



ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT

## **PROGRESS REPORT ON ISFD ACTIVITIES (2023)**

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## List of abbreviations

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BOD	Board of Directors of the ISFD
COMCEC	Standing Committee for Economic and Commercial Cooperation of the Organisation of Islamic Cooperation
CSO	Civil Society Organisation
FSRP	Food Security Response Programme
ICERI	ICIEC-ISFD COVID-19 Emergency Response Initiative
ICIEC	Islamic Corporation for the Insurance of Investment and Export Credit
IDP	Internally displaced persons
IsDB	Islamic Development Bank
ISFD	Islamic Solidarity Fund for Development
ITFC	Islamic Trade Finance Corporation
IWIF	Ihsan Waqf Investment Fund
LDMCs	Least Developed Member Countries
LLF	Lives and Livelihoods Fund
MCs	Member countries
MC	Member country
MPI	Multidimensional poverty index
MSME	Micro, Small and Medium Enterprises
NGO	Non-Governmental Organisation
OIC	Organisation of Islamic Cooperation
OPHI	Oxford Poverty and Human Development Initiative
SERVE	Strengthening the Economic Resilience of Vulnerable Enterprises
SME	Small and Medium Enterprises
SPRP	Strategic Preparedness and Response Programme
STEP	Skills, Training, and Education Programme
STI	Science, Technology, and Innovation
UN	United Nations

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## PART I: POVERTY IN OIC MEMBER COUNTRIES

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The fallouts from the COVID-19 pandemic have disproportionately affected the developing countries. As poverty reduction went into reverse gear in 2020, conditions in 2022 have offered no respite, as rising prices, especially food and energy, have weighed on poverty reduction trends. The emerging challenges for our MCs in area of poverty alleviation will shape the intervention of the Fund.

People living on less than US\$ 1.9 per day went from 739.5 million in 2015 to 641.4 million on the eve of the COVID-19 pandemic in 2019. However, the number of people living in extreme poverty is estimated to have increased by a staggering 72.4 million globally between 2019 and 2020. The comparison is starker when considering pre-pandemic trends as 92.7 million more people are estimated to have fallen into extreme poverty compared to the year's pre-pandemic projection, 14.9% of the 2020 pre-COVID-19 projections.

### Multidimensional poverty in OIC member countries

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According to the latest Global Multidimensional Poverty Index (MPI) report,<sup>1</sup> there are now 1.2 billion people living in extreme poverty, of these 490 million live in IsDB MCs. The MPI, which is published by the Oxford Poverty and Human Development Initiative (OPHI), tracks acute deprivation in health, education, and living standards that people face simultaneously across 100 countries. SSA accounts for more than half of extreme poverty, with 56.5% of the total for OIC countries, followed by Asia (33.2%) and MENA (10.4%).

### Food security in OIC member countries

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The year 2022 saw a continued increase in food prices, a trend that started in 2020 due to high demand, disruption in supply chains, rising energy prices leading to a spike in the prices of fertilisers, and droughts. The conflict in Ukraine exacerbated the global food crisis driving the prices of cereals and vegetable oils significantly higher. The FAO cereal price index went up 20% between January and March 2022 and the vegetable oil price index by 33.3%. According to FAO data, the global food crisis resulted in an increase in the number of undernourished from 618.4 million in 2019 to 721.7 million in 2020 (16.7% yearly increase) and 767.9 million in 2021 (6.4%).<sup>2</sup> This largely affected countries in Central and South Asia and Sub-Saharan Africa. Therefore, the prevalence of hunger soared in 2020 and 2021, particularly in SSA, going from 20.1% in 2019 to 32.2% in 2021.<sup>3</sup> The effects of the global food crisis led to a deterioration in the food security of ISFD MCs. Increasing food prices in 28 MCs for which data are available, food-

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<sup>1</sup> Data are retrieved from the annual Global MPI report for 2022.

