The Road to the SDGs

The President's Programme

A New Business Model for a Fast-Changing World

IsDB
البنك الإسلامي للتنمية
Islamic Development Bank

THE FUTURE
Volume 1

The Road to the SDGs

The President's Programme
A New Business Model for a Fast-Changing World

IsDB
البنك الإسلامي للتنمية
Islamic Development Bank

DISCLAIMER

The designations employed and the presentation of material in this information product do not imply the expression of any opinion whatsoever on the part of Tudor Rose concerning the legal or development status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. The mention of specific companies or products of manufacturers, whether or not these have been patented, does not imply that these have been endorsed or recommended by Tudor Rose in preference to others of a similar nature that are not mentioned.

The views expressed in this information product are those of the authors and do not necessarily reflect the views or policies of the publisher.

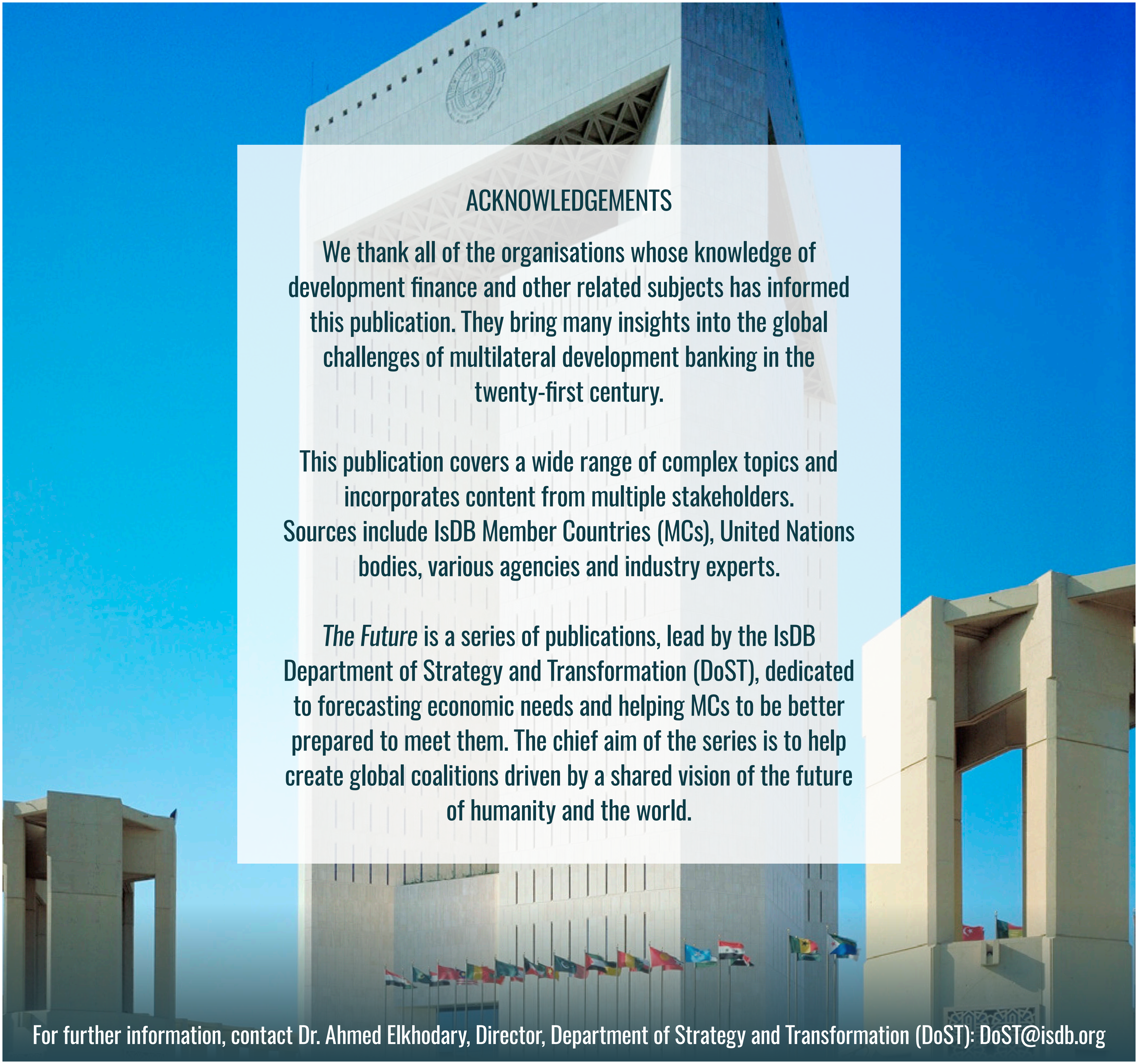
ISBN: 978-0-9956487-7-7
The Road to the SDGs
The President's Programme
A New Business Model for a Fast-Changing World

The authors would like to thank the following for permission to use their illustrations within this publication:
Alex Buisse for Proud Robinson
Brent Stirton/Getty Images News
Getty Images
Grahame Jenkins/Unsplash
Issouf Sanogo/AFP/Getty Images
London Stock Exchange
Marco Longari/AFP/Getty Images
Stringer/AFP/Getty Images
Tom Bunning for Proud Robinson & Partners
Tony Karumba/AFP/Getty Images
Yoray Liberman/Getty Images News

Published in 2019 by Tudor Rose
www.tudor-rose.co.uk

IsDB
البنك الإسلامي للتنمية
Islamic Development Bank

Tudor Rose



ACKNOWLEDGEMENTS

We thank all of the organisations whose knowledge of development finance and other related subjects has informed this publication. They bring many insights into the global challenges of multilateral development banking in the twenty-first century.

This publication covers a wide range of complex topics and incorporates content from multiple stakeholders. Sources include IsDB Member Countries (MCs), United Nations bodies, various agencies and industry experts.

The Future is a series of publications, lead by the IsDB Department of Strategy and Transformation (DoST), dedicated to forecasting economic needs and helping MCs to be better prepared to meet them. The chief aim of the series is to help create global coalitions driven by a shared vision of the future of humanity and the world.

For further information, contact Dr. Ahmed Elkhodary, Director, Department of Strategy and Transformation (DoST): DoST@isdb.org

The Islamic Development Bank is working to improve the lives and livelihoods of those we serve. We promote social and economic development in Member Countries and communities worldwide, delivering impact at scale. We provide the infrastructure and training needed for people to lead better lives and achieve their full potential.

We believe all people have the right to live in dignity and prosperity, and that nurturing economic growth is the best route out of poverty.

We equip people to drive their own economic and social progress at scale, putting the infrastructure in place to enable them to fulfil their potential.

We build collaborative partnerships between communities and nations across the public and private sectors.

We foster innovative and sustainable solutions to the world's greatest development challenges, as we work towards the United Nations Sustainable Development Goals.

IsDB
البنك الإسلامي للتنمية
Islamic Development Bank

The emerging global development agenda, represented by agreement on the Sustainable Development Goals along with subsequent agreements (such as COP21 on climate change, the Addis Ababa Action Agenda (AAAA), and the Sendai Framework for Disaster Risk Reduction) represents a trajectory shift in the global development dialogue. Operationalising this agenda requires a different business model that emphasises market-led growth, science, technology and innovation, and global partnership for development. It is time to shift the global development narrative from short-term interventions addressing narrow and immediate pain points to tackling the root causes hindering sustainable growth.

Contents

Contents

This publication is dedicated to creating a better future

A future in which all people live in dignity and prosperity, with no one left behind

A future in which governments establish and enforce rules and regulations that enable all economic agents in the market — both public and private — to play a role in development

A future that reflects deep commitment to implementing the 2030 Agenda for Sustainable Development — as articulated in the SDGs — and to building strong partnerships to achieve those goals

A future in which people and communities are empowered by building their capabilities to participate, influence, and control the events that affect their lives, and enabling them to fulfil their potential to create a sustainable future for all

Preface

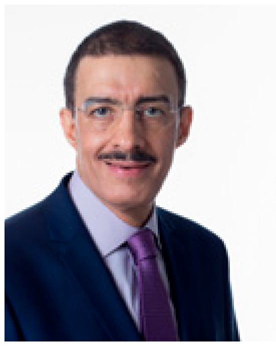
Over the past four decades, the Islamic Development Bank (IsDB) has made some remarkable achievements. My responsibility as the new head of the Bank is to maintain and build on those achievements while keeping abreast of the rapid changes currently taking place globally. The shape of the world today would have been described a few years ago in terms of science fiction. However, this fiction has become a reality with the emergence of fintech, blockchain, big data, artificial intelligence, and 3D printing. All of these innovations have profoundly influenced the way in which individuals, companies and countries work, and have changed many economic and financial preconceptions, thus requiring very different business models.

Today, the engine of economic growth is innovation rather than tangible capital and natural resources. Large companies have emerged without tangible, physical assets but with electronic applications that have been used to increase wealth and create jobs. Entrepreneurs are driving this transformation. They have a clear vision for the new world and have created new markets and jobs. Now, no single commodity is produced in one place, but in different geographic regions depending on their comparative advantages and competitiveness. Also, innovation has changed the landscape of employment, enhancing future functions with artificial intelligence, robots and 3D printing.

In addition to those rapid technological changes, IsDB Member Countries (MCs) are facing rapid demographic changes with the total population expected to reach 2.2 billion by 2030; with youth representing 65% of that number; and with an estimated 100 million new entrants to the job market between 2015 and 2030. This is coupled with a huge financing requirement to implement the Sustainable Development Goals that has increased from billions to trillions of US$, exceeding the capacity of any single institution or state. Thus, the need for partnership has never been more urgent as it is now.

The Bank's new business model is based on strengthening the competitiveness of MCs in the strategic industries in which they have a comparative advantage, creating local value chains while integrating them with global value chains, embedding science, technology and innovation into the value chains, and leveraging innovative Islamic finance and partnership modalities. The new business model prioritises the building of human capital and recognises the entrepreneurs' role as leaders in the transformation journey.

Over the past two years, we have created awareness of the magnitude and implications of these global changes and what needs to be done, both at the level of the Bank's staff and at that of MCs. Shifting from an economy that depends entirely on the export of raw materials into an industrialised economy requires creativity and patience while keeping one fundamental question in focus: "What would happen if IsDB does not change its business model and MCs do not change their development models?" We are pleased to report that the Bank's new business model has been met by the MCs with positive approval and support, and that we have already jointly begun to implement some of its new initiatives on the ground.



H.E. Dr. Bandar M.H. Hajjar
President, Islamic Development Bank


SETTING THE PACE IN A FAST-CHANGING WORLD

In This Section

Islamic Development Bank Member Countries face an unprecedented range of dynamic challenges as they pursue sustainable development. In a world of rapid and often unpredictable change, the Bank offers strategic leadership to help countries take a proactive approach.

Making markets work for development

The global development landscape is changing rapidly due to technological advancements, geopolitical circumstances and growing protectionism. Our world is faced with systemic challenges including slow economic growth, lack of infrastructure, inadequate technological development and a growing youth population. Countries face low development of human capital and high levels of unemployment. These issues, along with increased fragility, social disorder and the negative impacts of climate change, further exacerbate the situation. The challenges can be overwhelming, and we therefore need to focus efforts towards helping communities to achieve effective development, particularly the ambitious targets of the United Nations Sustainable Development Goals (SDGs).

The SDG era that began in 2015 is mired with tremendous global challenges. These challenges have a particular impact on regions within the IsDB Member Countries (MCs) where 30 out of 50 armed conflicts recorded worldwide have occurred, resulting in severe humanitarian crises and displacement across the Muslim world. It is estimated that 89 million people requiring humanitarian assistance reside in IsDB countries.[1] The movement of refugees not only affects IsDB MCs but is currently negatively affecting Europe, presenting an additional challenge to meeting SDG targets worldwide.

The SDG goals aspired to by MCs are exerting multidimensional pressures on them as they strive to achieve those goals. Conversely, many MCs are blessed with vast resources and a marked comparative advantage that would allow them to turn these challenges into opportunities and thereby achieve their SDG aspirations.

IsDB has built a vision for how it can contribute to the 2030 global development agenda. An IsDB governors' roundtable, "Partnering to build the future we want", held at the 2018 annual meeting, has set a clear direction for the Bank on key strategic priorities, principal challenges and must-win battles for MCs.

In today's severely resource-constrained environment, there is a premium on innovation in redefining the economics that will drive success in reaching the SDG targets. For instance, the global financing gap constitutes approximately 3% of global GDP, or 1.1% of the value of global capital markets, estimated at US$ 218 trillion. If MCs can mobilise only 1% of global markets and make them work for the SDGs, idle and risk-averse trillions of dollars can work for development. In this context, IsDB recognises a huge opportunity in leveraging its core strengths to multiply its developmental impact by creating global synergies to mobilise the capital market.

For humanity to prosper, countries must connect with one another and foster inclusive human development. The finance industry must grow and adapt to help realise this vision

"You give a poor man a fish and you feed him for a day. You teach him to fish and you give him an occupation that will feed him for a lifetime"

Over the past few years, international production, trade and investments have tended to be organised within global value chains (GVCs), where the various stages of the production process are located across different countries. This challenges conventional wisdom on economic globalisation and in particular, the policies that we develop around it. We believe that GVCs are of central importance to competitive performance.

If IsDB can support in developing firm links to the private sector and initiate the social and commercial infrastructure for local markets to link to GVCs and join the global marketplace, then we can begin to build the future we want. For this vision to operate successfully, IsDB is committed to working with its MCs and the wider global community to address the key issues they face, including poverty, population growth, wealth inequality and climate change.

A rapidly changing world

Despite the impressive progress made worldwide in reducing poverty over the course of the last 25 years, IsDB MCs fall far behind on many dimensions of the universal SDGs. This challenge is further compounded by global population trends, particularly youth population projections. The population of MCs is expected to increase by approximately 35% in the next 13 years, rising from 1.7 billion in 2015 to 2.2 billion by 2030. Consequently, the economies of MCs need to cater for the working youth population, which is set to increase by 100 million between 2015 and 2030.

Cross-border environmental and social shocks are also affecting the security of vulnerable populations. The global inequality crisis is getting worse, with 82% of the wealth created last year going to the richest 1% of the global population.[1] Some 3.7 billion people have been left behind and now comprise the poorest half of humanity. This is opening the door for social instability.

Climate change is affecting the security of vulnerable populations, particularly those already living in fragile and conflict-affected contexts in our MCs, where governance is stretched. It is having a compound effect on the fundamental climate-fragility risks that threaten communities across the globe.

Additionally, the world is moving into a fourth industrial revolution, an era marked by disruptive change in production processes due to advances in technology. This change is compounded by a lack of transformative industrialisation processes in MCs. Global trends show that many of those countries are experiencing negative deindustrialisation impacts.

Also, MCs need to re-imagine the way that Islamic finance can be applied today as a key instrument for development, especially as Islamic finance structures are viewed by some to be cumbersome, sometimes resulting in higher transaction costs and leaving the

Population in Member Countries is expected to increase by about 35% in the next 13 years, rising from 1.7 billion in 2015 to 2.2 billion by 2030

"Power can be taken, but not given. The process of the taking is empowerment in itself"

1.7 billion, 2015 2.2 billion, 2030

Where are we now?

- *At the global level, total investment needs are in the order of US$ 5 to US$ 7 trillion per year*
- *Investment needs of the SDGs in developing countries stand at US$ 4.5 trillion per year*
- *Total current investment in developing countries stands at US$ 1.4 trillion per year*
- *This leaves an annual investment gap in sectors critical to the SDGs of around US$ 3.1 trillion*
- *For IsDB Member Countries, this translates into annual funding of between US$ 700 billion and US$ 1 trillion*
- *The gap is far greater than the available ODA funding of US$ 145 billion*
- *The financing gap constitutes approximately 3% of global GDP, 14% of global annual savings, or 1.1% of the value of global capital markets, estimated at US$ 218 trillion*
- *Private sector investment in developing countries is substantially below its counterpart in developed countries*
- *On average, developing countries need to more than double their current private sector investment levels to be on par with developed countries*
- *In some critical sectors such as water and sanitation, private sector investment needs to increase fivefold*
- *If the private sector is not stimulated, then public expenditure needs to increase eightfold to meet the funding targets for 2030*
- *However, if the growth of the private sector is doubled from its current levels, public expenditures will only need to approximately double by 2030.*

Unemployment, especially for young people, is one of the largest problems facing Member Countries, where it is higher than in the rest of the world

industry as a whole at a strategic disadvantage compared to the conventional financing sector.

In addition, a huge gap exists between actual and potential funding. Total official development assistance (ODA) reached US$ 142.6 billion in 2016, while the financing gap to deliver the SDGs is estimated at around US$ 2.5 trillion annually. MCs alone need between US$ 700 billion and US$ 1 trillion a year to finance the SDGs. The gap is expected to widen further by 2030, with the population of MCs expected to rise from 1.7 billion to 2.2 billion, which means higher demand for resources.

What happens if we don't change?

The current business model of the Bank relies completely on its own financial resources to fund individual fragmented interventions in 57 Member Countries (MCs), in addition to communities in countries that are not members. All of these activities are managed remotely from IsDB Headquarters. If the bank continues to rely on the current business model, it will fail to cope with the fast emerging global changes mentioned above and their implications for MCs. This will diminish our role in providing solutions that help MCs prepare for the economy of the future.

If we don't strive to provide the infrastructure within which these interactions can take place, the world will be facing a very different future to the one we are now setting out

Within the framework of the current business model, the Bank's largest annual financing approvals envelope reached US$ 6 billion (US$ 12 billion if the Bank's group entities are taken in consideration). When compared to the total gap in financing for IsDB MCs to meet the SDGs, this envelope of approval is less than 1%.

The world is changing very rapidly and thus it is imperative for IsDB to adapt and become more proactive and flexible. This will enable us to be at the frontier of development, accommodating global challenges and transforming them into opportunities for a prosperous future.

The road to that future requires enhancing the competitiveness of MCs in the industries in which they have a comparative advantage, through deepening and widening value chains domestically, facilitating connectivity to the global markets, investing in science, technology and innovation, and leveraging global partnerships for knowledge and off-balance sheet financing. Industries are the engine of job creation, transforming raw material into diversified, transformed exports, thus creating economic value-add.

If MCs continue to depend on public spending as the engine of economic growth and on exporting raw material without first adding value to it or creating an enabling environment for investment, the natural consequences are increased unemployment, poverty, social and political unrest, vulnerability to climate change, illegal immigration and many other outcomes that drive the world towards a future of fragility.

If we consider just one of the global Goals, SDG 7 — access to affordable, reliable, sustainable and modern energy for all — who will need to be involved in developing, producing, installing and maintaining the technologies to provide universally accessible energy? Who is involved in determining what is 'reliable' and 'affordable'? How do governments, the private sector, and communities interact in deciding on appropriate and sustainable energy systems, and how does this differ across various contexts?

These sorts of coordination challenges exist not only for energy, but also for addressing poverty, food, health, education, water, biodiversity, and the many other issues covered by the SDGs. If we do not strive to provide the infrastructure within which these interactions can take place, the world will be facing a fragile future that is very different from the one we are now setting out to create.

Industries are the engine of job creation, transforming raw material into diversified, transformed exports, thus creating economic value-add

Islamic finance has developed as an effective tool for both Member and Non-Member countries where it has shown the potential to help address the challenges of ending extreme poverty and boosting shared prosperity

"Nobody can go back and start a new beginning, but anyone can start today and make a new ending"

10,000,000

We can support 10 million jobs for young entrepreneurs to help lead us through this period of transformation

How is IsDB responding?

It is clear that conventional approaches to these challenges are inadequate for providing sustainable solutions. Innovation, new tools and transformative policies are all needed if change is to take place. We must alter the way we think and the way we work. This means revisiting the current business model used by MCs and global development financing institutions, including IsDB.

The problem is not the lack of sufficient funds. Although ODA – as it currently stands – is far below the financing required to meet the SDGs, there are about US$ 218 trillion in the global capital markets and in various investment funds. If we can convince 1% of these funds to invest in the core sectors of the SDGs, we will bridge the financing gap, not only in MCs but worldwide. To meet the challenges set forth by the SDGs, it is time to shift the global development narrative from project interventions that address immediate pain points, to tackling root problems hindering sustainable growth, accompanied by a business model that offers integrated solutions.

We need a paradigm shift in development to keep our promise to the world to achieve the SDGs. Development specialists and the donor community should understand that financing is not an end in itself; it is just a means to empower people to take the lead in improving their lives. All people have the right to live in dignity and prosperity, and no one should be left behind.

We believe in empowering people and communities, and building people's capabilities to participate in, influence, and control the events that affect their lives. We are committed to the implementation of the 2030 Agenda for Sustainable Development (as articulated in the SDGs), and we believe in building strong partnerships to do so. Governments should not only play the role of service providers but should also embrace their role in creating an enabling environment, where all economic agents in the market participate in development.

The food and agribusiness industry represents 10% of global consumer spending, 40% of employment, and 30% of greenhouse gas emissions. We can help countries competing in this sector to capture their fair share of markets that are currently underserved

In this evolving development landscape, IsDB is aligning its business model with the changing needs of its clients. The essence of this new business model is to help MCs to achieve sustainable, inclusive growth using the value chains of current and future competitive advantage by diversifying exports beyond raw materials; by championing industries to build industry 4.0 capacity through investment in STI and infrastructure; and through crowding-in significant funds from the global capital markets by turning development assistance resources into catalytic financing.

The process of making markets work for development will be implemented through comprehensive programmes that mainstream six operational result areas:

Improving access to market information

Market growth requires access to macro and micro data to enable deeper understanding of market value chain activities. In addition, availability of data gives investors access to possible investment opportunities as well as the nature of risk and profit involved. This allows markets to self-organise and reallocate investments to address problems and meet their development needs organically.

"Never tell people how to do things. Tell them what to do and they will surprise you with their ingenuity"

Opening up national planning processes

The starting point for improving market integration locally and among countries lies at the stage of national planning. Hence, IsDB aims to make its country programming process a platform for all important players in the market, including government, private sector and community actors. In addition, IsDB will mainstream experience exchange and technology transfer among countries as key instruments in improving economic cooperation and integration among countries through crowdfunding and crowdsourcing platforms.

