



# ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT

## **PROGRESS REPORT ON ISFD ACTIVITIES**

May 2024

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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
FSRP	Food Security Response Programme
ICERI	ICIEC-ISFD COVID-19 Emergency Response Initiative
ICIEC	Islamic Corporation for the Insurance of Investment and Export Credit
IsDB	Islamic Development Bank
ISFD	Islamic Solidarity Fund for Development
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
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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In 2023, the poverty in OIC Member Countries was characterized by three main elements:

### a) High Debt Servicing

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

### b) The concern over food security

The world confronts a looming food crisis driven by economic struggles and geopolitical tensions. The pandemic's lasting effects, rising food and energy prices, and increasing poverty pose significant challenges, notably affecting vulnerable communities. Hunger rates have tragically surged, with an estimated 735 million people experiencing hunger in 2022 and potentially reaching 1 billion by 2028.<sup>2</sup>

Women, youth, and rural communities face the harshest consequences of the crisis. Women, already disproportionately burdened by hunger, struggle further and young people, hindered by limited opportunities and resources, are particularly vulnerable. Sub-Saharan Africa and the MENA regions see escalating hunger rates, demanding immediate interventions to prevent a wider humanitarian crisis<sup>3</sup>.

While progress towards global food security is expected, low- and middle-income countries (especially within the OIC) face significant challenges. Many OIC members rely heavily on food imports, increasing their vulnerability to price fluctuations and

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

<sup>2</sup> The State of the Food Security and Nutrition in the World 2023 & <sup>2</sup> World Bank October 2023 World Food Security Outlook

<sup>3</sup> The State of the Food Security and Nutrition in the World 2023

disruptions. Further compounding the issue are widespread undernourishment and rising cost of healthy diets<sup>4</sup>

### c) Record levels of displaced populations

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

The trend in the numbers of forcibly displaced populations in the last twenty years is alarming. There was a threefold increase in the numbers of forcibly displaced populations in the last 10 years and a sixfold increase in the last 20 years. Ever increasing numbers of armed conflicts, wars, climate hazards and natural disasters will certainly result in many more million refugees and IDPs. Growing populations, especially in our member countries, climate change, and stiff competition for scarce resources will push more countries and communities into fragility and conflicts.

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<sup>4</sup> The Global Report on Food Crises 2022 and Agriculture and Food Security in OIC Member Countries in 2023 (SESERIC)

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

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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:

- a) providing income and employment.
- b) generating opportunities for the poor.
- c) enhancing the role of women in socio-economic development; and
- d) 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.

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

### Operations since inception

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Since its launch in 2007, the ISFD has cumulatively approved US\$1.23 billion<sup>5</sup> financing (in concessional loans and grants) sourced from its net income, and from its capital (investments) to finance projects, programs, and sub-funds established for poverty alleviation. The cumulative financing through grants have reached US\$135.3 million, while the financing through loans have reached US\$974.3 million. Furthermore, the ISFD through IsDB PPP operations contributed US\$98 million to projects that have a developmental impact. In addition, the ISFD invested from its capital US\$25.7 million in two projects for Awqaf development in Guinea and Benin. The ISFD has currently 323 active projects in its portfolio

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<sup>5</sup> The ISFD's cumulative approvals have been adjusted from last year to reflect project-based approvals, which is excluding the allocation approvals for programs and double counting for repurposed projects.

with expected good results in terms of impact. The Fund’s financing went to standalone projects, flagship programs, and joint initiatives with the IsDB. The ISFD cumulative financing contributed to US\$9.301 billion worth of relevant projects in partnership with the IsDB, MCs, and other donors.