<sup>2</sup> Data retrieved from <https://www.fao.org/hunger/en/>

<sup>3</sup> The data are taken from the FAO food price index and FAO report "The State of Food Security and Nutrition in the World" (2022) (retrieved from <https://www.fao.org/publications/sofi/2022/en/>)

insecure people<sup>4</sup> are estimated at 152 million as of 2020. Of the MCs with data, 35% are highly food-vulnerable, while 33.3% face a high food vulnerability with moderate to low food resilience.<sup>5</sup>

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<sup>4</sup> Food Security is obtained when all people, at all times, have physical and economic access to sufficient, safe, and nutritious food that meets their dietary needs and food preferences for an active and healthy life. It has four dimensions: availability, accessibility, utilisation, and stability.

<sup>5</sup> Data are taken from the Global Food Security Index (<https://impact.economist.com/sustainability/project/food-security-index/>)

## PART II: ROLE OF THE ISFD IN POVERTY REDUCTION IN OIC MEMBER COUNTRIES

The ISFD was established as a special fund within the IsDB, pursuant to a decision adopted by the Third Extraordinary Session of the Organisation of Islamic Conference Summit held in Makkah Al-Mukarramah on 5-6 Dhual Qa'dah 1426H (7-8 December 2005G). The Fund was established with a target capital of US\$ 10 billion with the purpose of financing different productive and service projects and programmes that help reduce poverty in OIC member countries in accordance with its Regulations.

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

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

In 2020, the ISFD embarked on a new transformation strategy, the new vision driven from this strategy is to have poverty reduced in OIC MCs by 2030.

As the Fund's capital is an endowment (Waqf), operations which are for the essential grants and concessional loans are funded from the retained income. Since 2017, the BOD has authorised the ISFD to fund some programmes in the development of Waqf and economic empowerment. The resources invested are taken from the Fund's capital resources. This allows the Fund to invest directly with the poor and enhance their employment and income-generation opportunities.

### Operations since inception

Since its launch in 2007, the ISFD has cumulatively approved around US\$ 1.3 billion<sup>6</sup> of concessional loans, grants, and investments to finance projects and programmes for poverty alleviation. The cumulative grants have reached US\$134 million, while the loans are US\$1.10 billion, and the investments have reached US\$ 81 million. The Fund's financing went to standalone projects, flagship programmes, and joint initiatives with the IsDB, such as the LLF where the ISFD contributed grants of US\$100 million. The ISFD cumulative financing contributed to US\$8.74 billion worth of relevant projects in partnership with the IsDB (US\$ 4.25 billion), MCs, and other donors for the remaining amount.

Since inception, the ISFD was approving an average financing of US\$ 70 million per year. There were some exceptional years where the ISFD approval was exceeding US\$ 100 million. This was the case for

<sup>6</sup> The ISFD's cumulative approvals as per the IsDB database is US\$ 1.21 billion. This includes US\$87.1 million in approvals: (GIFR US\$ US\$50 million, PSE-IWIF US\$20 million, Investment BEN1007 US\$9.7 million, ICERI US\$1.17 million, scholarships US\$3.23 million, STEP US\$3 million, and STI).  
Source: ISFD and IsDB Corporate Performance Department 2022.

example in 2016 where the ISFD approved US\$ 100 million for the LLF. The figures below show the ISFD approvals evolution since inception and its distribution by financing mode.