Doing business the Industry 4.0 way

IsDB recognises the role of the private sector in development and will thus seek to increase its participation by focusing on two actions to overcome current perceptions:

- Reform the investment environment, not only to attract investors but also to encourage the private sector to reinvest their savings domestically
- Upgrade productivity, thereby competitiveness, ensuring sustainable growth in the light of disruptions propelled by the fourth industrial revolution.

To achieve this, IsDB will increase its focus on “doing business” policy reforms and offering scholarships to future leaders, especially in the least developed MCs. In addition, STI interventions will be targeting productivity enhancements and support for entrepreneurship. To that effect, IsDB has established the Engage Platform; Transform Fund; Intellectual Property Unit; Capacity Building Programme; and many other instruments under the umbrella of SDG 9.

Building green value chain enabling infrastructure
IsDB will direct a significant percentage of its resources towards infrastructure projects that raise efficiency levels among market players within the value chains selected in the Bank's Member Country Partnership Strategy. There are two advantages to this method:

- The presence of industrial clients with a sizable demand facilitates crowding-in of market investment to these projects, as they are financially viable
- The focus on infrastructure for industrial activities helps address environmental sustainability issues as they typically have the heaviest environmental footprint.

To achieve this, IsDB will play an active role in project sourcing to improve the quality of projects so that it can attract private sector participation and thus do more with less investment from the Bank's balance sheet.

Repositioning Islamic finance for development
To unlock activities across value chains, a strong financial services industry is critical. Islamic finance is uniquely positioned to lead this since it emphasises in its principles a strong linkage of finance with economic activities. IsDB seeks to capitalise on this emphasis in order to position the Islamic finance industry as a leader in development by linking its financing to value chain activities. The industry is well positioned to adopt this leading role given its current size, which exceeds US$ 2 trillion.

Building resilient market systems
IsDB will pay special attention to leaving no one behind by making markets work for the neediest segments of the population, including women and youth. When the poor and disadvantaged are included in the benefits of growth and economic development, the market system at large will achieve higher levels of resilience and sustainability. Moreover, IsDB will mainstream environmental and social safeguards and market inclusion policies throughout its portfolio of operations.

To meet the challenges set forth by the SDGs, it is time to shift the global development narrative from project interventions that address immediate pain points, to tackling root causes hindering sustainable growth, accompanied by a business model that offers integrated solutions

Key principles of the new business model

To translate its core values into reality, IsDB has focused its efforts on the following overarching principles:

- ***Although we recognise the role of governments in economic and social development, governments cannot play the role of markets***
- ***The main challenge for governments is how to make markets work for development***
- ***Governments must address constraints that lead to market failure and make markets benefit from economies of scale, economies of scope and positive externalities***
- ***The private sector is the driving force for short- and long-term development***
- ***Public-private partnerships (PPPs) will lead to higher quality, efficiency and job creation, reduce the burden on the state budget, and optimise the distribution of risk***
- ***Success in stimulating the private sector and mobilising financial resources requires a healthy investment climate that mitigates and promotes governance and transparency***
- ***Science, Technology and Innovation (STI), coupled with a commitment to support investment in human capital, is a key enabler for sustainable socioeconomic development.***

Benefits of these changes to MCs and to the world

Aligning the Bank's business model to capitalise on opportunities for growth and prosperity requires a reorientation to drive the competitiveness of industries that are connected to the global market through GVCs. The focus on GVCs will allow IsDB to prioritise its projects in a coherent manner, targeting all players within a given value chain with the objectives of creating sustainable employment, increasing industrialisation to fourth generation capacity levels, and crowding-in resources from all market players. It is time to shift the development business model from quick fix interventions addressing narrow and immediate pain points to tackling the root causes that hinder sustainable growth. During the 2018 annual meetings, IsDB governors highlighted several must-win battles as core challenges.

Macroeconomic forecasts predict that connecting economies to the global digital economy could generate as much as US$ 4.1 trillion in GDP for the world's poorest populations

They also reaffirmed their commitment to creating the necessary enabling environment to tackle these challenges. Building on these commitments by MCs, the Bank can help turn the challenges into historical opportunities for growth and prosperity.

Three historical opportunities arise from these commitments. The first of these impacts is inclusive value chain competitiveness. The youthful population of MCs would potentially provide a pool of 10 million job seekers and entrepreneurs, annually, with the talent, energy and adaptability required to drive sustainable socioeconomic development at a time of structural change and transformation in the SDG era and beyond. IsDB's forward-looking approach identifies potential value chains through an in-house methodology that focuses on the competitiveness of a country based on its industries and products. For instance, macroeconomic forecasts predict that connecting economies to the global digital economy could generate as much as US$ 4.1 trillion in GDP for the world's poorest populations. This would entail the creation of 64 million new jobs, improving the lives of 580 million people who currently live on less than US$ 4 per day. By building value chains to create a diversification of exports and by creating jobs, IsDB will encourage MCs to capitalise on their natural endowments and intrinsic comparative advantages to lead a process of structural change towards global competitiveness in line with SDG 9.

The second impact is a resilient global developers' network. IsDB, after taking stock of the limitations of its old operational and financial models, is revamping the way it approaches its developmental mission. Even though many of the development networks are non-technological, technology has greatly facilitated the ability of individuals and groups to connect across borders and this can be harnessed to accelerate and magnify the power of all kinds of social and political networks.

In their efforts to reach SDG targets, MCs face an annual funding gap of US$ 1 trillion.

By building value chains to create a diversification of exports and by creating jobs, IsDB will encourage MCs to capitalise on their natural endowments and intrinsic comparative advantages

One tenth of the global GDP revolves around the construction industry

But, by committing to structural reforms and by crowding-in market resources and other alternative development finance sources, IsDB MCs can catalyse that US$ 1 trillion of financing into core SDG sectors. And, in mobilising the capital market, IsDB recognises a huge opportunity in leveraging its core strengths to multiply its developmental impact by creating global synergies. The developers' network has an important role to play in addressing the funding gap for MCs.

Since the launch of the SDG global agenda in 2015, the international community has been seeking ways to bridge a funding requirement of US$ 4.5 trillion. Today, total investment in developing countries stands at US$ 1.4 trillion per year, which leaves an annual investment gap in sectors critical to the SDGs of around US$ 3.1 trillion. For IsDB MCs, this translates into a US$ 1 trillion funding gap per year; a gap that is far greater than available ODA estimated at US$ 135 billion global disbursement per year, as mentioned earlier. This means that for every US$ 1 of ODA, the development community needs to mobilise US$ 23 from as yet untapped sources. In addition, public expenditure needs to increase eightfold to meet the funding targets by 2030.

...This would entail the creation of 64 million new jobs, improving the lives of 580 million people who currently live on less than US$ 4 per day

The third impact of committing to the new business model is joint green industrial innovation. For IsDB, industrialisation of the MCs is imperative to simultaneously increase the competitiveness of each country and plug into GVCs. This outcome can be best achieved through five industries:

- The US$ 5 trillion **food and agribusiness industry**, which represents 10% of global consumer spending, 40% of employment, and 30% of greenhouse gas emissions.
- The **textiles, clothing, leather and footwear industry**, which is proven as an integral part of growth and development strategies in developing countries. This sector is considered to be a typical 'starter' industry for countries as a first step on the industrialisation ladder that offers entry-level jobs for unskilled labour.
- As many MCs are producers of petroleum and chemicals, the **petroleum and chemicals industry** creates more than 20% of total employment, directly and indirectly, through adjacent industries.
- One tenth of the global GDP revolves around the **construction industry**. Given IsDB's experience in infrastructure projects, there are several opportunities to support construction and infrastructure for development in unconventional ways.
- The **Islamic finance industry** will be our most important tool to fuel our industries and foster the inclusion of sectors deprived of finance to unlock the potential of our countries. Opportunities exist for Islamic finance to incorporate technological developments in artificial intelligence, big data and blockchain technology, helping to create profitable, scaled and diverse banking institutions.

In addressing the many challenges ahead, IsDB's new business model prepares people for the future economy by supporting high added-value industrialisation. At its heart is a focus on partnership, especially with the private sector, STI and GVCs. In this way, the Bank can support sustainable growth in its MCs.

WHAT WILL THE WORLD LOOK LIKE BY 2030?

In This Section

From urbanisation to the fourth industrial revolution, global megatrends are affecting the Bank's Member Countries in many different ways. The economic impacts of these developments are far-reaching, and require targeted responses if countries are to meet their SDG commitments.

Introduction

Unprecedented global cooperation led to the creation of the Sustainable Development Goals (SDGs), which were officially launched in 2016. The 17 goals that comprise the SDGs offer ways of focusing public and private investments on critical challenges facing developing countries, and indeed, the whole world.

The SDGs reflect a new understanding that development everywhere must integrate economic growth, social well-being and environmental protection. In the process, they can be used to address the causes of conflict, human rights abuses, climate change and environmental degradation.

This is part of a wider global movement towards cooperation on key development issues. Along with the SDGs, countries have committed to the principles of the Paris Agreement on climate change, the Addis Ababa Action Agenda, and the Sendai Framework for Disaster Risk Reduction.

In order for the SDGs to work for all countries, it is crucial that governments have access to data regarding the projected value of key targets and the likelihood of price volatility, trade deficits, unemployment and other outcomes by 2030 if nothing changes — that is, if levels of investment remain as they are, compared to the likely impact of additional investments in specific SDGs.

For the SDGs to be effective, the key metrics for their achievement need to be agreed and understood by all parties. In particular, governments have to understand the likely impacts on issues such as poverty, social stability and food security if they do nothing differently, compared to the likely outcomes from implementation of the SDGs.

In recent years it has become obvious that the traditional official development aid model is increasingly less relevant and fraught with challenges. This model depends on public spending as the engine of economic growth, and on exporting raw material without first adding value to it. Moreover, the current approach often does not explicitly aim at the creation of much needed new jobs to accommodate the many annual newcomers to job markets. The result is higher unemployment and a rise in immigration to Western countries.

In addition, a huge gap exists between actual and potential funding. The amount of funding needed to deliver the SDGs is estimated at around US$ 4.5 trillion per year, globally. Current global investment sits at approximately US$ 1.4 trillion per year, leaving an annual gap of about US$ 3.1 trillion. Total official development assistance (ODA) reached US$ 142.6 billion in 2016[1], yet MCs alone need approximately US$ 1 trillion per year to finance the SDGs. This gap is expected to widen further by 2030, with the population of MCs expected to rise from 1.7 billion to 2.2 billion.

A young girl in Bamako, Mali. What will her world look like by 2030?

Emerging global megatrends

New demographic realities are shaping the way people live. High population growth rates, the 'youth bulge', rapid urbanisation, marginalised groups, and the critical need for jobs are just some of the challenges facing Islamic Development Bank Member Countries.

According to current trends, the population in IsDB Member Countries (MCs) is expected to increase by about 29% by 2030, the target date for achieving the Sustainable Development Goals (SDGs), rising from 1.7 billion in 2015 to 2.2 billion in 2030. People living in these countries will make up 26.4% of the world's total projected population of 8.3 billion in 2030, up from 23.4% of the estimated 2010 world population of 6.9 billion.

The trends also reflect an increasing urbanisation, as the bulk of the population growth will take place in urban areas. It is forecast that the ratio of urban to total population will increase by more than 10 percentage points in countries such as Albania, Bangladesh, Nigeria, Mali and Mauritania. The projected average annual urban growth rate is approximately 3% which, if sustained for the next 13 years, will result in 56% of MC residents living in urban settings by 2030.

Between 10 and 12 million jobs need to be created annually in Islamic Development Bank Member Countries — adding up to 160 million jobs by 2030

Another significant trend is that poverty, which was previously found mainly in rural areas, is increasingly being urbanised, especially in Africa where growing urbanisation coincides with either stagnant or decreasing real GDP per capita.

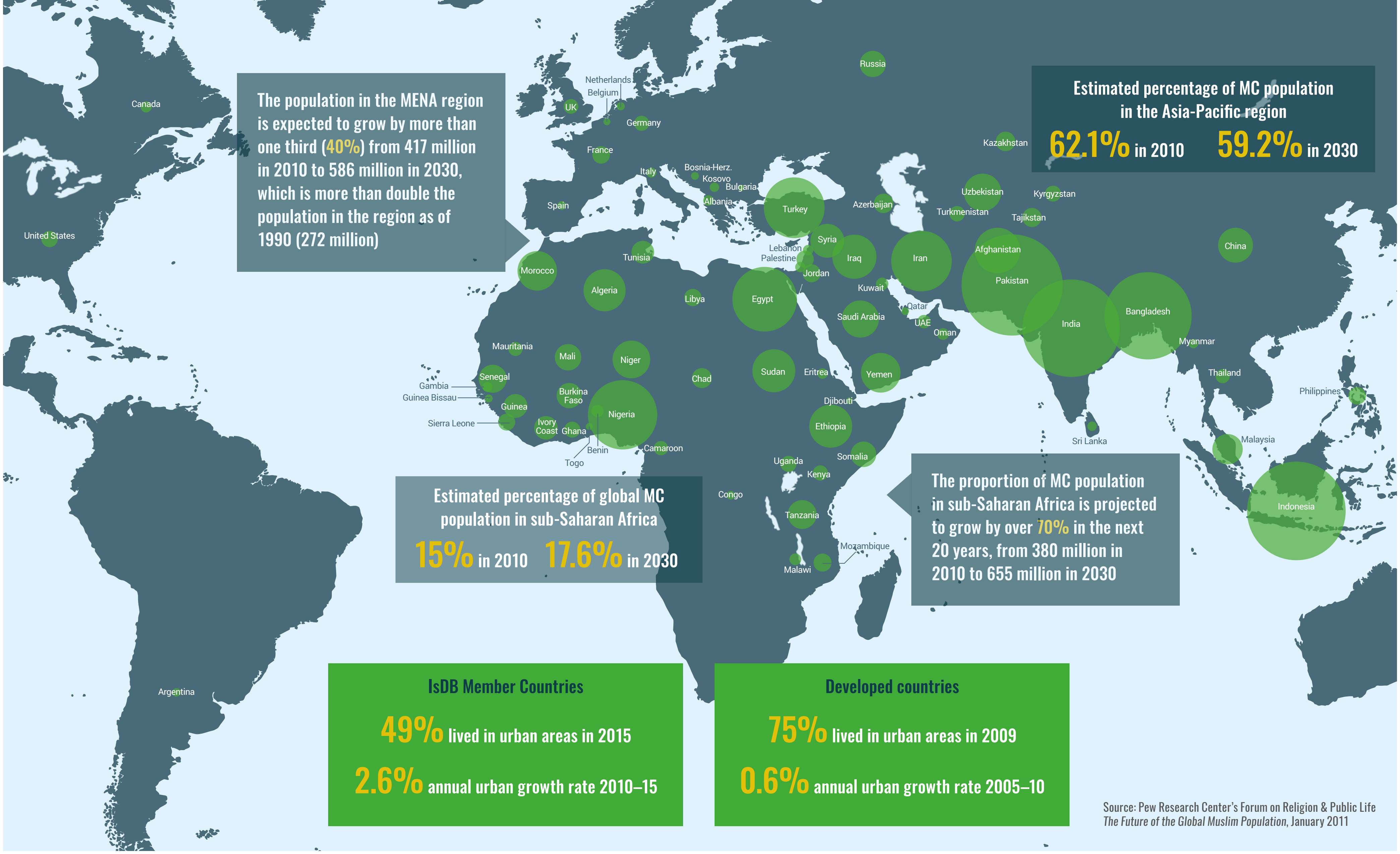
It is worthwhile putting these trends in a global perspective. The number of unemployed people around the world was estimated at just over 197 million in 2015, with less than 1 million additional unemployed compared with the previous year and about 27 million more compared with the global financial pre-crisis level in 2007.

These disparities are also markedly reflected in the Bank's MCs, in terms not only of income per capita but also of unemployment. The gap between the average per capita GDP levels of the MCs and those of non-IsDB developing countries has widened over the years, with the differential recorded at US$ 612 in 2016.

Rapid urban growth necessitates effective urbanisation policies and long-term infrastructure planning

Rapid urbanisation

Urbanisation, the demographic transition from rural to urban living, is associated with shifts from an agriculture-based economy to mass industry, technology and services. Today more than half of the world population lives in urban areas. MCs are also following this global trend, with their total urban population shown to have increased from 536 million in 2000 to 878 million in 2016. As a result, the share of MC



Projected distribution of IsDB Member Country population by country and territory

population residing in urban areas relative to total population increased from 41.7% in 2000 to 49.6% in 2016. This rapid growth in urban population necessitates effective urbanisation policies and long-term infrastructure planning to ensure healthier and safer cities that will foster worldwide trade and commerce.[1]

Slightly less than half of the population of MCs lives in rural communities, but people are moving to cities and towns at a faster rate than those of other countries around the world, many of which are already heavily urbanised.

Many MCs are still in the first stage of this process. They have largely rural populations but very rapidly growing cities and towns. MCs in sub-Saharan Africa currently have the highest rates of urban growth, with a compounded average of 4% annually. In contrast, MCs in the Middle East-North Africa (MENA) and in the Asia-Pacific region also have lower urban growth rates.

> **Slightly less than half of the population of MCs lives in rural communities, but people are moving to cities and towns at a faster rate than those of other countries around the world**

Between 2015 and 2030, the share of world population living in MCs will increase by 3 percentage points in sub-Saharan Africa, and by 1 percentage point in the Asia-Pacific and MENA regions.

The MC population in sub-Saharan Africa will account for a growing share of the global population — 5% in 2015, increasing to 8% in 2030. It is expected that 7.7% of the world's population will live in sub-Saharan Africa, up from 5.1% in 2010.

The increase in MC population between 2010 and 2030 — projected to be about 300 million — is expected to be greater than it was between 1990 and 2010, when it rose by about 161 million. Approximately 49% of the total population of MCs now lives in urban areas.[2]

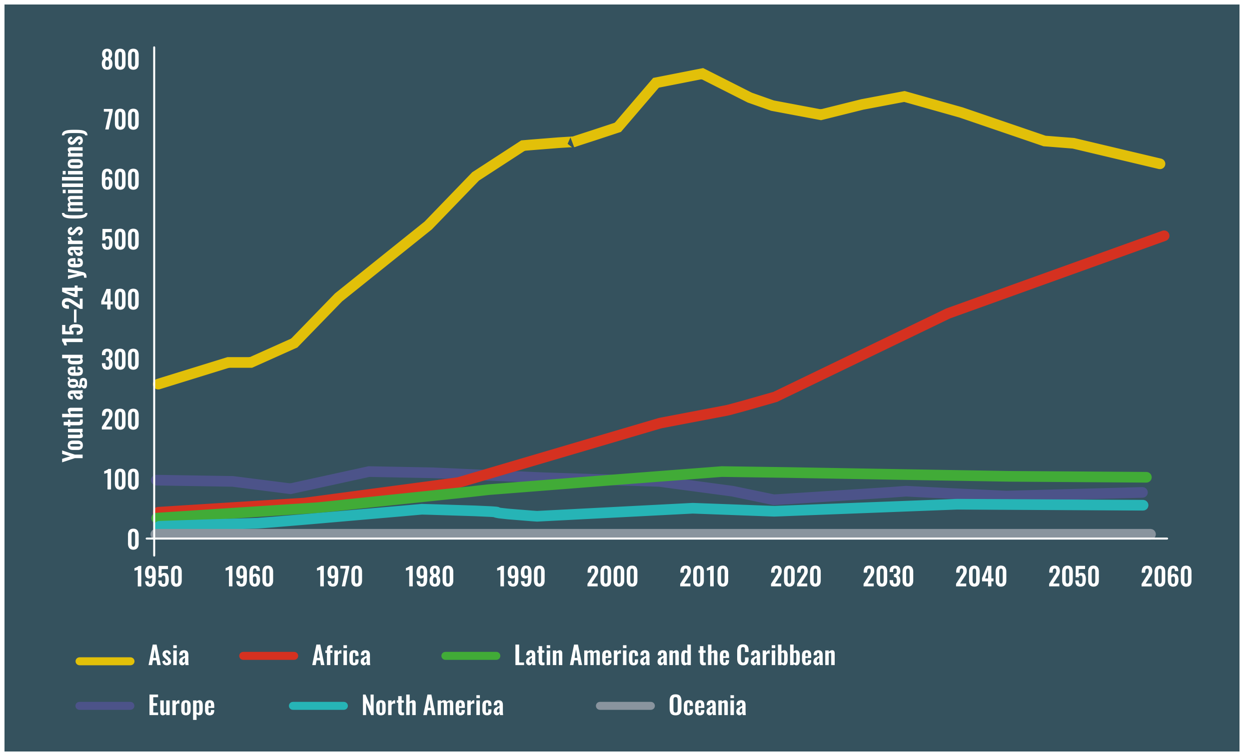
Youth bulge

With their numbers reaching 1.79 billion, young people accounted for 23.8% of the total world population in 2017. Young people in the MCs represent an especially powerful engine for socioeconomic development, with those between 0 and 24 years constituting 52.0% of the total MC population in 2017.[1]

While the MC population today is relatively young — with a high percentage in their teens and twenties — the youth bulge peaked around the year 2000. In 1990, more than two thirds of the total population of MCs was under the age of 30. It is now predicted that the working youth population (from 15 to 30), who will represent the vast majority of entrants into the workforce, will increase by 100 million between 2015 and 2030.[2]

Young people suffer from a lack of decent job opportunities across the globe. According to the latest estimates, some 73.4 million youth were unemployed in 2015. With a rate of 16.1% in 2015, MCs have the highest youth unemployment rate.

According to 2015 estimates, 73.4 million youth were unemployed in 2015. MCs had the highest youth unemployment rate, estimated at 16.1%



Youth aged 15–24 years, by region, 1950–2060[11]

There are significant regional variations in the prospects for youth among the MCs. For example, MCs in the Asia-Pacific region have younger populations than other countries in the region. As of 2015, people under the age of 30 made up 57% of the population of the region's MCs. By contrast, less than 30% of people living in more developed countries in the region are under 30. A larger percentage of the population in MCs in Asia-Pacific is now in, or will soon enter, the prime childbearing years (ages 15–29).

