\$ 300 million and the rest from the other MCs).
8. The ISFD Board of Governors expressed its concern over the wide gap between the targeted amount of USD 10 billion, and the USD 1.629 billion paid by MCs at that time. To improve the resource mobilization of the Fund, the BOG approved Resolution No ISFD/BG/3-432 which provides for the adoption of criteria based on a combination of weighted average of three elements (Country's real GDP, country's value of exports and country's value of foreign exchange reserves). These criteria were developed in order to help Member Countries determine their expected level of contribution to the ISFD Capital on a voluntary basis. The resolution specifically
- a) Urges Member Countries that have not announced their initial contribution to the ISFD to do so expeditiously in accordance with the approved criteria for contributions;
  - b) Calls upon Member Countries that have announced contributions but did not pay to do so at the soonest possible;
  - c) Appeals to Member Countries to consider increasing their contributions in accordance with the Criteria mentioned above.
9. Over several years, letters were sent to Governors reminding them about the resolution and the need to implement its provisions. To allow the ISFD to achieve its objectives and reach its target capital, the 14<sup>th</sup> Islamic Conference held in Makkah on 31<sup>st</sup> of May 2019 called upon Member Countries that have not yet announced their contributions to the ISFD to do so expeditiously and those which announced contributions that do not reflect their economic ability, to review those contributions.
10. Successive COMCEC ministerial sessions issued Resolutions calling Member Countries to honour their commitments to the ISFD Capital.

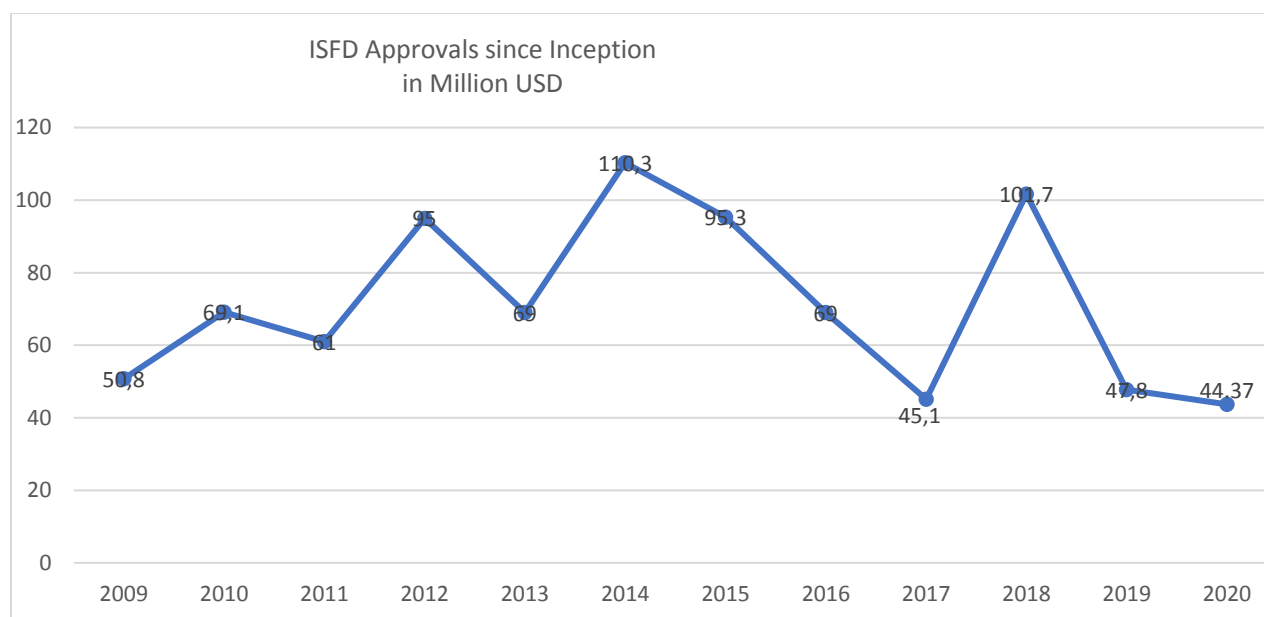
11. Despite these efforts, the unpaid commitment remained at USD 70 million, while the contributions to the Fund's capital stand at USD 2.53 billion. This is USD 7.47 billion short of the approved USD 10 billion target capital.
12. In 2021, the ISFD has received several payments from (a) Mauritania which has paid all its announced commitment, (b) Mali which has paid 50% of its announced commitment, and (c) Republic of Bangladesh and Republic of Benin
13. Given the length of time it takes for some MCs to pay their commitments, and in order to facilitate the payments of MCs commitments, The ISFD BOG adopted on 4<sup>th</sup> of September 2021 a new resolution ISFD/BG/4-442 in Tashkent Uzbekistan. This resolution extends the payment duration to up to 6 years depending on the national income of each MC. We call on the COMCEC Ministerial Meeting to support this Resolution.