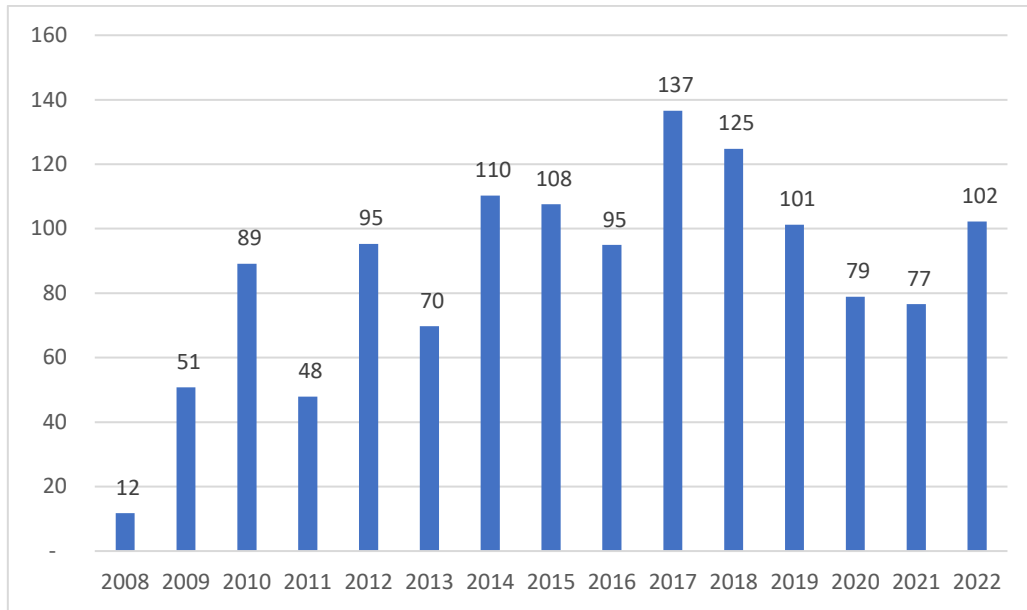


Figure 3.1: Approvals by year since inception (US\$ million) as per 31/12/23

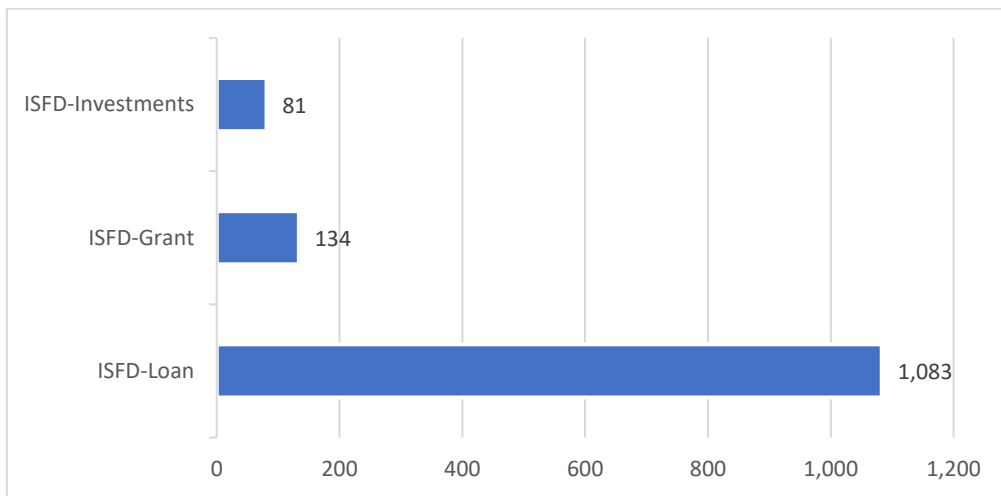


Figure 3.2: Approvals by mode of financing since inception (US\$ million) as per 31/12/23

### Geographic coverage

The ISFD operations are essentially for the LDMCs which represent 74% (US\$ 965 million). This percentage reached 96% in 2020. The ISFD's new strategy for poverty reduction stipulates that 80% of the ISFD financing should go to the LDMCs. The remaining 20% should go to non-LDMCs. In total, 51 out of 57 MCs benefited from the ISFD financing since inception, of which Senegal, Mali and Guinea are the top three in Africa, while Pakistan, Kyrgyz Republic and Tajikistan are the top three in Asia.



## Sector distribution

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The ISFD projects and programmes cover a range of key sectors for social and economic development. Agriculture<sup>7</sup> represents the highest share of funding (25%). Agriculture is a strategic sector for many MCs recipient of ISFD financing, particularly in the time of food security crisis. The health sector represents 20%. This sector has largely benefited from ISFD financing, particularly during the COVID-19 period.