In 2015, people aged 15–29 made up 27% of the total population in the region's MCs, compared with 25.7% in other less-developed countries and 16.0% in more-developed countries. The population in the MENA region is expected to grow by 123 million between 2015 and 2030.

Literacy rates reveal the effectiveness of primary education systems in providing opportunities to gain basic intellectual skills. With an average adult literacy rate of 70.9%, MCs lag far behind the averages of the world (80.9%) and non-IsDB developing countries (84.7%). Youth literacy rates are comparably higher than adult literacy rates in these countries — on average, 80.9% of youth are literate, although this is below the world average (88.2%) and that of non-IsDB developing countries (91.0%).[3]

The figures indicate that as of 2017, youth unemployment in MCs was expected to remain at 16.2%, while it will decline to 13.3% in developed countries and remain at 11.5% in non-IsDB developing countries.[4]

There is a large disparity between genders among MCs compared to other country groups. On average, out of 100 adult women, only 65.3 can read and write while 76.8 of the male population are literate. Female literacy rates are also much lower than the world average of 77.3%.[5]

The current situation gives reason for concern regarding future growth in the youth portion of populations, as some countries are already struggling to educate and employ

The working youth population (from 15 to 30), who will represent the vast majority of entrants into the workforce, will increase by 100 million between 2015 and 2030

their young people, while also anticipating substantial growth in the number of youth. For these countries, the challenges of providing universal high-quality education, productive employment and decent work for all will be especially severe.[6]

Even though the size of the youth population has peaked in all regions except Africa, the numbers of young people requiring education and jobs will still represent major challenges for most IsDB MCs.

Young people in business

Starting a business is a challenge at any age but young entrepreneurs face particularly tough hurdles in setting up and growing productive businesses. A significant rise in the number of young people seeking work opportunities will exacerbate these difficulties in the years ahead. One out of every six people worldwide was aged 15–24 in 2015 – a total of 1.2 billion youths – but by 2030, this number is projected to have risen by 7%, to nearly 1.3 billion.[7]

There is an urgent need to take action to ensure that the youth of tomorrow have access to the knowledge and opportunities they need to thrive

Inadequate human capital investment and high youth unemployment still represent major blocks to productive engagement for today's young people. United Nations statistics indicate that in 32 countries, fewer than 80% of 15–24-year-olds are literate.[8]

The combination of rapid growth in numbers of youth with very high youth unemployment rates poses particular problems for the future. In Jordan, Iraq and Saudi Arabia, for example, youth unemployment rates are already above 30%, and youth populations are expected to grow by more than 20% over the coming 15 years.[9]

Even in countries where youth unemployment rates are comparatively low, sustainable development could be under threat in the coming years if labour markets are unable to absorb rapidly increasing numbers of young workers. Where the youth are unemployed or underemployed in subsistence agriculture, there is a risk of social or political destabilisation. In addition, those who experience a delayed start in the labour force tend to continue to lag behind in terms of earnings and income growth once they become employed.[10]

For IsDB MCs, the message is clear: there is an urgent need to take action to ensure that the youth of tomorrow have access to the knowledge and opportunities they need to thrive. In particular, this requires a focus on developing education and skills to enable the next generation to participate productively in their countries' economies through access to meaningful employment. In this way, the growth in the youth population worldwide can be turned to a positive factor for sustainable development through a combination of education, training and jobs.

A Turkish engineer uses a digital tablet to operate a robotic arm. Technological advances and wider access to social media and digital platforms will transform and disrupt the production and distribution of goods and services globally

Industry 4.0

"When compared with previous industrial revolutions, the fourth is evolving at an exponential rather than a linear pace. Moreover, it is disrupting almost every industry in every country. And the breadth and depth of these changes herald the transformation of entire systems of production, management, and governance."[1]

Researchers predict that the technology-driven fourth industrial revolution (also known as Industry 4.0) will have major impacts on governments and businesses worldwide. However, although existing industries face disruption, it is also possible to anticipate opportunities. These include lower barriers between innovators and markets, a more active role for artificial intelligence, integration of different technologies, and improved quality of life thanks to robotics and enhanced Internet connectivity.[2] Other likely positive effects of the fourth industrial revolution include the reduction of barriers between entrepreneurs and markets, and economic growth arising from automation. McKinsey & Company predicts that half of all existing work activities will be automated by currently existing technologies (autonomous vehicles are an example of this), enabling companies to save billions of dollars and to create new types of jobs.[3]

Half of all existing work activities will be automated by currently existing technologies, enabling companies to save billions of dollars and to create new types of jobs

Key future challenges include deepening inequality due to the disruption of labour markets as low-skilled and low-wage jobs are displaced by machines. Technological advances and wider access to social media and digital platforms will transform and disrupt the production and distribution of goods and services globally. The impacts will be especially profound in developing countries.[4]

The technologies enabling Industry 4.0

Engineers working on the development of an automated production line with robotic parts and applied software in order to increase productivity. This wave of technological change gives rise to greater efficiencies by changing the traditional relationships between suppliers, producers and customers as well as between humans and machines

At the heart of the fourth industrial revolution (also known as Industry 4.0) is a set of rapidly evolving and converging technologies that are pushing the boundaries of what can be achieved through additive manufacturing and advanced materials. These technologies are enabling richer insights through big data analytics and are blurring the lines between physical and digital realms through rich simulations and augmented reality. They are enhancing human capacity through artificial intelligence and autonomous robots.

The new developments are driving a shift in the way information technology is being used through cloud computing, system integration and the Internet of Things. Simultaneously, concerns about cyber security are on the rise, with the need to ensure that information systems and manufacturing lines are protected from cyber crime threats.

The interaction and resulting convergence of these technologies (some of which are not new) is creating an unprecedented pace and breadth of impact. This yields the potential for completely new industries to be formed. The enabling technologies behind these industries bring a new dimension to the industrial environment, resulting in a dramatic increase in industrial productivity.

This wave of technological change gives rise to greater efficiencies by changing the traditional relationships between suppliers, producers and customers as well as between humans and machines. It fosters integration and automation, as manufacturing systems become fully integrated and automated as a result of the digital adoption that is transforming the industrial environment. In addition, it is marked by self-adaptation to changes, as the environment becomes unified by connected systems that enable interactions within and between systems.[1]

New sustainability challenges

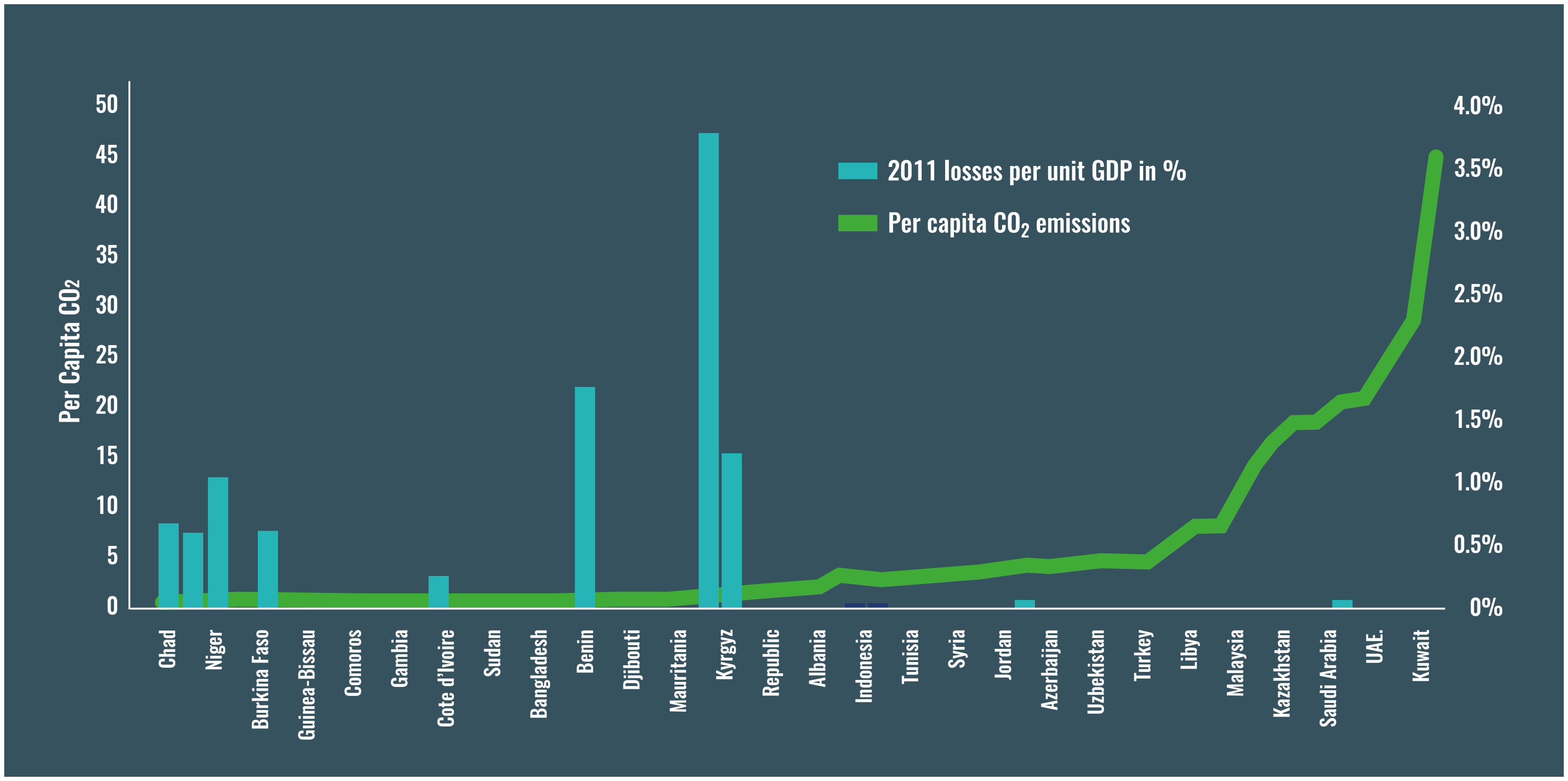
Currently, almost half of the 50 most vulnerable or fragile countries in the world fall within IsDB's membership. In these countries, growth has largely been without development. Income inequality has risen, underemployment is high, and current population and urbanisation trends, if ignored, could lead to further fragmentation and social exclusion. Natural disasters and environmental pressures often create an additional burden.

Forecasts suggest that 25% of the populations in these 50 economies – representing approximately 500 million people – will remain at or below the US$ 1.25/day poverty line in 2030. In addition, poverty could become increasingly concentrated in these countries to the extent that they become home to 62% of the global poor.

Climate change is one of the major elements affecting the security of vulnerable populations, particularly those already living in fragile and conflict-affected contexts in IsDB Member Countries (MCs). It acts as the ultimate threat multiplier by amplifying the effects of extreme weather events, volatile food provision and prices, soil and coastal degradation and livelihood insecurity, as well as migration and local resource competition.[1]

Currently, almost half of the 50 most vulnerable or fragile countries in the world fall within the IsDB's membership

Market economies in MCs may also face risks due to their reliance on exporting primary commodities coupled with failure to integrate effectively into global value chains (GVCs). These issues hinder markets in MCs and derail the process of industrialisation. The major challenges include: extreme scarcity of resources, leading to displacement and



Who suffers the most?[3]

Dry river, Bangladesh. Countries that emit less CO_2 suffer the most from climate change-related damages

unrest; climate risk, natural disasters and environmental degradation; and societal polarisation and disenfranchisement, which often lead to conflict. There are also profitability constraints inherent in many sectors in the economies of MCs due to the scale and diverse nature of activities involved in the GVCs.[2]

The economic impacts of climate change

A study of the market impacts of climate change in the MCs conducted over the period 1992–2011 reveals that countries that emit less CO_2 suffer the most in term of climate change-related damages, and countries that emit the most suffer the least.[1]

Djibouti, Tajikistan, Guyana and Bangladesh were found to have lost on average around 2% of their GDP to extreme weather events

Djibouti, Tajikistan, Guyana and Bangladesh were found to have lost on average around 2% of their GDP to extreme weather events during this period. The study found that a 1% increase in temperature is associated with a 1.2% fall in real GDP for these countries. They are also among the lowest emitters of CO_2, indicating that the impacts of unsustainable behaviour are unevenly weighted to the detriment of less developed countries.

The figure opposite shows that those countries that suffer the worst impacts are generally the least developed countries, which are already grappling with poverty. Thus, climate change complicates their poverty-reduction solutions. Multilateral cooperation among countries is needed so that those affected by the negative impacts of emissions can work together with the major emitters to mitigate climate change effects for both parties.[2]

Development banks have a critical role to play in this process, working with partner countries to prioritise their adaptation and mitigation measures. Projects undertaken in poor countries should be particularly temperature-resilient, while projects for rich countries should include mitigation measures to reduce their contributions to climate change. By making projects climate-specific, the uneven costs of climate change can be addressed.[3]

Roadblocks on the way to productivity

The Bank's MCs must create between 10 and 12 million jobs per year to meet future needs, and industrialisation is likely to play an important role in enabling them to achieve this ambitious goal. However, recent trends indicate that many MCs are deindustrialising at an early stage in their development journey. In developing economies this results in lower wages and income compared to those in more advanced countries, where industrialisation has resulted in higher wages. As a result, MCs continue to rely on exporting raw material without significant value added to it. This can result in lower wages and income, since wages are highest when industrialisation reaches its peak.

The consequences of this 'premature deindustrialisation' for MCs can be severe. Economic development of the wealthy countries has been linked to productivity growth in industrialisation and manufacturing activities. Since then, structural transformation, or movement of labour and other resources from less to more productive economic activities, is believed to have been the major source of rising economic well-being. This process of structural transformation, with a declining share of agriculture and a rising share of manufacturing in total output and employment, is essential for reducing poverty and increasing welfare[1], but it is absent in many developing countries, with serious impacts on GDP.

An average worker in Member Countries produces only 28.8% of the output produced by an average worker in the developed countries

The fourth industrial revolution in particular has the potential to affect the industrial trajectories of MCs, with its promise to revolutionise the way people live, work and connect

In Africa, for example, the share of Manufacturing Value Added (MVA) in GDP has decreased from 12.8% in 1990 to 9.9% in 2010. This is in stark contrast to developing Asia. The retrenchment in manufacturing is felt not only by the decreasing share of MVA in GDP but also the share of employment in manufacturing sectors.

There are many factors, barriers and market failures that hamper industrialisation in market economies. Although the need for policy actions to address these issues has been firmly established, broad industrial policies must take into account the choice of technologies and direction of innovations, in addition to the shape of institutions that are conducive to transformation. The fourth industrial revolution in particular has the potential to affect the industrial trajectories of MCs, with its promise to revolutionise the way people live, work and connect.

Sectors in which labour productivity is low are at greatest risk of disruption by automation and many other instruments introduced by the fourth industrial revolution. Within MCs, labour productivity figures indicate how uncompetitive the underlying sectors are. Recent research indicates that the labour-productivity gap between the developed and developing countries remained substantial throughout 2000–2016. An average worker in non-IsDB developing countries produces only 24.0% of the output produced by an average worker in the developed world. An average worker in the MCs is only somewhat more productive, generating 28.8% of the output produced by an average worker in developed countries.[2]

Internally displaced Somalis at an IDP camp in Dollow, central Somalia, for people fleeing a ravaging drought that claimed millions of lives throughout central and south Somalia, 2011

Refugees and system fragility

Forcibly displaced people and refugees represent critical development challenges for many countries. In parallel with rising conflict, the number of forcibly displaced people has reached historical highs with a significant share being hosted in IsDB MCs — eight of the top 12 hosting countries worldwide.[1] At the beginning of 2018, there were 68.5 million forcibly displaced persons, of whom approximately 28 million were refugees and 40 million internally displaced persons (IDPs).[2]

The number of refugees is the highest since the onset of the refugee regime in the aftermath of the Second World War. The number of conflict-induced IDPs has also risen since 2015. In 2017 alone, there were 11.8 million new IDPs, almost double the number in 2016. Nearly 70% of all refugees come from only five countries, all of which are IsDB MCs (Syria, Afghanistan, Somalia, Sudan and Iraq).

Forced displacement causes enormous human suffering, particularly for the extremely poor and vulnerable, including youth, women and children. It impacts on host countries and communities, posing significant challenges to the achievement of the SDGs.

Nearly 70% of all refugees come from only five countries, all of which are IsDB Member Countries[3]

At the beginning of 2018, there were 68.5 million forcibly displaced persons, of whom approximately 28 million were refugees and 40 million internally displaced persons

A group of multilateral development banks, including IsDB, has recently established a working group platform for economic migration and forced displacement. The working group agreed to expand the scope of funding for affected countries in the Arab region over the next period to cope with the current crisis affecting the whole area. It will also work with the United Nations Agencies to launch a concessional financing initiative to support countries affected by the Syrian refugee crisis.

In addition, the working group member institutions are mandated to work with international non-governmental organisations to prioritise integration between hosting communities and refugees. This includes a focus on skills development and training to ensure effective integration of refugees in local labour markets. Provision of primary health and education services to forcibly displaced people is another priority, including nutrition programmes, pre-school, primary, secondary, tertiary and adult education programmes.

The challenge of unequal wealth distribution

The global inequality crisis is worsening. According to a 2018 Oxfam report[1], 2017 saw the biggest increase in the number of billionaires in history, with one created every two days. The wealth of billionaires increased by US$ 762 billion in 12 months — an amount that could have ended global extreme poverty seven times over. In 2017, 82% of the wealth created went to the richest 1% of the global population, while the 3.7 billion people who make up the poorest half of humanity received nothing. In essence, the inequitable global economy is widening the gap between rich and poor.

The report urges governments to create a more equal society by prioritising ordinary workers and small-scale food producers instead of the rich and powerful.

In many countries wage inequality has increased and the share of labour compensation in GDP has declined because profits have increased faster than wages. Even in emerging countries with rapid economic growth, many workers, including a disproportionately large share of women, remain trapped in low pay and poverty wages.[2]

The report also finds that over three quarters of people either agree or strongly agree that the gap between rich and poor in their country is too large, while nearly two thirds of respondents think the gap between the rich and the poor needs to be addressed urgently or very urgently.

Ways in which the report suggests corporations could build a fairer economy include withholding dividends unless a living wage is paid; ensuring worker representation on boards; supporting transformational change in supply chains; sharing profits with the poorest workers; supporting gender equality in the workplace; reducing pay ratios; and supporting collective bargaining.[3]

The inequitable global economy is widening the gap between rich and poor

Food security and nutrition challenges

Following a long period in which global hunger was in decline, recent research by the Food and Agricultural Organization of the United Nations (FAO) revealed a worrying increase from 2016.[1] This trend is linked to higher levels of conflict and violence in certain regions, indicating a need to tackle these issues alongside putting in place strategies to end hunger.

However, the FAO report stresses that working for peace in itself is not enough; it is also necessary to redouble efforts to build climate resilience for food security and nutrition. With one in nine people in the world listed as undernourished in 2017 (a total of 821 million people), it is imperative that countries address the severe food insecurity that is on the rise, most notably in Africa and South America. The report says that access to safe, nutritious and sufficient food must be framed as a human right, with priority given to the most vulnerable. Actions it advises include the development of policies that promote nutrition-sensitive agriculture and food systems, with special attention to the food security and nutrition of children under five, school-age children, adolescent girls and women, in order to halt the intergenerational cycle of malnutrition.

Humanitarian crisis situations can very easily worsen the underlying causes of undernutrition, since the quantity and diversity of available foods is significantly reduced. FAO notes that children and women are the most vulnerable groups in this respect, with particular issues in resource-poor settings where ongoing food scarcity leads to diets with low nutrient density that constrain child growth. Furthermore, it highlights the need to address the threat of restricted access to healthcare, water and sanitation facilities in humanitarian crisis situations, leading to a concomitant increase in diseases.

Severe wasting among children is another major issue identified by the report. Estimates of the scale of severe wasting in children worldwide suggest that 17 million children were affected in 2016 but only a quarter were admitted into life-saving programmes. Add to this the fact that funding to care for children suffering severe wasting is often short-term and is focused primarily on humanitarian situations, and the extent of the problem becomes all too clear.

FAO urges the introduction of sustainable and adequately resourced programmes to prevent malnutrition in all its forms if countries

Access to safe, nutritious and sufficient food must be framed as a human right, with priority given to the most vulnerable

Policies that promote nutrition-sensitive agriculture and food systems are needed, with special attention to the food security and nutrition of children under five, school-age children, adolescent girls and women in order to halt the intergenerational cycle of malnutrition

are to reach the SDG targets for nutrition, including child wasting. These should include school nutrition programmes, with schools providing an effective platform for nutrition and health interventions to school-age children and adolescents.

The report also urges the establishment of water, hygiene and sanitation programmes to ensure access to safe drinking water and sanitation facilities. In addition, the deployment of social protection and safety net programmes is encouraged, to ensure access to healthy diets for children and families who are not in a position to benefit from mainstream development.

The deployment of social protection and safety net programmes is encouraged, to ensure access to healthy diets

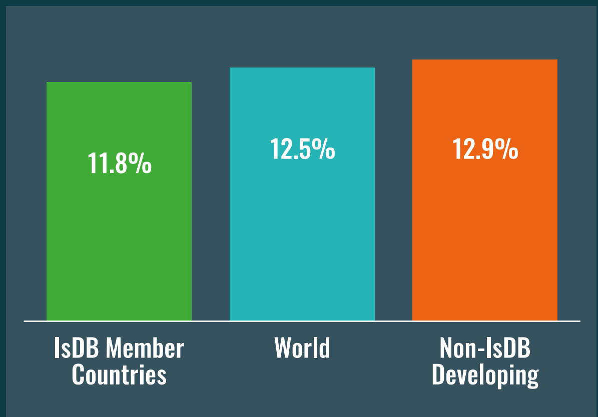
The lingering crisis of undernourishment

In 2015, there were around 194 million undernourished people in IsDB Member Countries (MCs) — 11.8% of their total population. These countries accounted for over 26.5% of the total undernourished people in the world.