## ISFD'S OPERATIONS SINCE INCEPTION

14. As per the end of 2020, the ISFD has provided a total of USD 858.4 million in the form of concessional loans and grants to finance projects and programmes in member counties.<sup>2</sup> The Fund's financing increased from USD 50.8 million in 2009 to USD 69 million in 2010 before declining to USD 61 million in 2011. Funding picked up in 2012 to USD 95 million but declined again to USD 69.8 in 2013. The best year for the Fund was 2014 when approvals reached USD 110 million. The following three years saw gradual decline of approvals from USD 95 million in 2015 to USD 69 million in 2016 and USD 45 million in 2017. As Figure 3.1 shows, the situation improved considerably in 2018 when approvals reached USD 101.7 million. However, on account of the global economic condition, the attendant low returns on investments in certain asset classes, and the maturity of the portfolio, the ISFD took a deliberate decision to review its multiplier rate. The multiplier was revised downwards to 1:1 from the previous 1:2.5. As a result of the combined effect of these factors, ISFD financing declined to USD 47.8 million in 2019 and USD 44.37 in 2020.

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<sup>2</sup> Unless otherwise indicated, the source of the data used in this section is the Economic Research and Statistics Division of the Economic Research and Institutional Learning Department of the IsDB. Given the different sources and methods used, the figures used in this year report may be different from figures reported in earlier Annual Reports.



Source: Economic Research and Statistics Division IsDB

15. Despite the decline in the financing resources, the approvals of the Fund have had significant leverage ratio that makes considerable resources available to the beneficiaries. For example, the total cost of the projects that benefitted from ISFD approval in 2020 stands at USD 336 million, which includes ISFD funding of USD 44.37 million. This gives ISFD financing a leverage ratio of 1:7. There is another reason why the Fund’s relatively low approval in 2020 should not be looked at in isolation. Member countries also benefitted from repurposed resources and savings realised from earlier projects to the tune of USD 93.88 million, bringing total ISFD support to member countries in 2020 to USD 138.25 million.

## REGIONAL COVERAGE

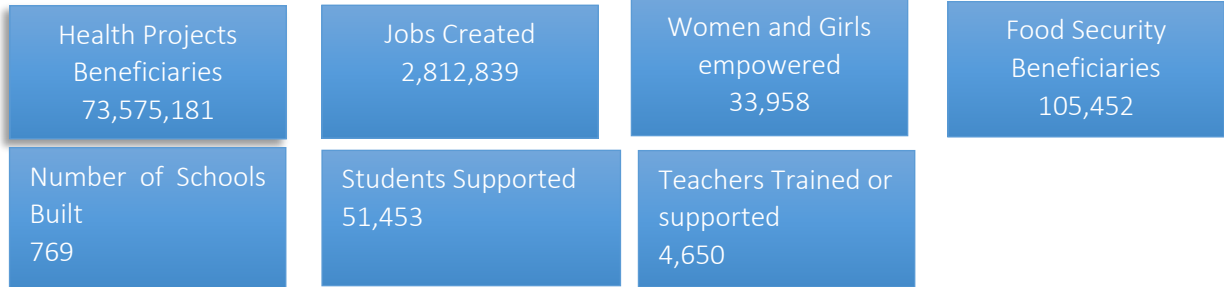
16. The 2020 allocation to programmes and projects brought the cumulative ISFD allocations since inception to USD 858.4 million. Although the ISFD seeks to fight poverty in all member countries, so far LDMCs formed the majority of the beneficiaries. For example, in 2020 alone, about 96% of the funding 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.