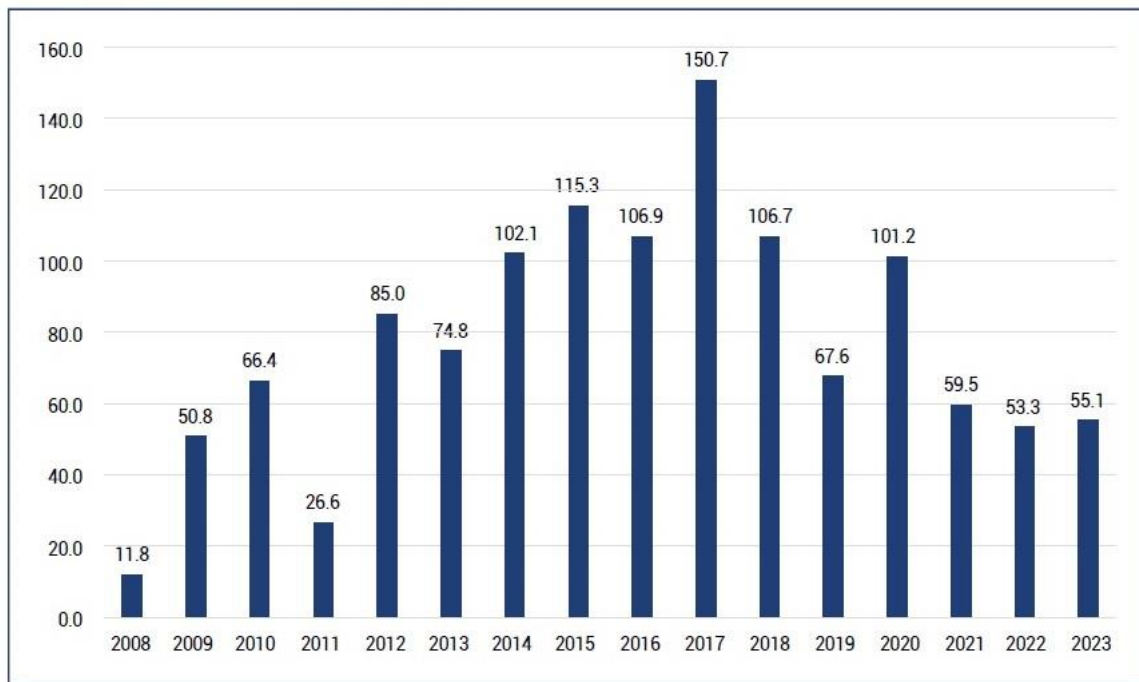


Figure 2.1: Approvals by year since inception (US\$ million) as of 31/12/2022

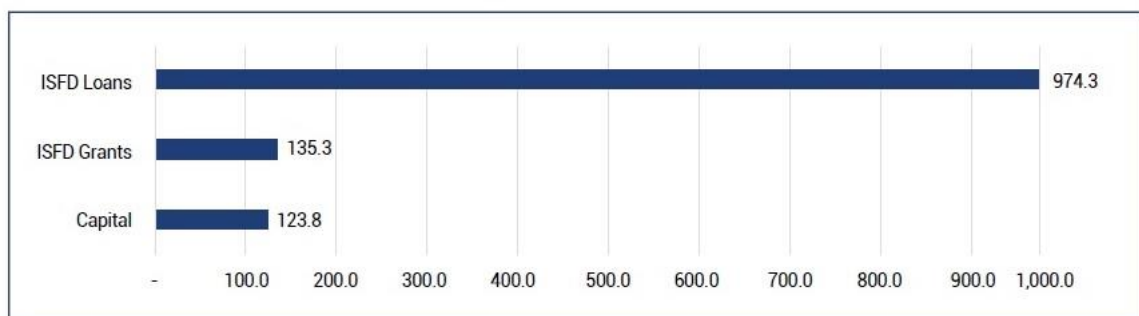


Figure 2.2: Approvals by mode of financing since inception (US\$ million) as of 31/12/2022



## Geographic coverage

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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 (23.1%), Education (20.3%), Health (18.2%), Energy (13.8%), Microfinance (13.3%), Water and Sanitation (5.9%) and others (5.4%).

## Resource mobilisation

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With an approved capital of US\$10 billion for ISFD, 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 billion) and Kuwait (US\$ 300 million). The 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. In 2023, four payments of US\$ 3.1 million were received and new commitment of US\$ 5.3 million.

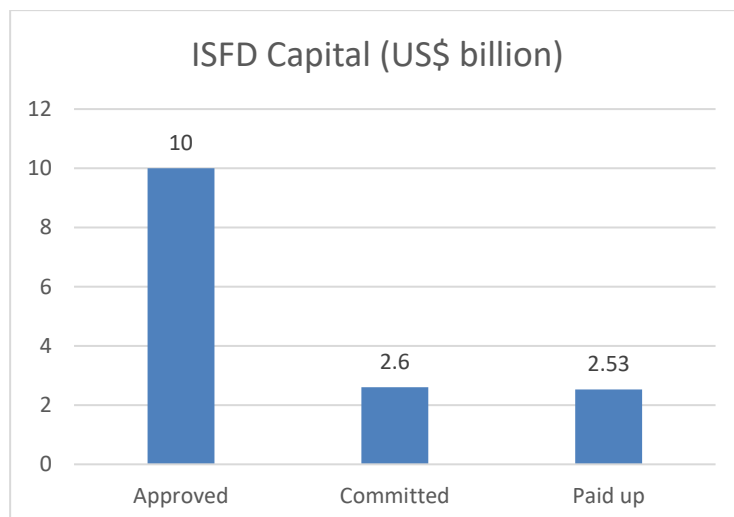


Figure 3.1: State of the ISFD capital since inception (US\$ billion) as of 31/12/2023

## Operations in 2023

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

In addition, the ISFD managed to attract additional resources for Al-Quds Empowerment Fund and the Global Islamic Fund for Refugees, whereas its contribution to LLF 2 was instrumental in generating interest from other donors.

Finally, the ISFD ensures that its loans and grants commitments to poverty alleviation and empowerment projects come with a significant leveraging effect. In 2023, ISFD commitments leveraged 5.44 US dollar for each US dollar of its contribution from other donors and partners.

## CONCLUSION

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The ISFD continuously supporting socio-economic development of MCs. Loan approvals for 2023 reached US\$105 million, comprising a multi-year allocation of US\$50 million to LLF 2 and four loan operations amounting to US\$50.5 million. In addition, the ISFD set aside US\$100 million from its capital the returns of which will be allocated as grant contributions to LLF 2. The ISFD is also continuing to advocate for its capital. The total mobilised amount for 2023 stood at US\$8.47 million. The Fund is continuing advocacy for its new innovative product of Country Program. Through this initiative, the ISFD is proposing to MCs to establish joint endowment investment programs to provide more resources for poverty reduction.