In addition to a significant portion of the MC population suffering from undernourishment, nearly half of those countries are unable to produce sufficient food to meet their domestic demands. This necessitates long-term programmes to address major constraints and challenges facing agricultural development and thus, food security in these countries.

Exacerbating these trends is the fact that although land productivity in MCs increased markedly between 1990 and 2016 in terms of cereal, fruit and vegetable production per hectare of harvested land, it is still lower than the average land productivity for these three products in non-IsDB developing countries and developed countries. Productivity is also below world averages.

Low agricultural productivity reflects inadequate use of technology, including for irrigation, and a lack of a skilled labour force in agricultural activities. The result is that these countries are at serious risk of fragility in food supply for their rapidly increasing populations.[1]



Prevalence of undernourishment (% of Population), 2015[2]

The widening financing gap

For many countries, the available development resources are likely to fall far short of what will be required in the years running up to the 2030 deadline to achieve the Sustainable Development Goals (SDGs). As countries face the challenge of scaling up development finance for the realisation of the SDGs, the unique characteristics of multilateral development banks (MDBs) place them as key development institutions to achieve this crucial task.

The lending constraints of MDBs

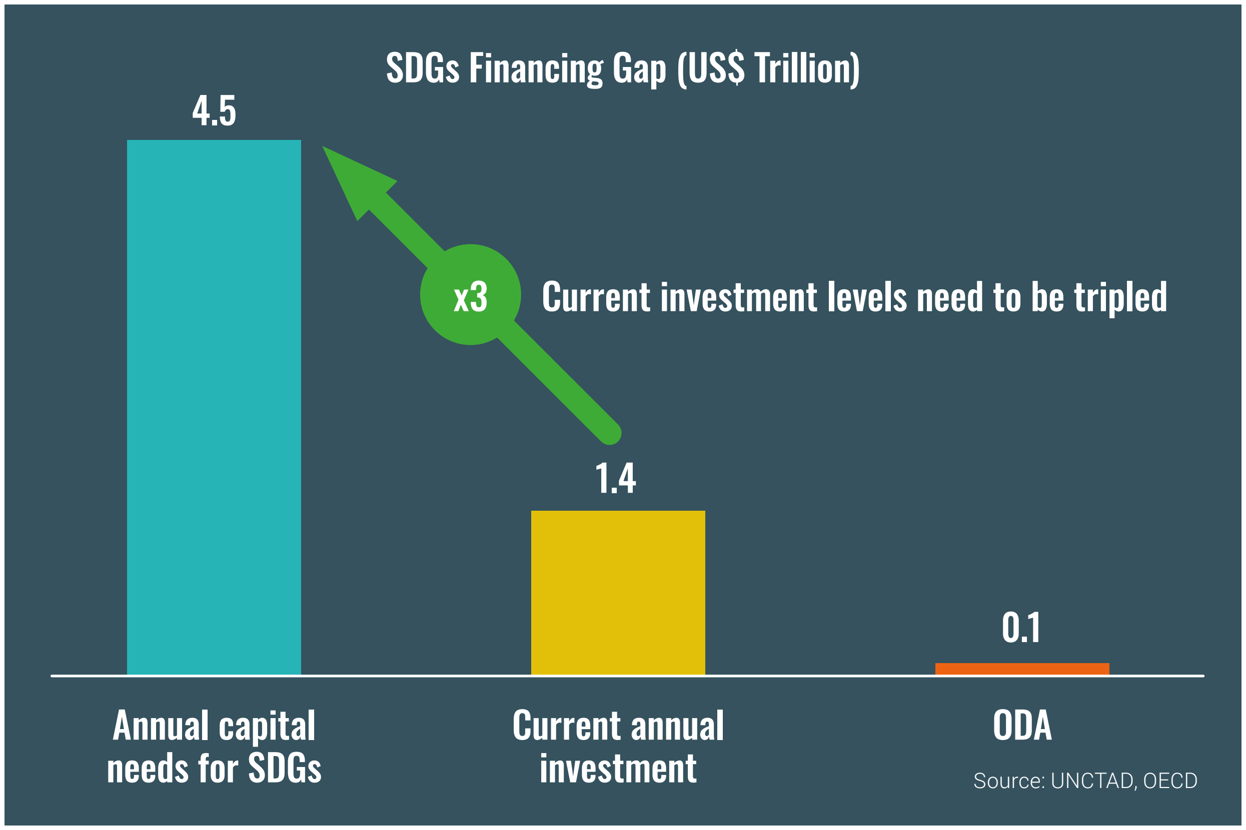
Institutional sources of funding such as MDBs can have an important role to play to help finance the SDGs due to their clear mandate to support development-oriented programmes, along with their in-house expertise and track record on identification, development, risk assessment and management of complex projects. Recent studies have considered the potential to use MDBs to reroute resources managed by institutional investors towards development finance.

Factors that may prevent MDBs from participating fully in SDG finance include lending constraints. Gearing ratios vary considerably among development banks, due in part to the fact that each bank faces specific structural, institutional and cyclical factors shaping their lending practices. However, there may be opportunities for institutional experimentation regarding banks' operations concerning equity capital. In particular, special funds mechanisms could be used to scale up development finance with greater focus on long-term, non-concessional flows.

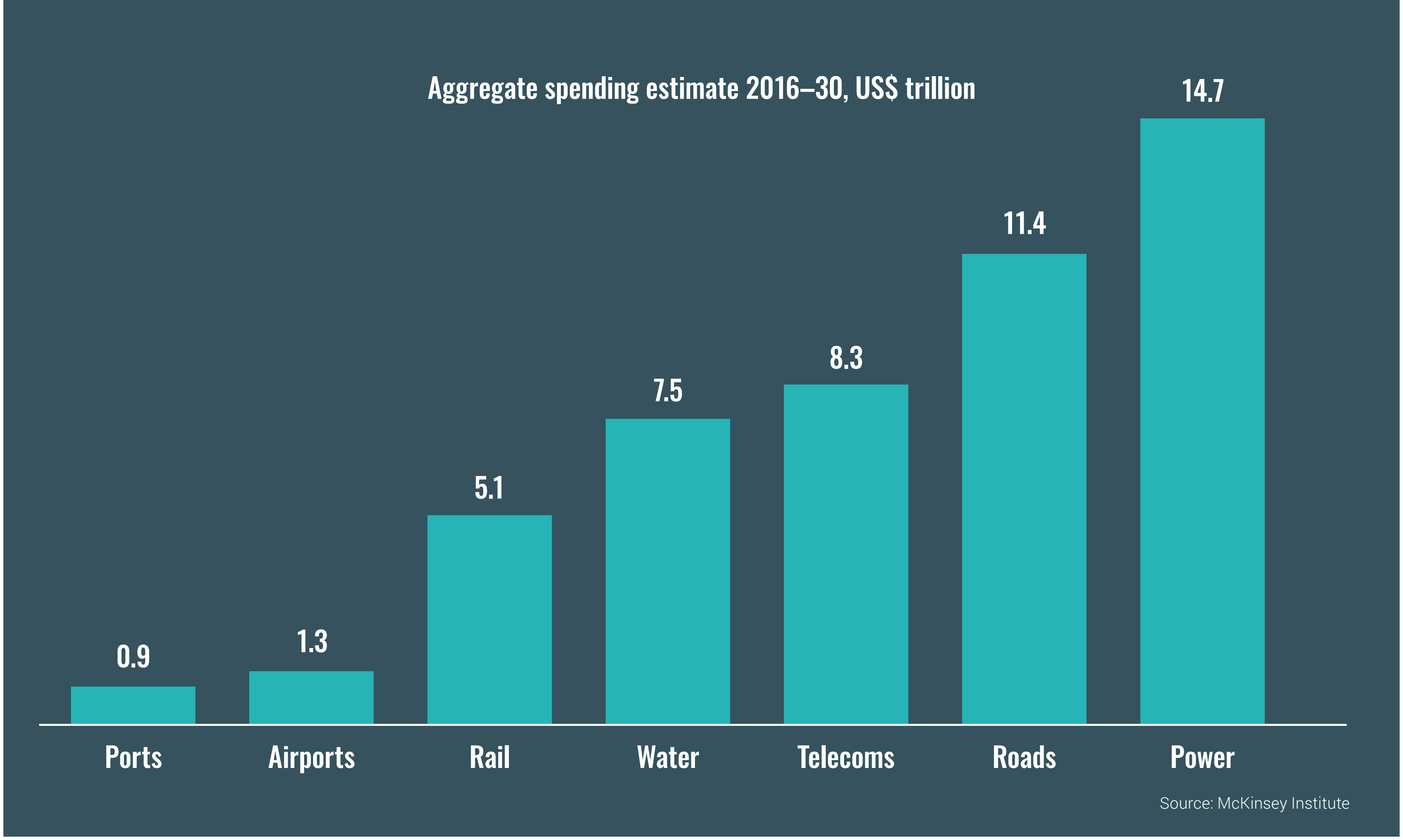
The technical expertise and capacity of MDBs for complex, long-term development projects — particularly in infrastructure — can increase the likelihood of achieving the SDGs. These organisations also have extensive experience in leveraging private resources for development projects through the provision of financial resources and instruments, from seed money to guarantees and insurance.

Factors that may prevent MDBs from participating fully in SDG finance include lending constraints

There are challenges with the MDB route to finance, in particular the narrow capital base and conservative lending approach of many institutions, which can hamper their ability to raise resources in international capital markets. However, this is changing as forward-looking MDBs step into the funding gap to meet the development needs associated with the SDGs. Changes in portfolio profile to reduce portfolio concentration risks and the establishment of co-investment platforms are among the mechanisms these banks can use to enable them to safely finance a diverse range of projects.[1]



The current development investment level is far below the mark, leaving a US$3 trillion financing gap



Achieving the SDGs requires an annual investment of US$ 4.5 trillion over the next 15 years, mainly on infrastructure projects

Gaps in the private sector and Islamic finance industry

Achievement of the SDGs requires a broad-based global economic transformation. The scale of this transformation makes it impossible to carry out with only public expenditure and official development aid (ODA) investments.

Today, total investment in developing countries stands at US$ 1.4 trillion per year, which leaves an annual investment gap in sectors critical to the SDGs of around US$ 3.1 trillion. For IsDB MCs, this translates into a US$ 1 trillion funding gap per year. The gap is far greater than available global ODA funding of US$ 135 billion. This means that for every US$ 1 of ODA, the development community needs to mobilise US$ 23 from as yet untapped sources.[1]

The natural target for such sources is the private sector but private sector investment in developing countries is substantially below its counterpart in developed countries. On average, developing countries need to more than double their current private sector investment levels to be at par with developed countries.

If the private sector is not stimulated, public expenditure needs to increase eightfold to meet the funding targets by 2030

In some critical sectors such as water and sanitation, private sector investment needs to increase fivefold. If the private sector is not stimulated, public expenditure needs to increase eightfold to meet the funding targets by 2030. However, if the growth of the private sector is doubled from its current levels, public expenditure will only need to approximately double by 2030.

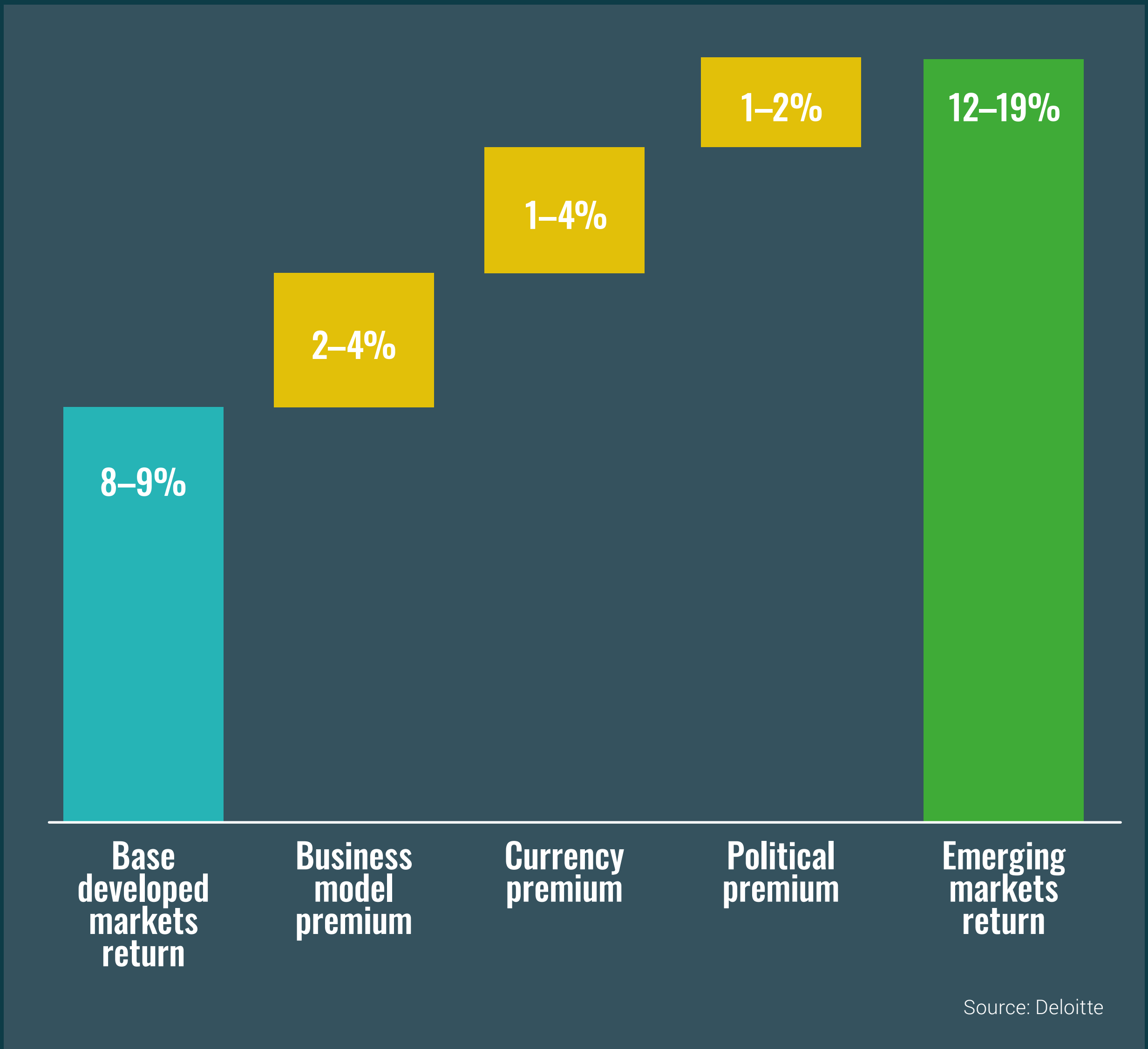
The deployment of Islamic finance solutions, which is one of the main mandates of IsDB, has the potential to play an important role in helping to bridge the financing gap for the SDGs. Since 23% of the world's population embraces Islam, the deployment of Islamic finance solutions could attract millions of those who have voluntarily withdrawn from the financial system for religious reasons.

Barriers to private sector investment in infrastructure

Infrastructure as an asset class has a huge potential to attract investors. By their nature, infrastructure equity investments typically offer lower correlation to markets and the broader economy while increasing portfolio diversification. In addition, infrastructure debt can offer stable cash flows and long duration at attractive fixed yields.

A problem faced by emerging countries is that infrastructure debt investments are frequently incorrectly perceived as being highly risky. In reality, however, such investments have historically experienced lower default rates and higher recoveries than comparable core fixed-income investments. Government budgets are the biggest source of funds, accounting for about three of every four infrastructure dollars, while the private sector provides the rest. Yet in the aftermath of the financial crisis, governments have seen their fiscal deficits grow and their budgets shrink, increasing the need for private funding. However, most private funding flows to upper middle-income countries.

> This lack of private investment in emerging market infrastructure is due to five fundamental challenges



There are many structural hurdles impeding private investment flow to SDGs in developing countries, especially after the global financial crisis

According to a 2015 report by the World Economic Forum and the Organisation for Economic Cooperation and Development, this lack of private investment in emerging market infrastructure is due to five fundamental challenges[1]:

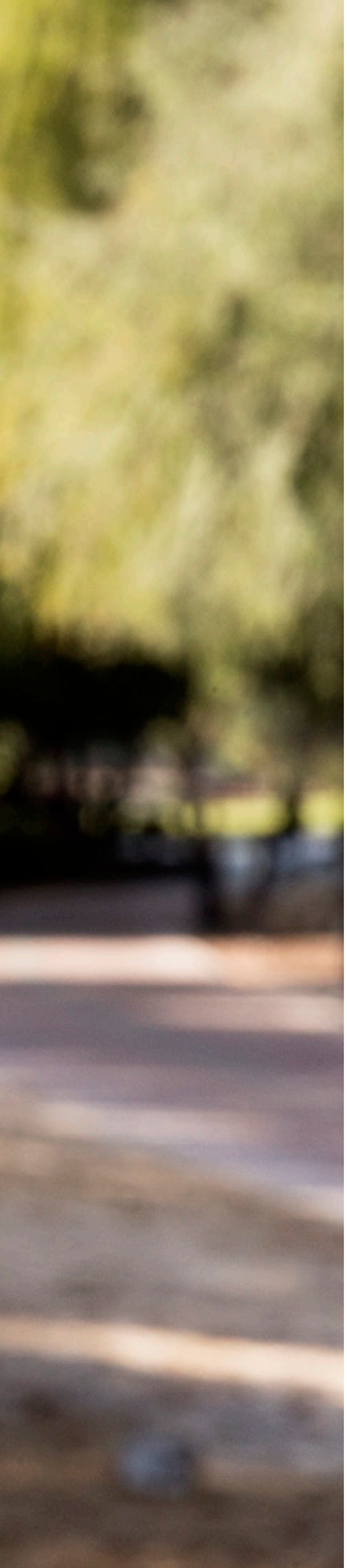
- The perception of unacceptably low returns for the level of risk
- The inefficient functioning of markets
- Knowledge and capability gaps among private investors
- Limited mandates and incentives to invest in sectors or markets with high development impact
- Difficult local and global investment climates, in which local regulatory and legal challenges reduce the attractiveness of investments.

These factors are exacerbated by the fact that, when compared to developed markets, the level of private sector participation in the developing markets' infrastructure needs to more than double. In some sectors, such as water and sanitation, it is estimated that private sector participation needs to increase fivefold.[2]

RETHINKING DEVELOPMENT TO 2030 AND BEYOND

In This Section

It's time to shift the global development narrative from Band-Aid interventions that address narrow and immediate pain points to tackling the root causes that hinder sustainable growth. Building on Member Countries' commitment towards achieving the Sustainable Development Goals, IsDB can help turn the challenges into historic opportunities for growth and prosperity.



Introduction

Faced with many daunting challenges, IsDB Member Countries (MCs) require new ways of working to succeed. This in turn requires a fresh look at strategic priorities and modes of operation to make markets work for development. By building and strengthening national competitiveness and connectivity to global markets, MCs can take advantage of opportunities and drive markets to achieve inclusive and sustainable growth.

The introduction to this publication discusses the fact that conventional approaches to these challenges are inadequate for providing sustainable solutions, in part due to the complex nature of the responses that are required. It is no longer sufficient to deploy 'business as usual' policies and strategies; the approach needs to be innovative and transformative to have any chance of sustainable success. Perhaps most challenging is the realisation that sweeping changes are needed to our thinking and to the way we work. This requires a willingness to revisit – and revise – the current business model used by MCs and global development financing institutions, including IsDB.

When far-reaching organisational transformation is mooted, a familiar barrier to action is often the problem of funding. In this case, IsDB has found a solution to this issue by looking beyond traditional funding sources. The global capital markets and investment funds hold about US$ 218 trillion. It is IsDB's belief that if 1% of these funds could be persuaded to invest in the core sectors of the SDGs, the existing financing gap could be closed, not only in MCs but globally.

This is a bold new way of looking at IsDB's mission and it requires a paradigm shift in development that will enable the achievement of the SDGs for the Bank's MCs. Essentially, it entails embedding the understanding that financing should not be viewed as an end in itself, but as a means of empowering people in their communities.

We believe in empowering people and communities, and building people's capabilities to participate, influence, and control the events that affect their lives. We are committed to the implementation of the 2030 Agenda for Sustainable Development, and we believe in building strong partnerships to do so. Governments should not only play the role of service providers but should also create enabling environments in which all economic agents in the market participate in development.

With this evolving development landscape, IsDB is aligning its business model with the changing needs of clients. The essence of this new business model revolves around how development can be reoriented to empower MCs to drive their national competitiveness in areas where they have – or could have — an intrinsic comparative advantage.

The new business model focuses energy, resources and interventions on meeting MCs' expectations by contributing to the achievement of their goals for 2030. In essence, the new business model promotes a change in the development narrative by adopting a growth mindset. The ultimate aim is to tackle the root causes of the vicious poverty cycle identified under SDGs 1–7.

Aligning the Bank's business model to capitalise on historical opportunities for growth and prosperity yields a new modus operandi — "Making Markets Work for Development". This new way of working revolves around how development can be reoriented to drive the competitiveness of strategic industries that are connected to the global market.

To align with the new business model, IsDB is mainstreaming six operational results drivers together with six corporate performance drivers, each constituting a critical change in the way the Bank operates and delivers value to MCs.

We need a fresh look at strategic priorities and modes of operation to make markets work for development

3 development goals

The Islamic Development Bank is accelerating its efforts to set the pace in responding to a wide range of challenges faced by its Member Countries (MCs) due to globalisation and advances in technology. Global value chains (GVCs) are an important resource in unlocking private finance sources to supplement reduced public spending. The Bank is committed to making markets work for development to meet the Sustainable Development Goals (SDGs).

Inclusiveness through competitive value chains

Development can be driven by the competitiveness of industries that are connected to the global market through GVCs.[1] This focus on value chains allows the Bank to prioritise its projects in areas with highest impact and, at the same time, provide greater opportunity for countries to be interconnected through the GVCs.