## DEVELOPMENT RESULTS OF ISFD INTERVENTIONS

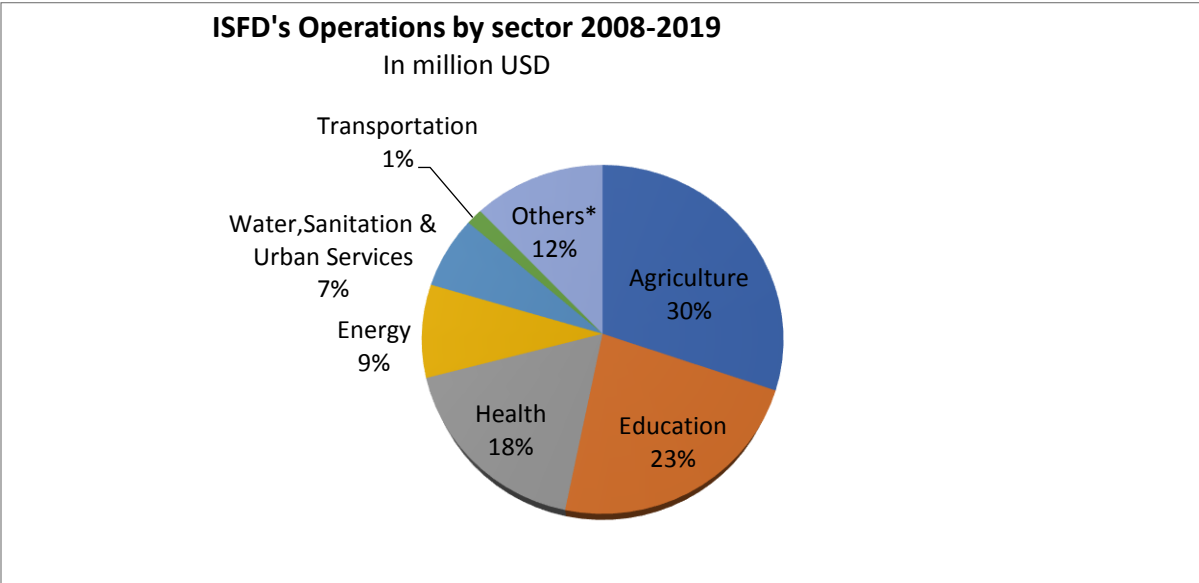
17. The development results of ISFD interventions have been captured in a recent consultancy report on the development effectiveness of 12 ISFD projects in ten member countries.

18. The report reveals that ISFD’s support to member countries has had 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 gave healthcare to 73 million people and created job opportunities for 2.8 million people across the ten countries that were the subject of the evaluation.

*Summary of the Impact of ISFD Support to Member Countries*



Source: Draft ISFD Effectiveness Report



\*Others include Industry & Mining, Finance, Public Administration, Real Estate and Trade related activities -----Source: Draft ISFD Effectiveness Report

**ALIGNMENT WITH THE SUSTAINABLE DEVELOPMENT GOALS**

19. As Figure 3.2 shows, ISFD approvals covered the key sectors that form the core of the sustainable development goals. 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 realising 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 inequality), SDG-12 (responsible consumption and production), and SDG-17 (partnerships to achieve the goal).

### *Sustainable Development Goals*



## ISFD OPERATIONS IN 2020

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20. In 2020, the ISFD Board approved USD 44.37<sup>3</sup> million in financing for education, health and poverty reduction through Awqaf real estate development. The exceptional health challenges of 2020 meant that a substantial part of the resources was geared towards the health sector. This accounts for the fact that about 32% of total ISFD approvals (USD 14.3 million) in 2020 went to the health sector in the form of emergency support to improve member countries' preparedness and response to the COVID-19 pandemic. Member countries also benefitted from repurposed resources and savings realised from earlier projects amounting to USD 93.88 million. This brought total ISFD support to member countries response to COVID-19 and other health challenges to USD 112.25 million. The total cost of COVID-19 Response projects is USD 508 million. This gives ISFD's support to member countries' response to COVID-19 a significant leverage ratio of 1:5.

21. ISFD operations in 2020 were in two broad categories: **Response to the COVID-19 pandemic** and **non-COVID project finance**.

## RESPONSE TO COVID-19 PANDEMIC

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22. As the poverty alleviation arm of the IsDB Group, the ISFD has played an important role in supporting member countries, especially LDMCs, to address the health and economic crisis that the COVID-19 pandemic has caused. Through the efforts of all members of the IsDB Group, an SPRP (Strategic Preparedness and Response Program for COVID-19 pandemic) was

<sup>3</sup> The 2020 approval figure includes USD 0.7 million approved for the ICERI Programme.

developed. The program seeks to support member countries in preventing, containing, mitigating and recovering from the impact of the COVID-19 pandemic. The total financing made available by the IsDB Group under the facility was about USD 2.3 billion. As table 3.1 shows, the IsDB, ISFD and the KAAP provided USD 1.58 billion, while the other IsDB Group entities provided USD 700 million.