The education sector (18%) is also strategic for the ISFD. Over the last years, the ISFD was focusing on the issue of out-of-school children. Energy, which represents 12%, is also strategic for poverty reduction in every aspect. Economic empowerment and microfinance in general represent 11% of approvals, while community development represents 5%.

As per the new strategy of the Fund, the new mission of leading innovative poverty reduction programmes, with a focus on comprehensive human development (education, women and youth economic empowerment, community development, and health) in LDMCs is expected to result in more approvals in the coming years for these sectors.

Another aspect of the new strategy is that the ISFD financing will be progressively delivered through flagship programmes, which means fewer standalone projects. There are already eight flagship programmes:

1. The Out-of-School Children Programme, which focuses on the basic education and enrolling children in basic education.
2. The STEP Programme which focuses on supporting capacity building and skill enhancement besides education for IDPs and refugees.
3. The Alliance to Fight Avoidable Blindness.
4. The Tadamon CSOs Pandemic Response Accelerator Programme, which was introduced as part of response to the COVID-19 pandemic.
5. The ISFD NGO Empowerment for Poverty Reduction Programme for supporting capacity building for the CSOs and NGOs in member countries.
6. Trade Finance for LDMCs with the ITFC, which was introduced as part of the ISFD contribution to the food security crisis and will be supporting trade finance for food commodities in the LDMCs.
7. The ICIEC-ISFD COVID-19 Emergency Response Initiative (ICERI) in collaboration with the ICIEC to facilitate importing medical goods and strategic commodities by the LDMCs.
8. The SERVE Programme (Strengthening the Economic Resilience of Vulnerable Enterprises) designed to strengthen the resilience of vulnerable enterprises negatively affected by the pandemic in economic empowerment.

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<sup>7</sup> Source: ISFD & IsDB (Corporate Performance Department) 2022.

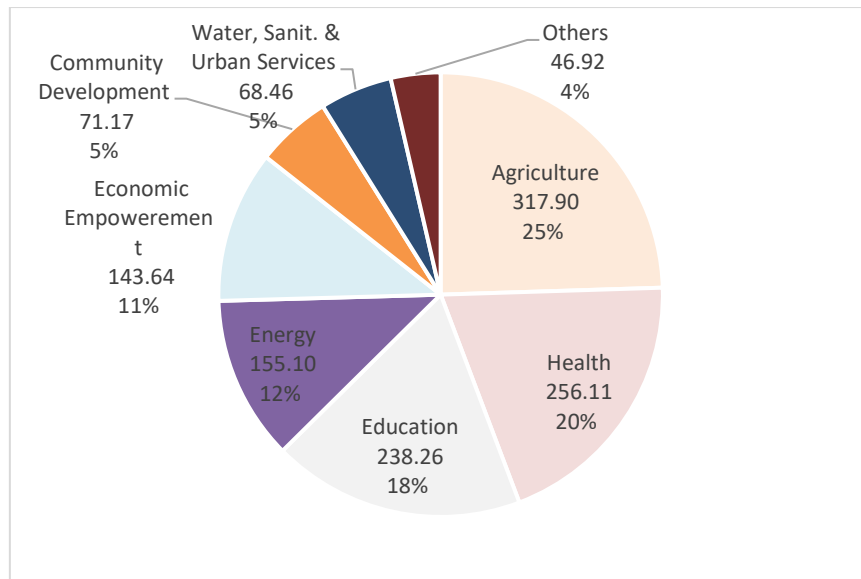


Figure 3.3: ISFD approvals since inception by sector (US\$ million) as per 31/12/23

### ISFD response to the food security crisis

The food security crisis that the world is facing emerged following the conflict triggered in Eastern Europe. Many MCs, particularly those which are food importers, are impacted. This is the case for 36 MCs essentially in the Sub-Saharan Africa and MENA regions. In response to this crisis, the IsDB BED and the ISFD BOD held an extraordinary meeting on 28 July 2022 and approved the IsDB Group Food Security Response Programme (FSRP). It is a programme of US\$ 10.54 billion for the period July 2022-December 2025. Of this amount, the ISFD will contribute up to US\$ 75 million, including an envelope of US\$ 15 million for concessional loans available immediately. The ISFD allocation is from:

- i) re-allocation of unutilised resources under the SPRP.
- ii) adjustment of the scope of some active ISFD programmes toward food security and alignment to FSRP programme objectives; and
- iii) new allocations for 2023 and 2024. For the immediate and short-term track, the ISFD allocated US\$ 25 million, while the remaining US\$ 50 million have been allocated for the long-term track.

### Operations in 2023

In 2022, the ISFD has already approved US\$ 50<sup>8</sup> million for projects and programs in education and economic empowerment. The ISFD has also approved from different sources US\$ 150 for the replenishment of the Lives and Livelihoods Fund (LLF). Through LLF the ISFD will be supporting many projects in Agriculture and Health sectors in MCs.

<sup>8</sup> Source: ISFD 2023.

## Resource mobilisation

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The ISFD has an approved capital of US\$10 billion. The capital commitments as at the end of 2022 amounted to US\$2.6 billion, representing 26% of the target capital (figure below). These commitments are composed of US\$ 1.6 billion committed by member countries and US\$1.0 billion by the IsDB. The largest commitments were made by Saudi Arabia (US\$ 1.0 billion) and Kuwait (US\$ 300 million). The ISFD 2030 Strategy recommended to enhance the effort to secure additional capital contributions from member countries. Efforts have continued in 2022 and the Fund has registered new commitment of US\$ 5 million from Iraq.

Paid-up capital reached US\$ 2.532 billion at the end of 2022, with member countries contributing US\$ 1.532 billion and the IsDB US\$ 1 billion. Two payments of US\$ 1.2 million were received in 2022. For 2023, the ISFD has so far registered two payments of US\$ 2 million from two MCs.

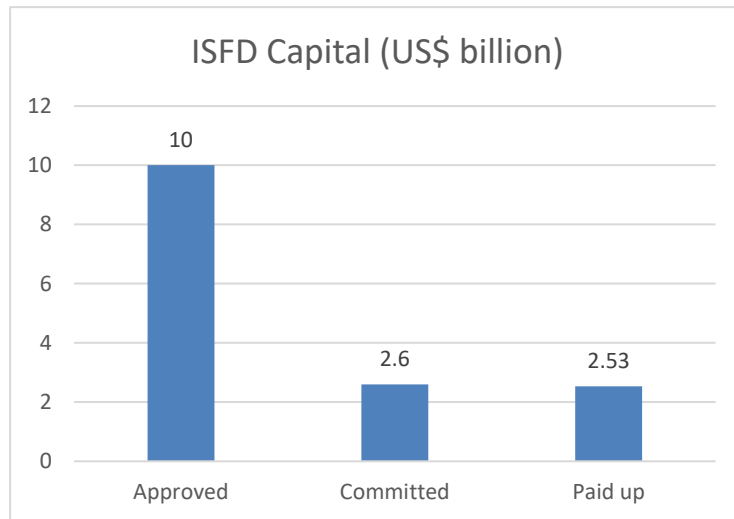


Figure 3.4: State of the ISFD capital since inception (US\$ billion)

## CONCLUSION

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In 2023 the ISFD has continued its support to MCs. Thus, the Fund approved in total so far around US\$ 200 million for several countries and regional program. This amount represents 200% of the whole approvals in 2022.

The Fund is also continuing its efforts to mobilize more resources for its capital and to develop its initiative of Country Funds. Through this initiative the ISFD is proposing to MCs in the context of MCPS to establish joint endowment investment programs to provide more resources for funding for poverty reduction projects and programs. This innovative tool allows MCs to fulfil their commitments to the ISFD capital while receiving the equivalent of these commitments in resources of funding. For the success of this initiative the ISFD will count on the support of MCs.