Although there has been steady progress in manufacturing output and employment, this in itself is not enough. The Report of the United Nations Secretary General on Progress of SDGs in 2017 calls for renewed investments to double the industry's share of GDP by 2030. The Bank's move in championing value chains in MCs supports this agenda and allows markets to mobilise resources for development.

The Bank is aligning its funding model with new and ambitious objectives, transforming from a development bank to a bank for developers

IsDB's new business model promotes a change of narrative for development by adopting a growth mindset focused on sustainable value creation

To address these needs, IsDB is adopting a completely new business model that promotes a change of narrative for development by adopting a growth mindset focused on sustainable value creation.

Changing global production patterns and trade will have an immediate impact on the developing and least developed countries, which often experience a disconnect between the state and private sectors, driven by changes in external markets affecting opportunities for production and trade at the domestic level. Such changes require the state to view the global production process from the angle of GVCs and to adopt new industrial transformation policies.

Policymakers, in turn, need to understand global firms and assess linkages within GVCs as well as build the productive capacities that would allow countries to move up the value addition ladder. Successful participation in GVCs can instigate higher levels of productivity and profitability in participating sectors.

Given that GVCs shape global trade flows and current global trade patterns reflect a network of GVCs[2], it is important that IsDB MCs are ready to participate in them. The Bank's approach to GVCs is based on the belief that all countries, including those that do not have natural resources, should be able to connect to value chains and that industrial policy should be targeted at enabling this sort of inclusivity.

IsDB is identifying potential value chains through a methodology that focuses on country competitiveness based on industries and products

Increasingly, production processes are organised around GVCs, with many countries' inputs to larger GVCs consisting of trade in tasks rather than in goods. IsDB is working to ensure that MCs prioritise GVCs in their national development plans so that they can take advantage of an enabling environment for engagement with the GVCs. This is especially critical since more than half of manufacturing inputs consist of intermediate goods and more than 70% of service imports consist of intermediate services.[3] The Bank believes that the resulting enhanced inclusivity and product specialisation associated with GVCs will boost sustainable growth.

IsDB is taking a proactive and forward-looking approach to identifying potential value chains, using a methodology that focuses on country competitiveness based on industries and products. In this way, the Bank can help its MCs to use all of the tools at their disposal to meet their targets regarding the SDGs.

Value chains also have considerable significance as a core part of the basis of engagement with MCs through Member Country Partnership Strategies (MCPS). This allows for prioritisation of projects on the basis of their potential to achieve sustainable and inclusive growth while promoting industrialisation.

In the past, countries with low resources were unable to enjoy the benefits of GVC participation because of the complexities of identifying a value chain for a particular country. The Bank's new approach to GVCs ensures that no country misses out on engagement with GVCs, since it enables low- and medium-income countries to join in the global network.

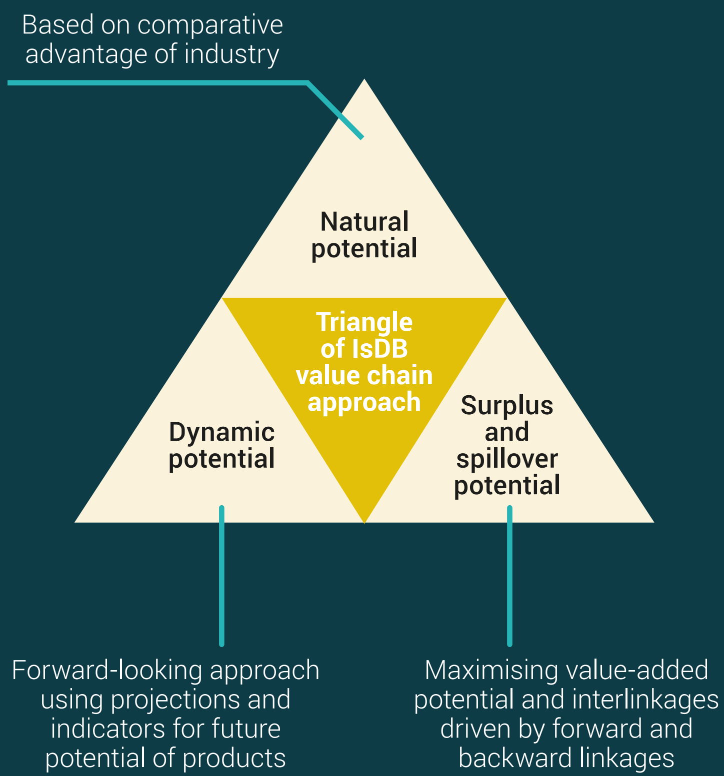
More than half of manufacturing inputs consist of intermediate goods and more than 70% of service imports consist of intermediate services

Paradigms for sustainable value chains

The Bank's new quantitative tool for selecting and identifying value chains is based on three paradigms that focus on the potential of intermediate goods rather than final products.[1] The first is the natural potential of a country. It takes into account the existing comparative advantage of a country at the industry level, considering what that country can more efficiently produce relative to other countries in the world.

The second paradigm is that of dynamic potential, which uses indicators such as market growth, global demand projections, market distance and potential export concentration, by which products or intermediate goods are identified as potential product champions.

The third paradigm is the surplus and spillover potential, which evaluates the static value-add of a particular industry and the interlinkages within various industries in a particular economy.



Triangle of IsDB value chain approach[2]

Cooperation on green industrial innovation

One of the greatest challenges faced by IsDB MCs is the transformation of innovation and research into profitable output that increases the value-add of exported products. Although many MCs export rare or specialised raw materials, they receive minimal value-add because the profit in transforming products requires investment in intellectual property (IP) which is mainly driven by large corporations. MCs need to acquire IP knowledge to tap into higher value-added products and create a knowledge-based economy.

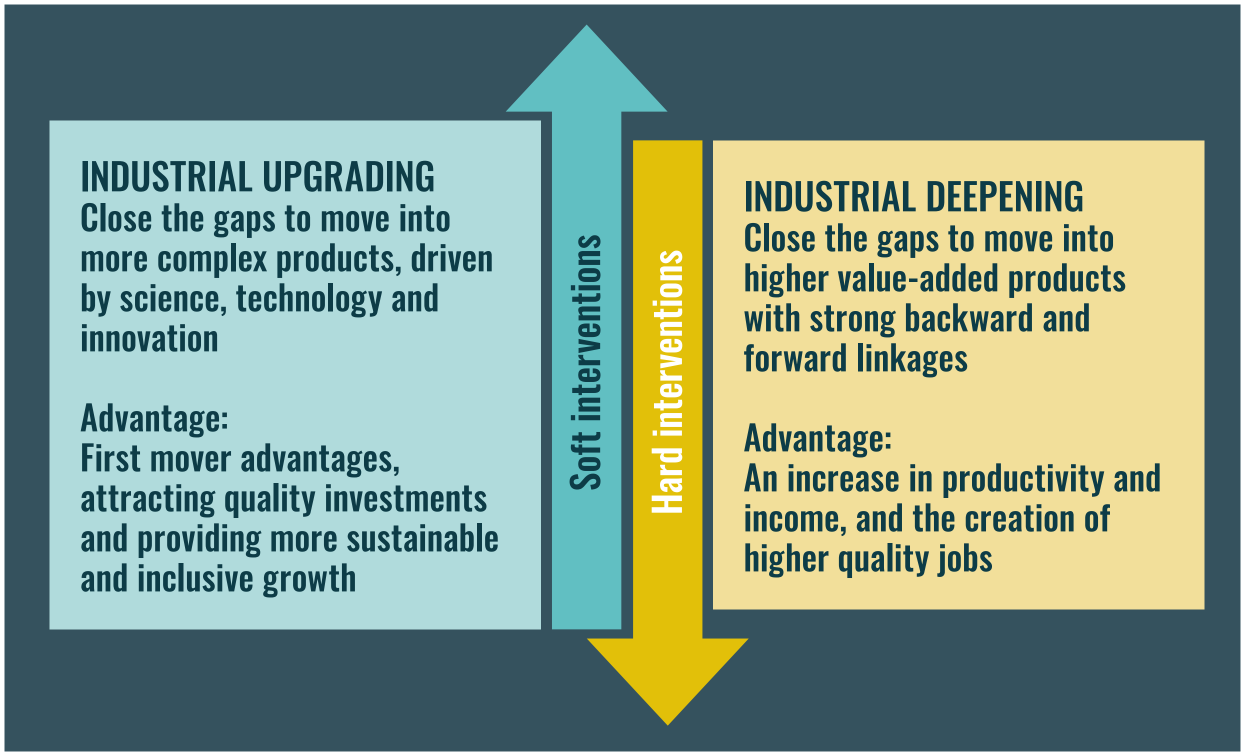
Industrialisation of MCs, in particular through manufacturing, is imperative to increase their competitiveness as they interact with GVCs. An important strength of manufacturing technology is its capacity to be transported across various parts of the world and provide access to GVCs and markets.[1]

There are many developmental advantages for countries undergoing industrialisation, including enhanced capacity to increase revenues by adapting successful technologies and systems of manufacturing from other countries. Industrialisation also provides access to global markets and strengthens the manufacturing sector, allowing it to absorb labour from the informal sector.

IsDB is committed to ensuring that MCs are in the best position to benefit sustainably from the competitive advantages that industrialisation confers.

This requires understanding the extent of individual MCs' economic development. To this end, the Bank has evolved a comprehensive methodology to enable MCs to benefit from joint green industrial innovation.

The industrial upgrading intervention is aimed at moving into more complex products, driven by science, technology and innovation, that would allow countries first-mover advantages, attract quality investments and provide more sustainable and inclusive growth



Industrialisation intervention framework[2]

An intervention framework for industrialisation

IsDB has devised a framework, the aim of which is to provide a direction for the Bank and its MCs to identify the level of industrialisation and at the same time act as an intervention mechanism that guides IsDB's future interventions. The framework guides the thinking and long-term relationships of the Bank and MCs, and coordinates policies that cut across areas such as human capital and skills, infrastructure, finance, trade, and science and technology. It comprises both soft and hard interventions; the soft interventions cover the broad areas of science, technology and innovation that are required for upgrading a country's position in industrialisation, while the hard interventions are economic and social aspects such as energy, health, education and infrastructure, which support greater deepening of industries.

It is increasingly important for countries to have the ability to plug into GVCs, and many countries can benefit from interventions to develop this ability. In this context, national or regional industrial policies and processes of industrialisation can be divided into two separate categories: industrial upgrading interventions and industrial deepening interventions.

For MCs, industrial upgrading interventions may be considered appropriate where there is

Understanding industrialisation

The process of industrialisation is marked by social and economic shifts as an economy moves from a mostly agrarian base towards large-scale manufacturing and other mass production activities.[1] The Bank's Member Countries (MCs) exhibit varying characteristics and stages of industrialisation, and in order to help them manage the specific challenges they face, IsDB has created a Pyramid of Industrialisation Index (PII).

The PII measures the level of manufacturing capacity of a country according to four main factors, which are translated into indices. These in turn reflect industrial development capacity, rate of complexity to increase and upgrade, industrial concentration and quality of labour. By using them, countries can track their progress and assess categories in which they may be lagging.

The clear categorisation of industrialisation level that the PII provides (high, medium-high, medium-low and low) also enables countries to select appropriate industrial policies to close gaps and move up the pyramid. Industrial policies, together with large-scale investments, can correct market failures and guide economic activities to achieve strategic policy objectives.

The industrial development capacity index captures a country's capacity to produce and export products. This characteristic represents the level of industrialisation by measuring the manufacturing value added with respect to its economy, and the manufacturing productivity of the country.

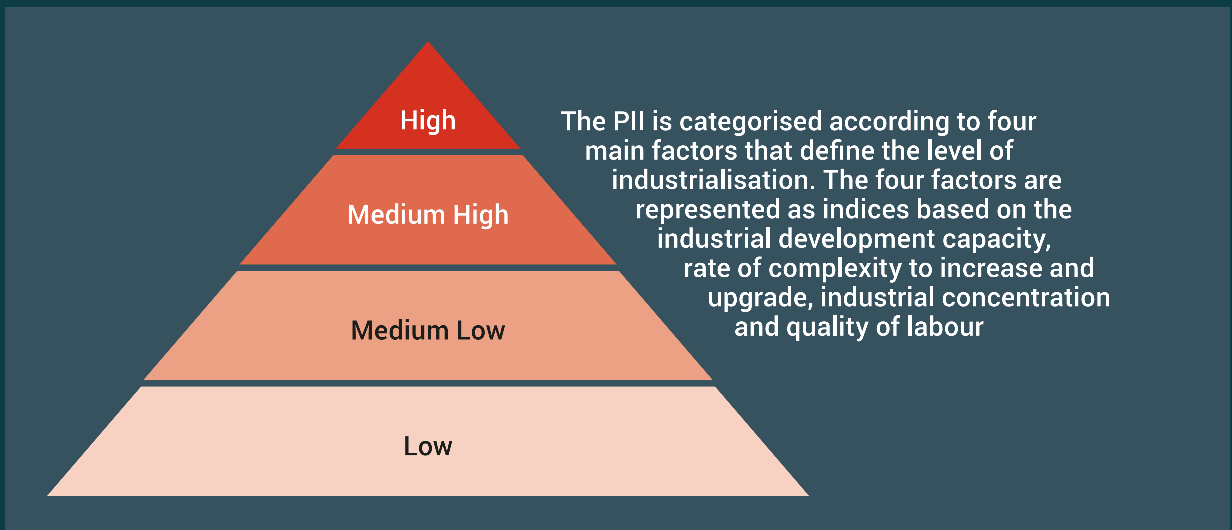
The second index assesses a country's technological level of adoption of its manufacturing sector by measuring industrial intensity and the quality of exports. Technological content and complexity of exports are analysed by omitting low value-added manufacturing and dissecting high and medium value-added manufacturing.

The third index measures the relative capacity of a particular country against the rest of the world. This compensates for variables such as a world crisis, as it allows for a reduction in the bias for losses in manufacturing capacity if a country has managed to increase its world manufacturing share, and allows for concentration on the domestic market where necessary.

The fourth index focuses on the quality of labour, emphasising labour productivity as industrialisation is able to absorb labour from informal sectors to the main sectors of the economy. It also considers the capacity of the manufacturing sector to increase the average wage in a particular country as well as to create higher-skilled jobs.

Industrial development capacity	The capacity of manufacturing production and exports
Quality of labour	Measure of labour productivity and industries with higher value-added jobs
Rate of complexity of increase and upgrading	Technological level of adoption for production
Industrial concentration	Measure of the relative capacity compared to the rest of the world

The PII four indices



The Pyramid of Industrialisation Index (PII) [2]

The indices consider, among others, the capacity of the manufacturing sector to increase the average wage in a particular country as well as to create higher-skilled jobs a need to close gaps with regard to science, technology and innovation-driven production. If successful, this type of intervention can allow an MC to seize first-mover advantages and raise their potential to bid for high-quality investments. Importantly from the Bank's point of view, it can also provide the conditions for more sustainable and inclusive growth.

Industrial deepening interventions are also aimed at closing gaps that are holding MCs back, but in this case, the emphasis is on finding ways to move into higher value-added product lines with strong backward and forward linkages. The desired outcomes include increased productivity and income and the creation of higher-quality jobs.

The key factors that these two types of interventions have in common are a clear understanding of the demands of the fast-moving private sector, and a desire to bring coherence to the policymaking process.

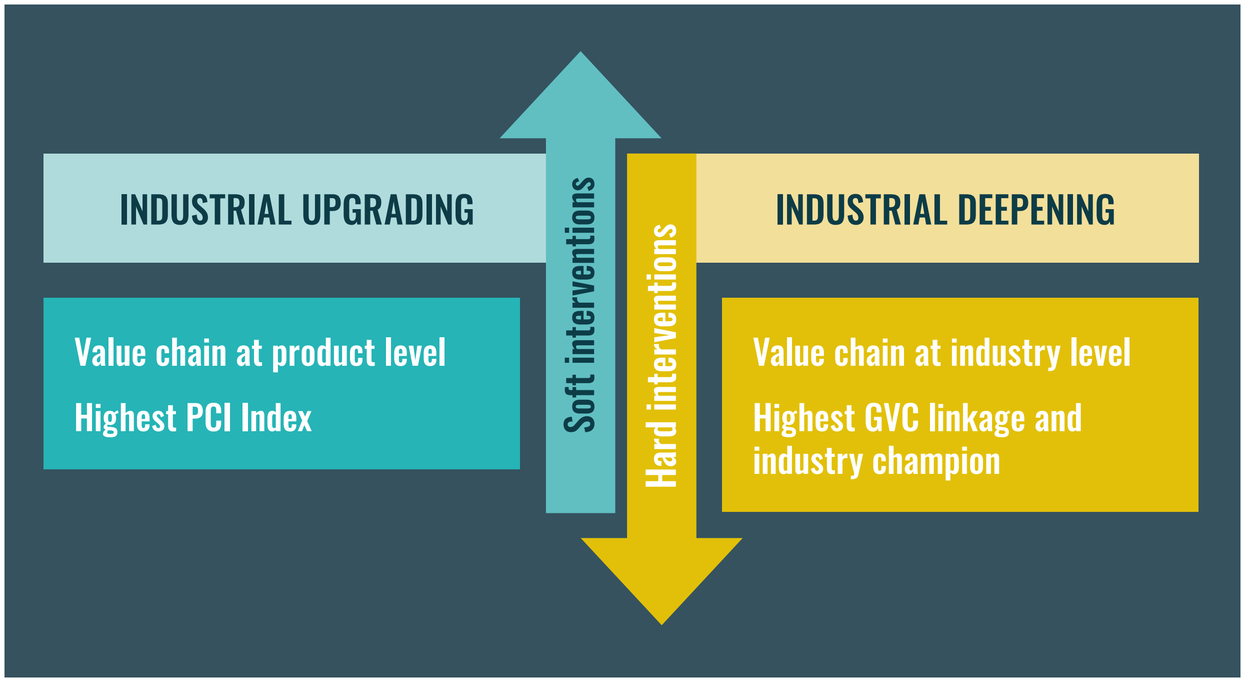
In selecting an intervention framework for individual MCs, the Bank takes into account the particular needs that the country is facing. These may include the requirement to change the structure of economic activity towards particular sectors, technologies or tasks in order to improve the prospects for sustainable and inclusive growth.

The Bank uses the Product Champion Index (PCI) to identify products with the highest potential that a country can competitively produce to integrate into the GVC.[4] The product-level value chain based on the highest PCI would therefore be connected to industrial upgrading with soft interventions. This is because a product that is produced in a country competitively for the global market usually already has the hard infrastructure it requires. However, it may need help to be able to compete in the global market. In contrast, an industrial deepening approach to increase the productivity and competitiveness of the entire industry requires hard interventions that support industry-wide improvements.

IsDB's intervention framework allows for identification of needs such as upgrades in skills, education, research and development. This can enable MCs to commit to innovative new products or to consolidate their market share in existing products.

Sectors that are selected by GVC value-added and industry-champion criteria represent broad industries with the highest spillover effects to the economy

An upgrade in education, research and development, and skills would be required to innovate in the creation of new products or to strengthen the producing country's market share



Intervention options[3]

Resilience through a global network of developers

For MCs to achieve their commitments to the SDGs, it is commonly acknowledged that development finance needs to go through a paradigm shift. The traditional approach that MDBs take to intervention, which involves filling financing gaps with loans and grants, is not sufficient to tackle the gigantic challenges faced by the world today. New and innovative ways to bring about development and sustainable growth where it is much needed have to be explored.

A shift in thinking from 'funding' of development projects to 'financing' is needed to cover these funding gaps. Governments are the focus for a significant share of the resources needed to achieve the SDGs, with the widely accepted estimate being that between 50% and 80% of requirements will come from domestic resources.

Private funding and private capital also hold potential for growth, although at present only 10% of current infrastructure investments are made by the private sector. A recent report by the Business and Sustainable Development Commission estimates that achieving the SDGs could open up US$ 12 trillion of market opportunities in food and agriculture, cities, energy and materials, and health and well-being, creating 380 million new jobs by 2030.

The key to attracting investment of this nature is a social impact investment approach, which frames a social or economic problem as a matter of financial efficiency, putting a price tag on development challenges such as unemployment or public administration inefficiency. The financial gains that would result from addressing the problem are presented as an investment opportunity for the private sector, guaranteed and repaid with a premium by the government with potential support from donors.

While impact investment is gaining more and more popularity in developed countries, investors are more cautious about putting their money in riskier developing markets. In these settings, multilateral development banks (MDBs) can play the role of a catalyst that unlocks investment into core SDGs' sectors of intervention. This, however, requires a new way of sourcing projects, whereby projects need to be at the nexus of development impact and financial viability for market investors. Hence, this represents a major shift in the role of MDBs to become hubs that crowd-in a global network of developers that invest in SDGs.