23. The programme comprises two key components: (i) Health Emergency Response and Preparedness that focuses on: (a) providing the health emergency response, (b) strengthening the health systems, and (ii) sustaining and reviving economic and social sectors.
24. Within the framework of SPRP, ISFD channelled its support to member countries mainly through 6 programmes:
  - Tadamon accelerator: Program to support local NGOs interventions in relation to COVID-190
  - SERVE: Strengthening the Resilience of Vulnerable Enterprises
  - ICERI: Program to facilitate import of medical goods and essential commodities through credit insurance
  - LLF: Lives and Livelihoods Fund to support health and agriculture projects
  - Reverse Linkages: to support knowledge exchange between member countries in support to national laboratories during the COVID pandemic period.
  - NGOs Empowerment Program: to build capacities of CSOs and NGOs implementing and raising funds for projects in member countries
25. In addition to the regional programmes, three COVID-related operations were financed directly from the 2020 Annual Work Programme to the tune of USD 9 million. Through its additional resource mobilisation efforts, the IFSD seeks to expand the programme's effectiveness and increase its impact. It is also taking steps to mitigate the overwhelming health, social and economic impacts of this pandemic on MSME in LDMCs and other adversely hit non-LDMCs.

Re-allocations from ISFD 2020-2022 Annual Work Programme in million USD

Country	Project Title	ISFD Contribution in million USD	Support Type	Total Project Cost in million USD
<b>Burkina Faso</b>	Financing for the COVID-19 Emergency Response Project	3	Loan	9
<b>Guinea-Bissau</b>	Financing for the COVID-19 Emergency Response Project	3	Loan	15
<b>Mali</b>	Financing for the COVID-19 Emergency Response Project	3	loan	22.5
<b>Total</b>		<b>9</b>		46.5

26. Member countries also benefitted from repurposed resources and savings realised from earlier projects to the tune of USD 93.88 million. This brought total ISFD support to member countries’ response to COVID-19 and other health challenges to USD 112.25 million.

*Savings and Repurposed Resources in million USD*

Country	Project Title	ISFD Contribution in million USD	Support Type	Total Project Cost in million USD
<b>Chad</b>	COVID-19 Emergency Support and Response Project	9.38	Loan	20
<b>Kyrgyz Republic</b>	Emergency Support to Improve Preparedness and Response for COVID-19 Project	5	Loan	15
<b>Yemen</b>	Strengthening the Economic Resilience of the Vulnerable Enterprises	0.5	Grant	0.5
<b>Palestine</b>	Strengthening the Economic Resilience of the Vulnerable Enterprises	24	Loan	234
<b>Yemen</b>	Strengthen and improve the Government of Yemen’s preparedness and response to the COVID-19	20	Loan	20
<b>Sudan</b>	COVID-19 Emergency Support and Response Project	35	loan	35
<b>Total</b>		93.88		324.5

## NON-COVID-RELATED FINANCING

27. During the year, the ISFD BOD approved an Istisnaa financing for the second phase of the WBG project in Conakry, Guinea. The project is about constructing a mixed-use commercial and residential complex in Conakry spread over 53,000 square-metre area. The complex is to be rented out to generate regular income for the WBG to finance its educational, health and other social activities. The total cost of Phase 2 of the project is USD 23 million. ISFD financing is USD 16 million while the balance came from the WBG and the Government of Guinea.
28. The BOD also approved a USD 10-million loan for the Uganda Technical and Vocational Education and Training Programme. The total cost is USD 51.14 million, with the IsDB and the Government of Uganda providing the balance of the funds. The overall objective of the programme is to help transform Uganda’s TVET programme into a comprehensive system of skills development for employment, enhanced productivity and growth for its workforce.

## CONCLUSION

29. The prevalence of poverty in OIC member countries makes ISFD’s role all the more important. Since inception the fund has supported member countries to address poverty and to restore



dignity to the people. In order to scale up its impact, the ISFD has embarked upon a transformation exercise that has resulted in a new strategy - **ISFD 2030 Strategy**.

30. Under the new strategy, the ISFD will focus on creating impact on poverty reduction by focusing on core development areas and capabilities. The strategy is structured around five pillars: 1) operations, 2) resources 3) capabilities 4) governance, and 5) performance.
31. While it continues to support member countries, the ISFD needs the continued support of member countries in the form of capital contribution. To date, 29 countries have paid their commitment in full, 8 have made partial payment, 11 countries have made no payment on their commitment and 9 countries have made no commitment.