A shift in thinking is needed from 'funding' to 'financing' development projects

From the financial side, the primary objective of IsDB's global developers' network is to maximise the net resources channelled to MCs

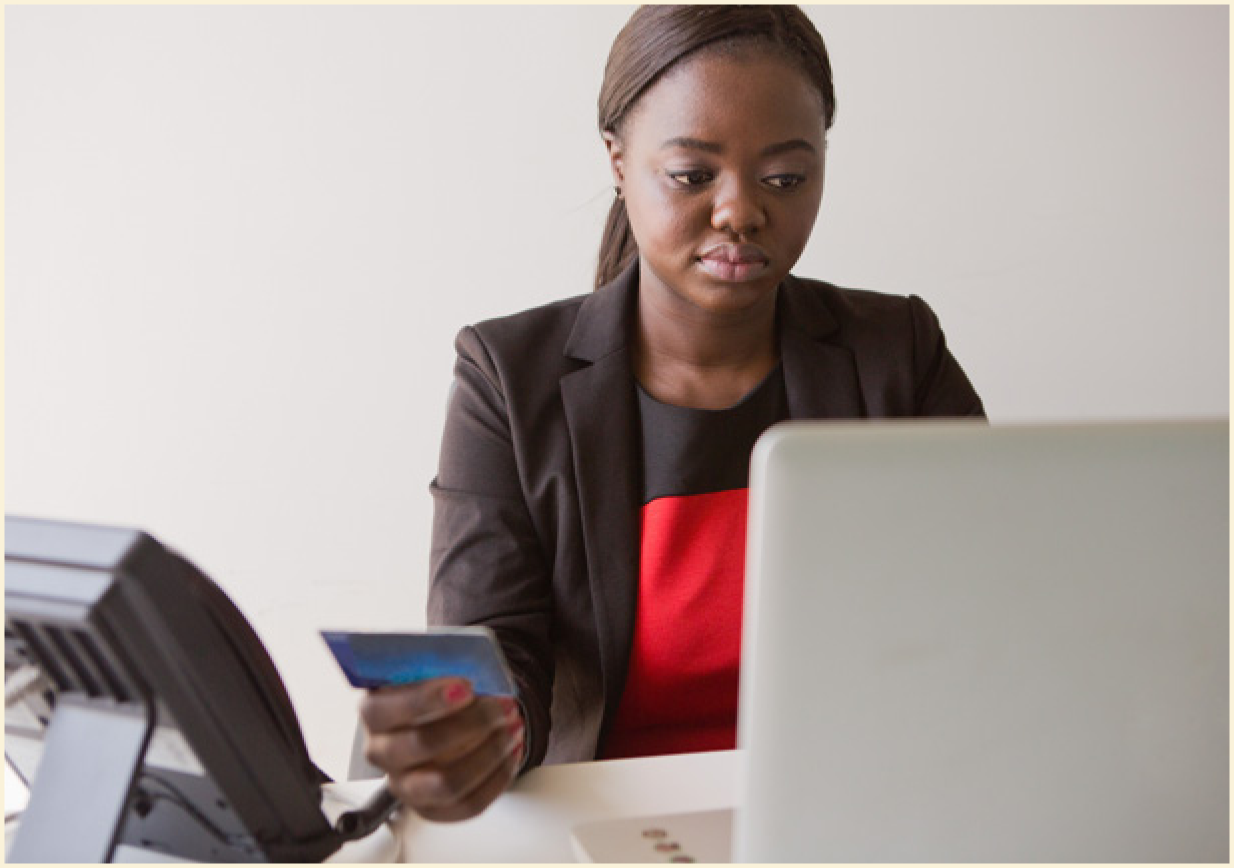
A global partnership strategy to close the SDG financing gap

The international community has a critical role in supporting the mobilisation of finance for sustainable development, and the United Nations Secretary-General's Strategy sets out the key elements of this role. It also defines the actions that the international community will take to help accelerate and deepen the transformation of financial systems to provide development finance efficiently.

The Strategy brings together the relevant actors to accelerate mobilisation of finance for the 2030 Agenda, and builds on the Addis Ababa Action Agenda as the global framework for financing sustainable development. This includes concrete policy actions for the 2030 Agenda for Sustainable Development, as well as the Paris Agreement on Climate Action. It draws on the work of the Inter-Agency Task Force on Financing for Development, as well as ongoing work on financing within the United Nations and with its key partners.

The first objective of the Strategy is to align global economic policies and financial systems with the 2030 Agenda, with the understanding that public policies that are firmly and consistently formulated to achieve sustainable development can realign incentives and alter market perceptions of risk.

While there are still no globally agreed definitions of concepts such as impact and sustainable investing, the international community plays a unique role in setting the global norms with which economic policies and financial systems should be aligned. The United Nations has been working closely with global policymakers and regulators to foster a deeper understanding of the role of public policy in developing a sustainable financial system.



IsDB supports development of sustainable financing strategies at the country and regional level, particularly through country offices and regional teams

The second objective of the Strategy is to enhance sustainable financing strategies and investments at the regional and country levels. This entails support for the development of sustainable financing strategies at the country and regional level, particularly through country offices and regional teams. Member States will thus be better equipped to attract capital for the SDGs.

Countries must also strengthen and increase the effectiveness of their tax systems to generate the domestic resources for funding government contributions to meeting the SDGs. The international community will continue providing capacity building support for domestic resource mobilisation in countries that need assistance, while working with other international institutions to help developing countries address challenges such as illicit financial flows, tax evasion, base erosion and profit shifting.

The Strategy's third objective is to exploit the potential of financial innovations, new technologies and digitalisation to provide equitable access to finance, which is one of the prerequisites of sustainable and equitable development. The international community will bring together policymakers and financial regulators, as well as innovators in digital finance and fintech, to exchange information and experience on innovative financial instruments and good practices. A four-year (2018–2021) roadmap of actions and initiatives builds on the current and future activities of key stakeholders, to mobilise investments and support for funding the 2030 Agenda.[1]

6 operational results

The focus on markets in which Member Countries have — or are able to have — competitive advantage allows IsDB to prioritise its projects in a coherent manner, targeting all players within a given market with the objectives of creating sustainable employment, increasing industrialisation levels, and crowding-in resources from all players. The process of making markets work for development yields the following six operational results as core focus areas:

Improving access to market information

Access to data, at both the macro and micro levels, is a prerequisite for market growth. Only in this way is it possible to acquire deep understanding of the activities in the market value chain. In addition, availability of data will give investors access to possible investment opportunities as well as the risks and potential profits involved. Another benefit of making data available is that it enables markets to organise themselves, allowing for the reallocation of investments where necessary.

Opening up the national planning processes

National planning is the starting point for improving market integration locally and among countries. The IsDB country programming process aims to be a platform for all players in the market, including government, private sector and community actors. Better economic cooperation and integration across borders become possible as a result of experience exchange and technology transfer. Crowdfunding and crowdsourcing platforms increasingly have a role to play in this process.

4.0

Doing business the Industry 4.0 way

It is necessary to reform the investment environment, not only to attract investors but also to encourage the private sector to reinvest their savings domestically. Technological innovations can boost productivity, bringing many benefits, including enhanced competitiveness for Member Countries. “Doing business” policy reforms are helpful here, as is a focus on support for entrepreneurship and youth empowerment through science, technology and innovation.

Building green value chain-enabling infrastructure

The Bank is focused on infrastructure projects that hold the greatest potential to improve operational efficiencies of local businesses. Sizable market demand for such infrastructure enables the crowding-in of market investments into such projects because, where demand is high, these initiatives are more financially viable. There are sustainability gains to be made by addressing infrastructure challenges in sectors that are known for their high impact on the environment.

Repositioning Islamic finance for development

A core aim of IsDB is to champion Islamic finance for activities across market value chains. To do this, it is necessary to have a strong financial services industry. Islamic finance has many advantages in this respect because of its well-established linkage between finance and economic activities. It is the Bank’s intention to build upon the industry’s strong reputation and position it as a leader in development.

Building resilient market systems

Underpinning all of IsDB’s activities is the need to ensure that markets work for the poorest and most vulnerable. Including the neediest in the benefits of development is essential if the larger market system is to continue to experience sustainable growth and resilience. Women and young people are among those whom the Bank will seek to support in this process. IsDB will also ensure that environmental and social safeguards and market inclusion policies are present throughout all of its operations.

Improving access to market information

Market growth requires access to data at macro and micro levels to enable a deeper understanding of the market value chain activities. In addition, the availability of data will provide investors with access to investment opportunities as well as the nature of risk and return involved in the markets of interest. This allows markets to self-organise and reallocate investment to address problems and close their development needs organically.

Member Country Segmentation

For countries with weak statistical capacity
The primary focus is on creating an enabling environment and institutional foundation, coupled with individual training and expertise exchange programmes.

For countries that have sufficient statistical capacity at the macroeconomic level
The primary focus is on deepening their statistical capacity down to micro and market levels, enabling them to target value chains selected within the MC partnership strategy.

For countries with advanced micro- and market-level statistical capacity
The primary focus is on transferring the experience of the country to other Member Countries (MCs), especially to those that share a comparative advantage in the markets/value chains.

Aspiration

The Bank aims to become a global hub of analytical work on strategic markets and global value chains by leading flagship diagnostic work and knowledge products that connect market players to their potential clients and financiers globally. It can do so by building the national statistical capacity of MCs, leveraging the success of other countries and transferring knowledge to MCs. This will enable it to differentiate itself from being a financier only to being both a financier and trusted advisor.

Key Metric

A key metric to be achieved is the number of value chains that received market level statistical capacity building through technical assistance operations.

Rug producers test market access

Rugs for sale at Souq El-Khaymiya in the Old City of Cairo, Egypt. When asked to produce identical domestic rugs using the same inputs and capital equipment, firms produced higher quality rugs despite no difference in production time

The widespread belief that access to high-income country markets can help firms in developing countries enhance their productivity has led to significant resources being committed to market access initiatives. However, there is still an ongoing debate as to whether exporting has a causal impact on productivity. Also, if productivity does change, the mechanisms by which it does so are not well understood.[1]

An assessment of the impact of exporting on profits and productivity in the Egyptian rug trade attempted to gain insight into these issues. Along with detailed survey data, the assessment followed a randomised control trial approach that generated exogenous variation (having an external cause or origin) in the access to foreign markets for rug producers in Egypt.

Firms taking part in the assessment reported 15–25% higher profits and exhibited large improvements in quality, alongside reductions in output per hour, relative to control firms.

The authors of the trial state that the findings do not simply reflect firms being offered higher margins to manufacture high-quality products that take longer to produce but offer evidence of learning-by-exporting. In this context, exporting is seen to improve technical efficiency.

Other trends observed included higher productivity and quality after controlling for rug specifications at the firms. When asked to produce identical domestic rugs using the same inputs and capital equipment, the firms produced higher-quality rugs despite no difference in production time. In addition, they exhibited learning curves over time. Finally, knowledge transfers took place, with quality increasing most along the specific dimensions to which the knowledge pertained.

Opening up the national planning process

Improving cooperation locally and between countries starts from the stage of country planning. Hence, IsDB aims to make the country programming process a platform for all important players in the industry from government, private sector, community, and regional players as well. In addition, by mainstreaming reverse linkage into the country planning process, IsDB aims to make it a tool for cooperation with players in the global market.

Member Country Segmentation

Less competitive economies (factor driven) with low-medium financial sector development
The primary focus is on facilitating broad-based reverse linkage, trade finance across Member Countries (MCs), structured trade finance to private sector (primarily through a wholesale approach), selective investment insurance and wholesale short-term export credit insurance.

Efficiency-driven economies with moderate financial sector development
The primary focus is on putting in place plans to increase private sector trade finance (primarily through a wholesale approach) to sectors with export-led growth potential, sovereign trade finance through syndications, selective investment insurance and wholesale short- and medium-term export credit insurance.

More competitive economies (innovation-driven) with medium-high financial sector development
The primary focus is on putting in place plans to facilitate more risky business such as regional entrepreneurship financing, long-term investment insurance along with catalytic financing to promote investments, connecting foreign investors with local companies in MCs, and private sector trade finance to sectors with export-led growth potential.

Aspiration

IsDB aims to become the primary connecting platform for MCs to cooperate with each other by transferring resources (trade and investments) and expertise (knowledge and best practices). In the process, IsDB intends to transition from its primary role as a 'provider' to a 'connector'. It can do so by providing and promoting resource and knowledge exchange, business networking within and across borders, and stronger partnerships between MCs as a whole.

Key Metric

A key metric to be achieved is the number of value chains that benefited from a cross-border reverse linkage operation facilitated by IsDB.

Sustainable development through South-South cooperation

Four decades after the adoption of the Buenos Aires Plan of Action (BAPA), a key milestone for technical cooperation in the Global South, the participating countries have embarked on an ambitious and transformative sustainable development agenda. The recent international development climate, shaped by the 2030 Agenda for Sustainable Development, the Paris Agreement and the Addis Ababa Action Agenda, has introduced more joint commitments, with an emphasis on the important role of South-South Cooperation (SSC) along with Triangular Cooperation to achieve the SDGs.[1] IsDB, with 57 Member Countries (MCs) the second largest intergovernmental institution after the United Nations, is an active participant in pursuing these aims.

The MCs are dispersed over a large geographical region and constitute a substantial part of the world's developing countries. As a group, they hold high potential in terms of both human and natural resources in various sectors such as energy (mainly oil and gas), agriculture and arable land and they constitute a vast, strategic trading region. These countries are also considered among the leading beneficiaries, as well as providers, of SSC and engage in collaboration of an increasingly technical nature.

In the years since BAPA, the SSC tools and methods, developed and revised in line with demand-driven approaches, have inspired a spirit of cooperation among the MCs, giving rise to mutual learning, exchange of expertise and experience, cross-regional exchange of ideas and approaches, peer-to-peer dialogue and capacity development. Over recent decades, however, the majority of MCs have faced challenges such as political and economic instability, poor resource mobilisation, inadequate institutional arrangements, and insufficient legal and regulatory frameworks. As a result, the potential of IsDB-level SSCs, in terms of both human capital and natural assets, has remained largely untapped. This is reflected in the weak performance of many individual MCs and of the group as a whole, compared to that of the rest of the world.

Developing IsDB Member Countries will move from the status of recipients to that of donors, offering further options for the least developed countries, strengthening solidarity and self-reliance among the Muslim community

The challenges of the MCs differ from state to state and vary according to the development level. For instance, high-income MCs, mainly in the Gulf region, face policy challenges related to ensuring integration of SSC with the 2030 Agenda and the incorporation of SSC into national and regional strategies.

Middle-income countries and least-developed countries, on the other hand, have challenges that relate primarily to institutional issues such as securing sustainable funding and political stability. Fragile MCs also struggle with certain capacity gaps and lack the ability to assess and identify urgent needs.

Within the MC community, SSC represents a promising alternative to traditional cooperation and development assistance. The community has strong economic and human potential, but these attributes are frequently used inappropriately. In profiting from this potential, the MC community can become stronger, influencing mechanisms at global level and strengthening the idea of the human being at the core of development.

SSC enables a change in traditional donors through the introduction of new development players. Likewise, developing MCs will move from the status of recipients to that of donors, offering further options for the least developed countries and strengthening solidarity and self-reliance among communities.

Within this framework, SSC aims at utilising capacities and experiences available in the MCs and enabling mutual learning and capacity development. These countries have more opportunities than ever before to enhance innovation and cooperation mechanisms among themselves by sharing knowledge and experience in several cooperation areas.

A Technical Aid Corps volunteer medical doctor, Liberia

4.0

Doing business the Industry 4.0 way

IsDB recognises the role of the private sector in development, and will therefore seek to increase private sector input by focusing on two underlying reasons for weak participation: 1) Reform the investment environment, not only to attract investors but also to encourage the private sector to reinvest its savings domestically; 2) Upgrade productivity, thereby competitiveness, thus ensuring sustainable growth in light of disruptions caused by the fourth industrial revolution. To achieve this, IsDB will increase focus on "doing business" policy reforms and offering scholarships to future leaders, especially in the least developed MCs. In addition, science technology and innovation (STI) interventions will be targeting productivity enhancement and support for entrepreneurship.

Member Country Segmentation

Less competitive economies (factor-driven) with low-medium financial sector development

The focus is on providing SMEs with access to longer-term finance with continued direct equity investments in Islamic financial institutions as wholesale SME financers. An enabling environment is provided for STI through institution building and targeted scholarships.

Efficiency-driven economies with moderate financial sector development

These countries will benefit from large investments in local SMEs and MMEs, including long-term development financing and equity, foreign investment and fund mobilisation, as well as business advisory services focusing investment on value chains in which Member Countries (MCs) have comparative advantage.

More competitive economies with medium-high financial sector development

The promotion of cross-border growth of leading private companies is the main focus, along with support for entrepreneurship, development of capital markets and market making/expansion.

Aspiration

Ten years from now, IsDB Group aims to have at least doubled its private sector footprint and become an even greater contributor as a catalytic source of support for entrepreneurship and financial sector breadth in MCs, leading support for domestic enterprises (including making them competitive internationally) and helping them to attract foreign investment in order to generate broad based growth and to create more, and better quality, jobs.

Key Metric

A key metric to be achieved is the number of MSMEs whose capacity is upgraded to Industry 4.0 level in MCs. Priority will be given to investment in the five core industries in which MCs have comparative advantage.

Science, technology and innovation for sustainable development

In addressing their diverse socioeconomic challenges, IsDB Member Countries (MCs) can benefit from science, technology and innovation (STI) as they work towards inclusive and sustainable development practices. IsDB has created a dedicated unit to leverage the power of STI, providing incentives for the development of new technologies and solutions, while encouraging research and innovation.

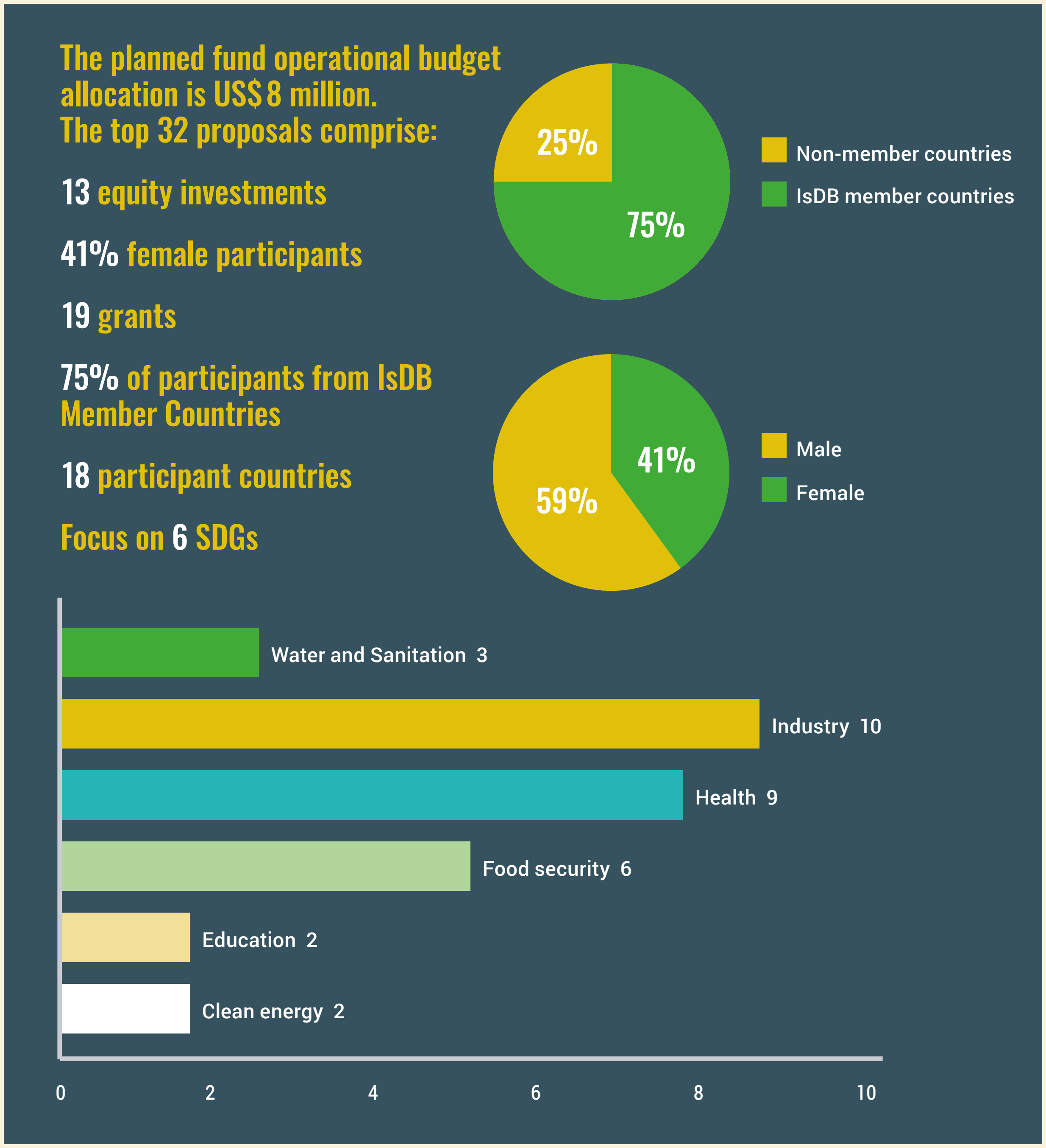
Intellectual property (IP) plays an important role in STI investment through its impact on knowledge diffusion. According to the Global Innovation Index, institutions that nurture and support innovation, whether research-based or not, are critical to industrial growth.[1]

The Bank's STI policy is aligned with its institutional vision and mission, the 10-Year Strategic Framework (10YSF), the President's Programme (PP) and the 2030 Agenda for Sustainable Development. IsDB's 'Road Map for Change into a Bank of Development and Developers' also emphasises the importance of STI in transforming the Bank into a proactive and adaptive organisation.

A new science and technology fund launched by IsDB will assist in strengthening STI activities in MCs. Hosted on the Bank's new online hub, Engage, the Transform Fund supports projects that work towards the achievement of the SDGs. Designed to connect innovators with market and funding opportunities along with tailored mentoring services, the Engage platform facilitates the incubation of unique ideas that can be translated into development solutions.

The platform focuses on six SDGs – greater food security, healthier lives, inclusive and equitable education, sustainable management of water, access to affordable and clean energy, and sustainable industrialisation. The Transform Fund provides seed money for innovators, start-ups and SMEs, as well as funding partnerships for development projects focusing investment on the five core industries in which MCs have comparative advantage.

IsDB is also involved in other initiatives to boost STI, including its New Scholarships Programme, which focuses on Sustainability Science. The Bank provides training, study tours and entrepreneurship activities in various countries, along with partnerships to support refugee scientists.



Building green value chain enabling infrastructure

IsDB will direct a significant percentage of its resources towards infrastructure projects that raise efficiency levels among market players within the value chains selected in Member Country Partnership Strategies. There are two advantages to this method: 1) The presence of industrial clients with sizable demand facilitates crowding-in of market investment into these projects as they are financially viable; 2) The focus on infrastructure for industrial activities helps address environmental sustainability issues as they typically have the heaviest footprint on the environment. To achieve this, IsDB will play an active role in project sourcing to improve the quality of projects so that it can attract private sector participation and thus do more with less investment from the Bank's balance sheet.

Member Country Segmentation

Countries with limited access to financing and low well-being
The objectives in this segment are, firstly, to increase financing per capita on par with other segments and, secondly, to significantly increase concessional financing assistance.

Intermediate countries
These countries have medium well-being and high-cost access to capital. The objective in this segment is to provide competitively affordable financing assistance to offset the cost of access to capital.

Well-off countries
These countries are relatively advanced in terms of well-being and usually have low-cost access to capital. The primary objective is to mobilise the private sector participation in infrastructure financing, mainly through public-private partnerships (PPPs).

Aspiration

IsDB will further strengthen its credibility in this area through best-in-class project execution support and a sharp focus on outputs and outcomes. The Bank will also expand its partnerships with other financiers and increase the share of co-financing projects and public private partnerships (PPPs) where it is a lead arranger and a market maker. There is a need to define growth targets based on actual resources transferred to the MCs, rather than only on approvals, and to manage operating plans for internal resources while considering long-term financial commitments and looking for potential co-financiers.

Key Metric

A key metric to be achieved is the volume of the population within the reach area of the core value chains that is provided with access to infrastructure. The population within reach of a value chain is a natural beneficiary of the employment opportunities created along the geographical distribution of the chain's economic activities.

Partnership for infrastructure investment

Infrastructure investment plays a critical role in the economic development of countries by creating employment and investment opportunities, thereby addressing some of the key Sustainable Development Goals (SDGs). However, high population growth and urban migration in developing countries has put very high demands on the fiscal resources of these governments and the traditional public procurement of infrastructure investment can no longer be sustained.[1]

In view of this, public-private partnerships (PPPs) can be an invaluable tool in the selection and execution of infrastructure investments as an alternative to public procurement. The PPP model of procurement, in which the private partner takes on a significant level of risk and responsibility, tends to be economically efficient and can lead to higher socioeconomic returns than the traditional public procurement model.

Most IsDB Member Countries (MCs) face challenges in attracting private capital for infrastructure development, which is critical in achieving sustainable economic growth. For this reason, many MCs view PPP concessions as an important source of revenue and these concessions increasingly represent a major mode of financing for infrastructure.

The PPP model of procurement depends on good governance principles and strong oversight by regulatory agencies in order to ensure that contracts are executed in compliance with best practices. When considering engaging in PPPs, MCs must ensure that their regulatory infrastructure is ready to support private capital flows into their countries. IsDB has a dedicated focus on promoting and assisting MCs in utilising PPPs as an alternate source of infrastructure investment. The Bank not only provides direct financing to such initiatives, but is building its advisory capabilities to assist countries in strengthening their regulatory and fiscal infrastructure for PPP investments.

IsDB has introduced the first Islamic A/B Financing Structure that is open to both Islamic and conventional banks to mobilise private capital

In future, special emphasis will be placed on the urgent need to create a robust enabling environment to support PPP initiatives. This will include a focus on how MCs can address the need to eliminate perceived barriers of entry for private capital into infrastructure investment. In order to increase private investors' appetite for long-term sustainable investments, IsDB will work with MCs to identify and structure sound projects, remove barriers to investment by means of a more effective investment framework, and create appropriate business environments. The Bank will also scale up and leverage its own resources through project syndication, co-financing and other off-balance sheet resource mobilisation strategies from the international debt market.

In its intention to streamline resources for infrastructure development of its MCs, IsDB has introduced the first Islamic A/B Financing Structure whereby both Islamic and conventional banks partner with IsDB to mobilise private capital — a method also closely linked to de-risking the environment via insurance and other risk mitigation products and tools, which IsDB is working to develop further.

The role of PPPs will increase in the years ahead to assist MCs in delivering sustainable, resilient and inclusive infrastructure. To support this process, IsDB will continue to support PPPs by prioritising country-led approaches. These will include the design of enabling environment activities and transaction advisory services, as well as the provision of financing via resource mobilisation for participating countries.

Repositioning Islamic finance for development

To unlock activities across value chains, a strong financial services industry is critical. Islamic finance is uniquely positioned to lead this since it emphasises in its principles a strong linkage of finance to economic activities through participation in risk and reward. IsDB seeks to capitalise on this feature to position the Islamic finance industry as a leader in development by linking its financing to value chain activities. The Islamic finance industry is well positioned to take this leading role given its size today, which exceeds US$2 trillion — especially if we leverage the outputs of the emerging new Fintech sub-industry such as blockchain, big data, and crowdfunding, to universalise access to Islamic finance for new, unbankable segments of the world population.

Member Country Segmentation

Countries with under-developed financial systems
Priorities include: seed equity participation and Islamic finance institution (IFI) financing (encompassing advisory services); shared platform for IFI; advisory on legislative and regulatory frameworks; knowledge and training products; expanding access to unbankables through the adoption of Fintech services; and creating legislation for Awqaf, Zakat, and other social finance instruments.

Countries with a developed financial system, but no Islamic finance sector
Priorities include: seed equity participation and financing in IFI; shared platform for IFI; advisory in IFI, legislative and regulatory frameworks; creating Sharia-compliant capital markets, and establishing Islamic windows within conventional banks; and knowledge and training products.

Countries with a developed financial sector and an Islamic finance sector
Priorities include: financing external advisory in IFI; advisory on legislative and regulatory frameworks; advisory on Sharia-compliant capital markets; assistance in standard-setting; crowdsourcing product innovation; expanding the Sukuk market; and inventing new Sukuk instruments for the global capital markets in the developed world aimed at financing projects in MCs and communities in non-MCs.

Aspiration

IsDB should aspire to be a proactive partner for IFIs and the leading source of advice, regulatory standards and benchmarks on Islamic finance for MC governments, private sector and third sector. The Bank should also aim to be the leading authority and most visible reference in the sector, as a creator and disseminator of knowledge and a promoter of product innovation.

Key Metric

A key metric to be achieved is the volume of the population within the reach area of the core value chains that is provided with access to finance, since the spillover effect of economic activities taking place within value chains creates demand for finance.

Harnessing the power of blockchain for economic empowerment

Islamic social finance instruments have the potential to change real peoples' lives for the better, especially those in fragile communities affected by conflict and social upheaval. IsDB funded the Fintech Islamic Finance Challenge and the winning 2017 entry from IFRC and Aid:Tech promoted the traceability and transparency of Islamic social financing by leveraging blockchain technology

Islamic social finance instruments hold enormous potential to tackle humanitarian and development challenges. Emerging trends such as blockchain and data-driven insights can enable greater efficiency and effectiveness for these instruments, especially in fragile and conflict-affected geographies.

IsDB worked with the leading civil society organisations, including the International Federation of Red Cross and Red Crescent (IFRC), to build a global new-generation economic empowerment platform that leverages blockchain technology. The platform can enable the issuing of digital identities for users and digitally send and deliver entitlements, thus combining access with identity in one solution. The identity profile provides verification as digital documentation and serves as a digital wallet to send and receive payments associated with Islamic finance.

The provision of global digital identity technology at the community level allows for a streamlined approach to connecting with end users, reducing the need for heavy documentation processes. This is especially valuable in fragile and conflict-affected regions in the absence of local governmental services. It also enables direct cross-border crowdfunding to support humanitarian causes.

With only 14% of the world's 1.6 billion Muslims having access to finance, an economic empowerment platform such as this unlocks the potential for Islamic finance to expand its reach in an exponential manner, in particular to the non-banking sector (i.e., Zakat, Sadaqa, Sukuk and Takaful). Currently, Zakat only represents 2.5% of the total wealth of Muslims globally.[1]

Building resilient market systems

IsDB will pay special attention to ensuring that no one gets left behind by making markets work for the neediest segments of the population — including women and youth. When poor and disadvantaged people are included in the benefits of growth and economic development, the market system at large will achieve higher levels of resilience and sustainability. Moreover, IsDB will mainstream environmental and social safeguards and market inclusion policies throughout its portfolio of operations.

Member Country Segmentation

Vulnerable and fragile Member Countries (MCs)
Interventions should aim at providing quick support to populations most affected by environmental disasters and conflicts. In addition, interventions should proactively tackle MCs' vulnerabilities in order to build resilience before crisis hits.

Least-developed MCs
The focus should be on basic needs that are unmet for large populations vulnerable to climate risks as well as avoidable illnesses and populations not benefiting from health and education services.

Medium-developed MCs
Support will aim at empowering disadvantaged populations by providing education, access to labour markets and micro-businesses.

Muslim communities in non-MCs
Support will aim at empowering Muslim communities in general with a special focus on the neediest in large communities.

Aspiration

IsDB aims to become a renowned orchestrator of targeted interventions aimed at pre-crisis and vulnerability preparedness as well as crisis response focusing on populations in dire need. This will be achieved through proactive resource mobilisation, and building knowledge and capacity for implementation channels. The Bank's goal is to serve both the social development and climate response-related needs of disadvantaged populations in MCs and in Muslim communities in non-MCs, partnering with global players to maximise its reach and thus leave no one behind.

Key Metric

A key metric to be achieved is the number of countries supported that address at least one social or environmental vulnerability.

Social resilience – leaving no one behind

Islamic finance has gained traction around the world for its ability to link finance with the real economy in a fair and transparent manner. Its capacity to contribute to financial stability, financial inclusion and shared prosperity could be instrumental in ending poverty, achieving gender equality and promoting peaceful and inclusive societies.

IsDB has established the Islamic Microfinance Facility, a highly focused initiative to help economically empower disadvantaged women and productive households by eliminating livelihood barriers. The programme follows three basic principles: doing business with the poor and unemployed; supporting income-generating activities by providing productive assets; and using financial products to ensure equitable distribution of wealth in the value chain through profit- and risk-sharing among stakeholders.

Strategic partners are identified to accompany and transfer knowledge to targeted beneficiaries while also having a share in the profits. Microfinance institutions supported through the facility treat women as business partners. Traditional collateral is of secondary importance when the focus is to conduct trade and investment with productive women.

The asset-based nature of Islamic microfinance products ensures that the financing provided is for productive purposes and mitigates the risk of women being coerced to borrow on behalf of their male counterparts. The programme enhances women's bargaining power in the value chain, which is often dominated and controlled by men.

Economic empowerment in Palestine

In 2017, about one in three Palestinians (29.2%) were living in poverty. This is not a new challenge. In 2006, IsDB initiated the innovative Deprived families Economic Empowerment Programme (DEEP) to empower poor and marginalised Palestinians and enable them to become independent generators of income and providers of employment. A package of financial and non-financial services enables selected households to address their most critical livelihoods needs, including Islamic microfinancial and social safety net activities.

Through its application of a Sustainable Livelihoods Approach Framework, DEEP promotes inclusive economic growth by supporting productive, low-income households. The programme's modality provides a solid and inclusive approach for engaging people in sustainable income-generating activities, mainly through micro- and small-enterprise development, to provide employment and bridge their consumption and income poverty gaps.

The Sustainable Development Goals (SDGs) are at the heart of the programme, particularly SDG 1 (no poverty), SDG 2 (zero hunger), SDG 5 (gender equality), SDG 8 (decent work and economic growth), SDG 9 (industry, innovation and infrastructure), SDG 10 (reduced inequalities), and SDG 15 (life on land).

Under the supervision of IsDB, the UNDP Programme of Assistance to the Palestinian People manages DEEP in Palestine with the close cooperation of Palestinian governmental and civil society institutions. The Al Aqsa Fund and other Arab donors are the main financial supporters of the initiative.

Discriminatory social norms and unequal social and economic structures have led to women and girls being disproportionately represented among the world's poor

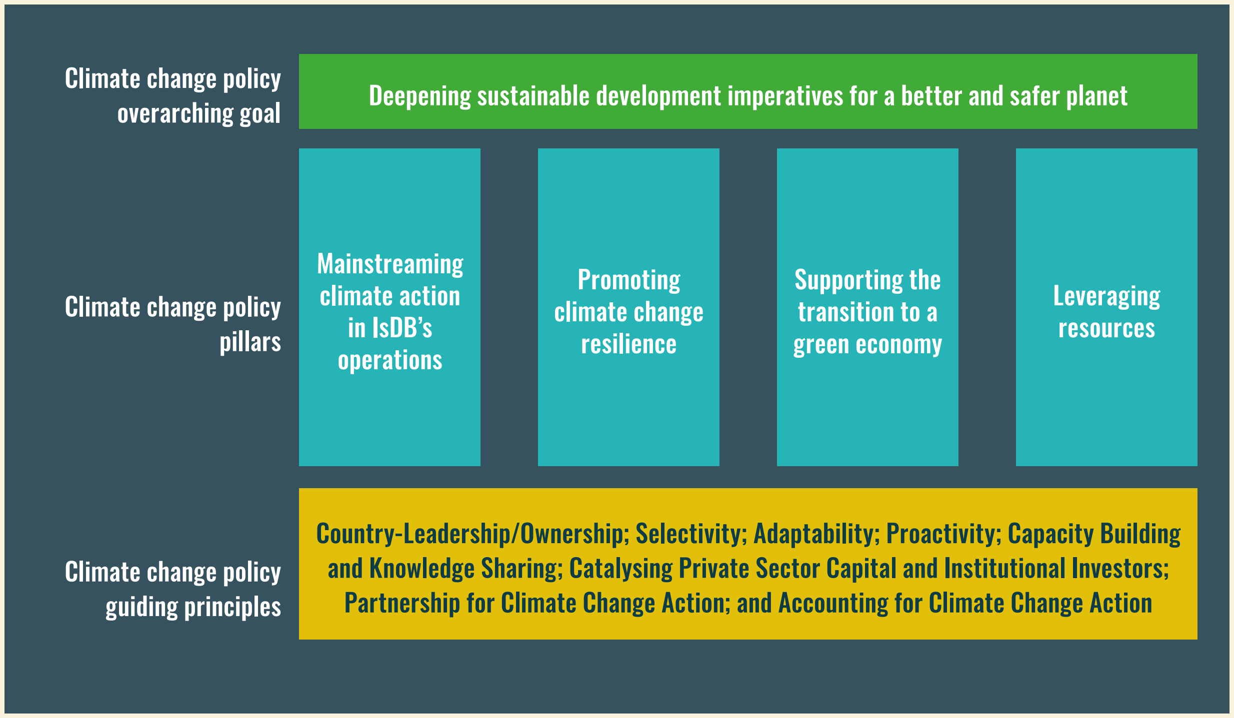
Environmental resilience – a comprehensive climate change policy

Climate change is one of the major challenges of our times. It threatens not only the progress of economic development across many countries but also the core mission of IsDB. Taking action on climate change is necessary for achieving sustainable development and economic growth. The 2030 Agenda for Sustainable Development, including the 17 Sustainable Development Goals (SDGs), makes clear that sustainable development and addressing climate change go hand-in-hand.

As a South-South development institution focused on stimulating economic and social development in its Member Countries (MCs), IsDB is uniquely positioned to help those MCs to take action on climate change consistent with and in support of its core development mandate to alleviate poverty, improve health, promote education and boost prosperity, as well as support the SDGs.

IsDB understands that failing to mitigate and adapt to the effects of a warming planet could undermine gains made to alleviate poverty, improve health, promote education, improve governance and boost prosperity across all MCs. Stabilising warming to 2 degrees Celsius or less is critical and will require both significant policy support and investment to cut greenhouse gas emissions this century and to adapt to warming that is already locked in from historical emissions. For the best interest of its MCs, it is vital that IsDB operations are designed and implemented to take climate change risks and opportunities into consideration.

As a response, the IsDB Climate Change Policy focuses on a client-driven approach to sustainable development and economic growth, enabling the Bank to be an even more effective partner in supporting its MCs' transition to more resilient, green, sustainable and prosperous development pathways. The policy was developed through an inclusive process, taking into account the internal consultation within IsDB, feedback from MCs, and development partners including multilateral development banks (MDBs). It also takes into consideration the global trends in climate change in the context of development practice.



IsDB Climate Change Policy Framework

This Climate Change Policy recognises that MCs are faced with different types of challenges, and that a country-driven approach will be imperative to ensure that the objectives outlined in this policy are realised. The policy is anchored on two objectives: to support MCs in developing climate-resilient and sustainable investment, and to provide IsDB with a referential climate policy framework. These objectives underpin the Bank's overarching goal, which is reinforced by its four Climate Change Policy Pillars and Guiding Principles (Figure 1).

The policy is guided by eight principles: Country-Leadership/Ownership; Selectivity; Adaptability; Proactivity; Capacity Building and Knowledge Sharing; Catalysing Private Sector Capital and Institutional Investors; Partnership for Climate Change Action; and Accounting for Climate Change Action. The policy places significant emphasis on mainstreaming climate action (SDG 13) in IsDB business activities supported through partnerships and the leveraging and adoption of innovative financing mechanisms for scaling up climate investments.

To enable its operationalisation, further detailed actions, including organisational and procedural aspects, will be provided in the form of an implementation framework that will highlight the specific roles and responsibilities of the various stakeholders, including IsDB Group entities, and an action plan to be approved by IsDB management.

6 performance drivers

To align with the new business model, IsDB is focusing on the following six corporate performance drivers, each constituting a critical change in the way the Bank operates and delivers value to Member Countries (MCs).

Awareness:* *Improving the visibility of the Bank

This involves a shift towards a model of strategic communication that positions the institution as a leader in terms of shaping and steering conversations with MCs in a more proactive and effective manner. The Bank will continue to further reinforce publicity for the newly launched brand, through wider reach in news and high-profile newspapers. It will also enhance the capacity of its public portal, offering new services to MCs.

Linkages:* *Crowding-in resources from the market

Crowding-in market resources represents a new alternative source of financing through a wider base of partnerships and deeper understanding of market forces. This will be achieved through focused knowledge and investor intelligence capacity that can be deployed to the benefit of MC projects.

Competence:* *Building organisational capabilities

IsDB aims to focus internal capacity building in strategic knowledge areas to build global practices in line with the pillars of its 10-year Strategic Framework. In new areas where the Bank lacks experience, such as value chains, it is partnering with other institutions to conduct targeted secondment programmes and training, as well as on-the-job coaching.

Delivery:* *Decentralising functionally and geographically

The Bank is moving towards a lean organisational approach with simpler business processes, quality enhancement, and leveraging of cloud-based technologies and platforms, along with investment to build delivery capacity in MCs. Appraisal and project preparation benefit from a dedicated programme delivery unit hosted within member countries to monitor project implementation.

Funding:* *Sustainable financial growth

IsDB is moving towards a new self-sustaining business model that allows it to grow through off-balance sheet resources while maintaining its AAA rating, thus maximising financing for member countries. In addition to reassessing financial sustainability on a regular basis to define financing envelopes for new project approvals, there is also a focus on reconfiguration of the Bank's financial architecture and existing portfolio to create fresh approval capacity for the future.

Reinforcement:* *Managing for development results

The Bank continues to strengthen governance through greater delegation of authority, increasing effectiveness of management structures, and ensuring that financial and non-financial resources are aligned with the strategy. A corporate scorecard system allows the Board to monitor the corporate performance of the Bank, enabling corrective action when required.

Improving the visibility of the Bank

IsDB aims to shift towards a model of strategic communication that positions the institution as a leader in terms of its shaping and steering conversations with Member Countries (MCs) in a more proactive and effective manner. The Bank will continue to further reinforce publicity for the newly launched brand, through wider reach in news and high profile newspapers. IsDB will also further enhance the capacity of its public portal, offering new services to MCs.

Focus area 1

Develop a positive perception of IsDB among its external stakeholders

Focus area 2

Enhance engagement with IsDB employees and ensure their well-being

Focus area 3

Develop and implement a holistic branding strategy and align all PR activities to the strategy

US$ 12 million

Internal financial benefits

A key financial benefit to be achieved is an estimated US$ 12 million reduction in Sukuk costs as a result of recognition of IsDB as a Sovereign Supranational Agency (SSA) as well as a wider awareness of Sukuk as an instrument.

IsDB launches its new brand

In 2018, following a review process of its brand, IsDB unveiled a new identity that heralds significant changes in the Bank's values, strategic direction and relationship with its 57 Member Countries (MCs). A significant driver behind the change is a commitment to establish IsDB as a modern, future-facing institution, able to offer fast and adaptive solutions to the challenges faced by its MCs.

As the first major change of this kind in the four decades of IsDB's existence, the new brand is a public statement of the Bank's future priorities in its work as a multilateral development bank. The development of the brand was effected under the banner of 'evolution, not revolution' and clarifies IsDB's focus on a fresh model based on decentralisation, technology, innovation, strengthening value chains, external financing and the use of electronic platforms to mobilise human and financial resources.

The new brand identity builds on IsDB's history as a leading global financial institution and a respected voice on Islamic finance. The Bank's vision for the next stage of its growth and institutional evolution addresses aspects of the old identity which were no longer a good fit with the its future ambitions. In particular, the new brand allows for a more modern, less complex (although still sophisticated) presentation of IsDB's values. It explains how IsDB is evolving to meet the expectations of both regional and international audiences – but by simultaneously emphasising 'evolution not revolution', it underscores the continued importance of IsDB's deep ethical and moral foundations.

The change in the abbreviation of the Bank's name from 'IDB' to 'IsDB' accentuates the Bank's Islamic heritage and can be used in all languages. The new logo incorporates a globe and a series of connected dots, alluding to the global network of interconnectivity that IsDB represents. It also highlights the new model of IsDB as a bank for developers, acting as a catalyst and facilitator and boosting the value chain. Since the unveiling of the new brand, it has been incorporated into all IsDB offices and regional hubs, as well as the website and social media channels.

Along with the updated logo and visual identity, the Bank itself has undergone significant restructuring to provide a more effective organisational framework for its activities going forward. Part of the evolution alluded to in the new identity relates to a shift in emphasis from the volume of funding provided to the developmental impact of initiatives. The new model will also help the Bank to step up its developmental role in the Islamic economy. The establishment of an Information, Communication and External Relations Department and a Science, Technology and Innovation Section will support these areas of focus.

An important aspect of the Bank's new strategy is its focus on equipping people in the MCs to take ownership of their own economic and social progress and invest in the infrastructure they need to achieve their goals. The new branding reflects this focus and is intended to support the Bank in building collaborative partnerships while championing the latest science, technology and innovation-led solutions to the United Nations Sustainable Development Goals.

The new brand looks to a future of growth, marked by the commitment to empower communities to drive their own economic and social progress

Crowding-in resources from the market

IsDB aims to shift towards crowding-in market resources as a new, alternative source of financing through a wider base of partnerships and a deeper understanding of market forces. This will be achieved through focused knowledge and investor intelligence capacity that can be deployed to the benefit of Member Country projects.

Focus area 1

Enhance financial contributions from alternative sources through focused external resource mobilisation

Focus area 2

Leverage external expertise to achieve higher impact without increasing IsDB's personnel costs

Focus area 3

Effective implementation of relevant partnerships to support resource mobilisation efforts

US$ 72 million

Internal financial benefits

A key financial benefit to be achieved is an estimated US$ 72 million reduction in drag on net income due to significant allocation of concessional financing from OCR by crowding-in finance from alternative sources.

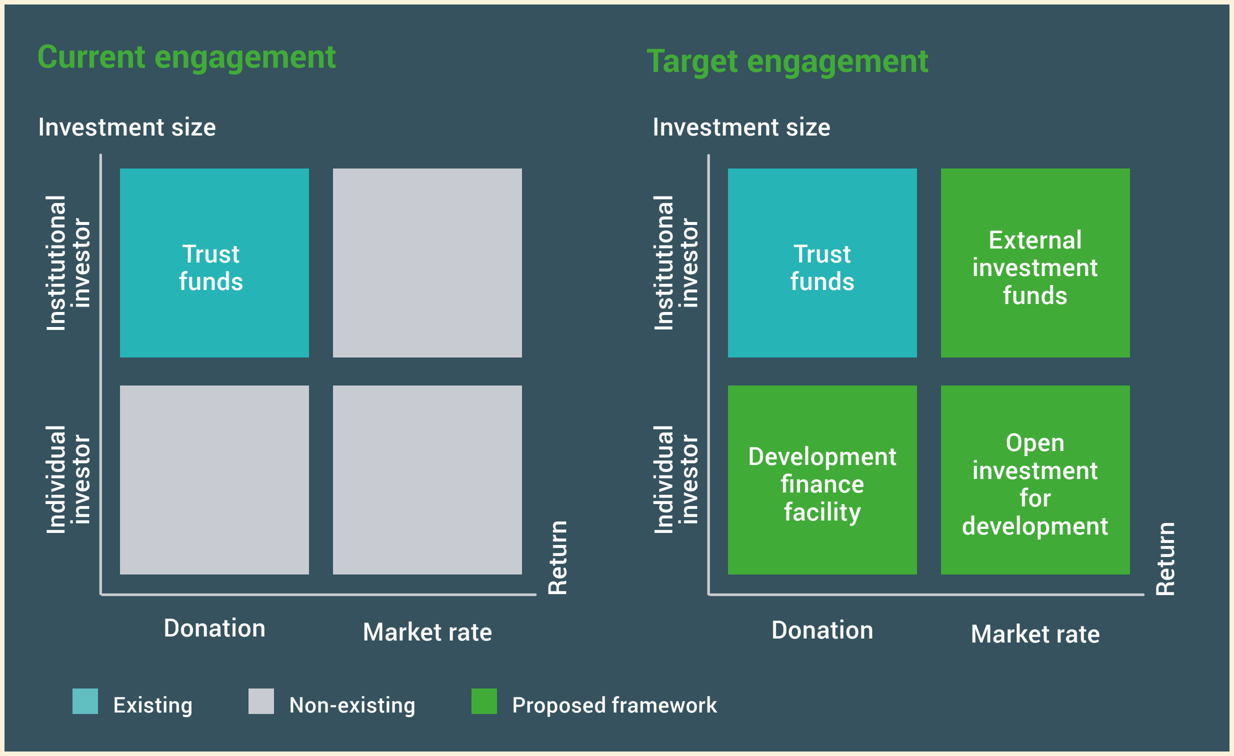
IsDB Developers' Platform

The IsDB global developers' platform provides a holistic framework for mobilising the full spectrum of non-sovereign donors and investors to channel resources into the Bank's strategic development agenda. In addition to the existing role of trust funds in development funding, this platform introduces three new elements that allow IsDB to sustainably multiply its developmental impact in its Member Countries (MCs), without risking its AAA rating.

External investment funds
The framework, which is aligned with IsDB's transition to a 'bank for developers', matches investor demand with the Bank's competitiveness drivers. It allows the Bank to move from providing on-balance sheet funding to a leaner set-up, where it acts mainly as facilitator of third-party funds for investment in MCs' development projects.

Development finance facility
This facility is a platform for cooperation between IsDB and a targeted network of non-governmental organisations (NGOs), to crowd-in private funding for the Sustainable Development Goals (SDGs) in MCs. Its systematic partnership approach leverages stakeholder strengths and provides important synergies and economies of scale.

Open investment for development
Another area of great potential is for-profit individual investor funding, which disrupts the classical financing model, where banking institutions act as gatekeepers for capital. Companies are now reaching out directly to their investors via web platforms. With IsDB's engagement, individuals' investments can be leveraged for the fulfilment of developmental strategies.



IsDB Developers' Platform[1]

Launch of a new crowdfunding platform
IsDB Innovate is a groundbreaking crowdfunding platform to support science, technology, and innovation projects around the world. By opening up funding channels to entrepreneurs and projects underserved by capital providers, it allows innovators to connect with individuals who wish to support the SDGs.

The platform launched in December 2018 with over a dozen projects — a unifying theme being the use of science, technology, and innovation to take on global challenges. In addition to a central hub, the platform has regional sites for IsDB's eight satellite locations: Bangladesh, Indonesia, Kazakhstan, Malaysia, Morocco, Niger, Senegal, and Turkey. Each of these sites is translated into English, French, and Arabic, as well as local languages, where appropriate.

In the first month and a half of operation, the platform attracted over 100,000 visitors from 183 countries. As the platform matures, it is exploring lending- and equity-based crowdfunding models, in addition to donations. To begin, these models will roll out in countries where regulation is most established, attracting more projects and entrepreneurs, as well as investors, to the platform.

By raising awareness of cutting-edge ideas from around the world and establishing a powerful link between project owners and donors, IsDB Innovate challenges the notion that emerging markets are simply consumers, rather than producers, of innovative solutions. It is opening up a funding channel for projects, entrepreneurs, and researchers around the world. The platform is also raising awareness of the work IsDB supports. The Bank is tremendously excited for the platform's future and its impact, not only on the lives of innovators, but also on those who stand to benefit from the solutions that come to life through the platform.

Building organisational capabilities

IsDB aims to focus internal capacity building in strategic knowledge areas in order to build global practices in line with the Bank's new business model. In new areas where it lacks experience, such as value chains, IsDB is partnering with other institutions to conduct targeted secondment programmes, training, and on-the-job coaching.

Focus area 1

Enhance quality of corporate services for the Bank as well as its key stakeholders

Focus area 2

Strengthen managerial effectiveness within the Bank

Focus area 3

Ensure alignment between the competency requirements and personnel capabilities

US$ 36 million

Internal financial benefits

A key financial benefit to be achieved is US$ 36 million savings in personnel costs due to efficiency enhancement benefits obtained from the IsDB new business model under the President's Programme.

A new human resources operating model

As IsDB moves forward with its new business model, it is changing its mode of operating to achieve the Bank's new goals. One of the main areas of focus is ensuring that the right competencies exist within the Bank to meet the challenges facing Member Countries. The Bank's policy of decentralisation presents particular challenges in this regard, accentuating the need to consider how the human resources function supports IsDB in sourcing talent and deploying the appropriate number of staff in key roles.

During the previous four decades of IsDB's existence, the approach to human resources management was largely rule-based with an emphasis on compliance. This is changing dramatically as the organisation adopts a more open approach to its employees, based on helping people to do their jobs in the best possible way to make the most of their skills and talents.

In building this new philosophy, it has been important to acknowledge the challenges associated with overturning longstanding ways of operating. At all times, there needs to be clarity on the goal of aligning processes, policies and people more closely to the Bank's evolving requirements and identity. IsDB benefits from the input of many well-educated people and, by making sure that appointments and promotions are based on merit and technical skills, it aims to get the best out of all its employees.

One aspect of working life at IsDB that is changing with the times is the degree of flexibility that will mark a typical career trajectory. While earlier generations of employees might have spent many years in a single department or job role, today's employees can expect to experience periods of work in several different areas of the Bank. This is part of a drive to help staff understand what the constituent elements of IsDB are doing, and how it fits with the overall mission and vision.

To support the shift to a more modern way of doing business, IsDB has devised a model that considers a list of competencies that staff are expected to display, tailored for both staff and leaders. This reflects the fact that success at the Bank is no longer judged only on the amount of knowledge a person has about their field of work, but also on key attributes such as adaptability and ability to cope with ambiguity and change.

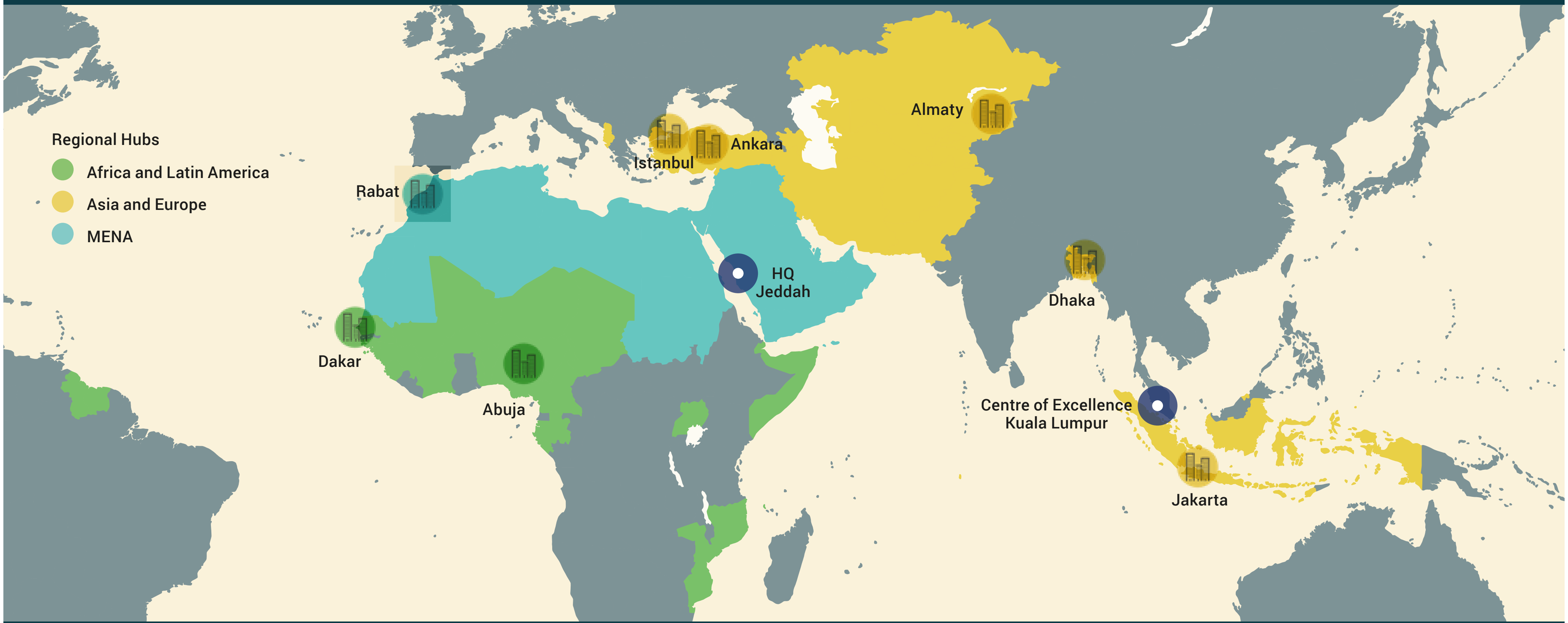
As it sets off in a new strategic direction, IsDB seeks to develop a workforce that is willing to adapt, learn and try new things. The Bank's talent management strategy aims to attract, nurture and retain people while equipping them for the challenges that lie ahead. One of the core issues being addressed is the level of diversity within the organisation. Helping to grow the number of women working in the Bank is an urgent element of the talent strategy, which also addresses the need to draw in younger workers to balance the historically older profile of staff.

IsDB is also looking at ways of introducing more flexibility in the types of jobs it offers, to take advantage of a more diverse array of skills and talents. This includes more dynamic and flexible working options such as short-term contracts to meet identified needs. Attention is also being given to how to leverage the reputation and development opportunities that the Bank can offer to make it an attractive place to work.

The Bank's talent management strategy aims to attract, nurture and retain people while equipping them for the challenges that lie ahead. One of the core issues being addressed is the level of diversity within the organisation

Decentralising functionally and geographically

IsDB aims to shift towards a lean organisation with simpler business processes, quality enhancement, the leveraging of cloud-based technologies and platforms, and investing in building delivery capacity in Member Countries.



Focus area 1

Improve operational effectiveness by reducing the average time of moving from approval to implementation

Focus area 2

Enhance the overall developmental impact per unit of dollar invested

Focus area 3

Empower regional hubs to independently execute projects

US$ 43 million

Internal financial benefits

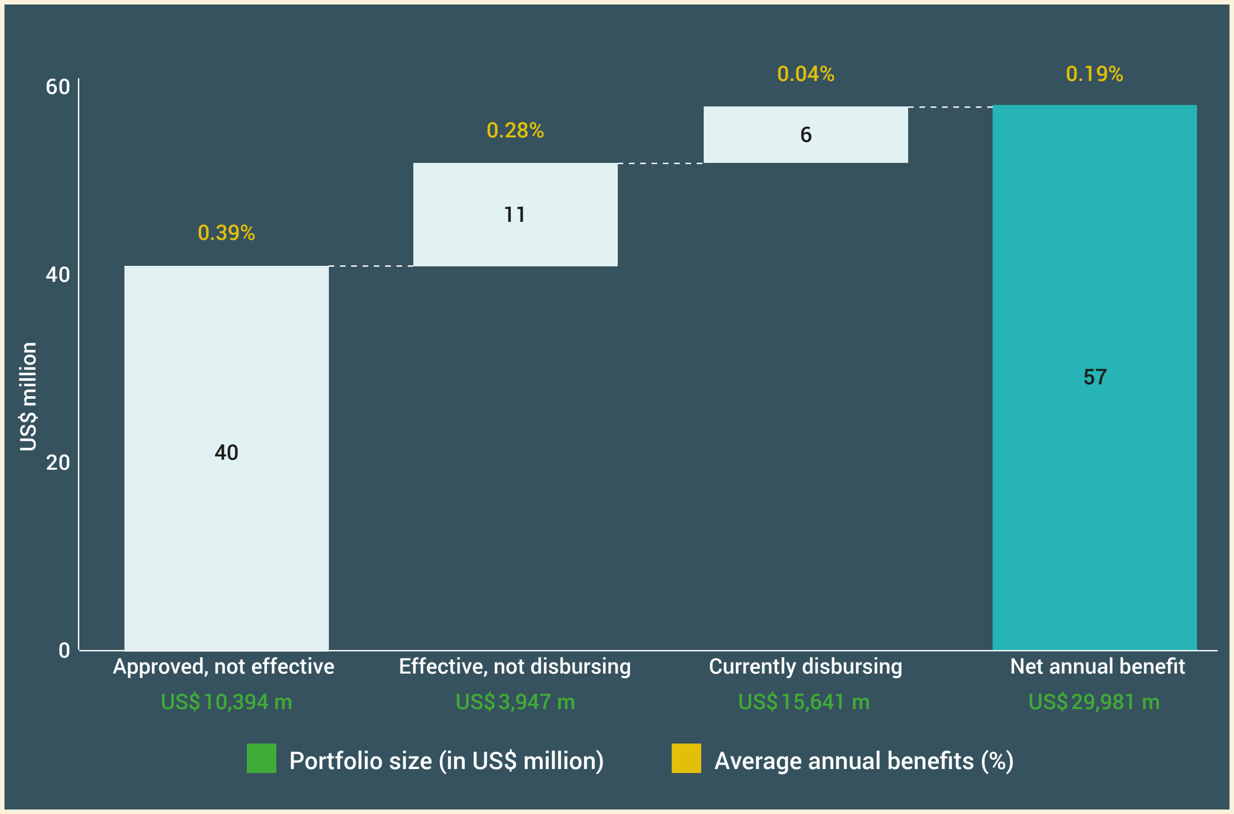
A key financial benefit to be achieved is an estimated US$ 43 million reduction in project operating expenses as a result of speeding up the project cycle.

Why decentralise IsDB?

The Bank identified significant scope for improvement in the execution of projects it financed. IsDB considerably lagged comparable multilateral development banks (MDBs) on commonly tracked project execution metrics, namely: quality of entry (i.e. date of project approval to date of first disbursement) and quality of implementation (i.e. delays during the disbursement phase). Such delays have significant implicit financial costs for IsDB that do not appear on the Bank's financial statement. Hence, we assessed the opportunity costs associated with project delays.

As part of the President's Programme (PP), IsDB plans to undertake multiple initiatives to improve project execution. One of them is to adopt a decentralised operating model by enhancing local presence in member countries through the establishment of 11 regional offices. It is envisaged that local presence will enable IsDB to improve the project execution through rigorous appraisal and closer supervision of the projects.

The experience of peer MDBs suggests that the operating costs of adopting a decentralised model will drive up IsDB's operational costs. However, it is expected that the potential financial benefits from improvement in project execution resulting from decentralisation will exceed the incremental operating costs associated with it. Within this context, the primary objective of this business case is to assess and compare the financial benefits accruing from expediting the project lifecycle with the associated costs of decentralisation.



US$ 57 million in annualised benefits from decentralisation[1]

Challenge

Compared to peer MDBs and planned timelines, IsDB's current project lifecycle reflects significant delays. Bringing the project lifecycle in line with international standards is expected to accrue an annual financial benefit of US$ 57 million. In addition, it also enables IsDB to finance additional developmental projects resulting from the faster asset turnover. These financial benefits far exceed the projected incremental costs from decentralisation, namely, one-time set-up costs of US$ 8.6 million and annual incremental operating costs of US$ 13.8 million.

It must be noted here that decentralisation alone will not be sufficient to improve the project lifecycle to international standards. It is imperative for IsDB to undertake other supporting initiatives outlined in the PP such as conducting rigorous project appraisal, streamlining operational processes, and enhancing project supervision and staff competencies to realise the financial benefits of the expedited project lifecycle.

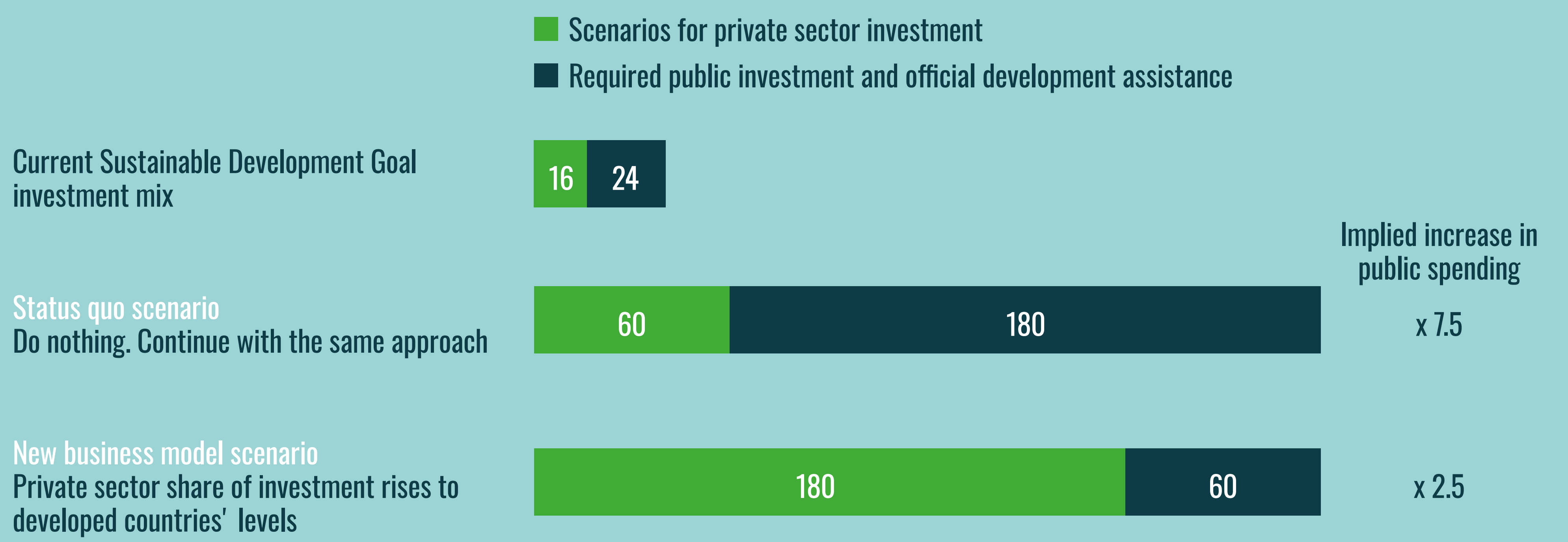
Solution

Under the PP, IsDB undertook the following actions:

- Implement the planned decentralisation of its operations.
- Implement supporting measures that are aimed at improving the delivery model. Some of the initiatives such as setting up a project preparation facility, and enhancing staff competencies etc. may require additional investments.
- Streamline end-to-end processes, including defining and alleviating the procurement bottlenecks.
- Closely monitor the key performance metrics, i.e. the quality of entry and quality of implementation at the senior management and Board levels.

Sustainable financial growth

IsDB aims to shift towards a new self-sustainable financial model that allows growth through off-balance sheet resources while maintaining AAA rating. In addition to reassessing financial sustainability on a regular basis, the Bank will test new financial instruments and explore a comprehensive reconfiguration of its financial architecture.



Focus area 1

Continue to maintain AAA rating for IsDB

Focus area 2

Ensure quicker and more efficient disbursements to meet IsDB commitments and reduce undisbursed commitments

Focus area 3

Implement key findings of the financial sustainability study

US$ 54 million

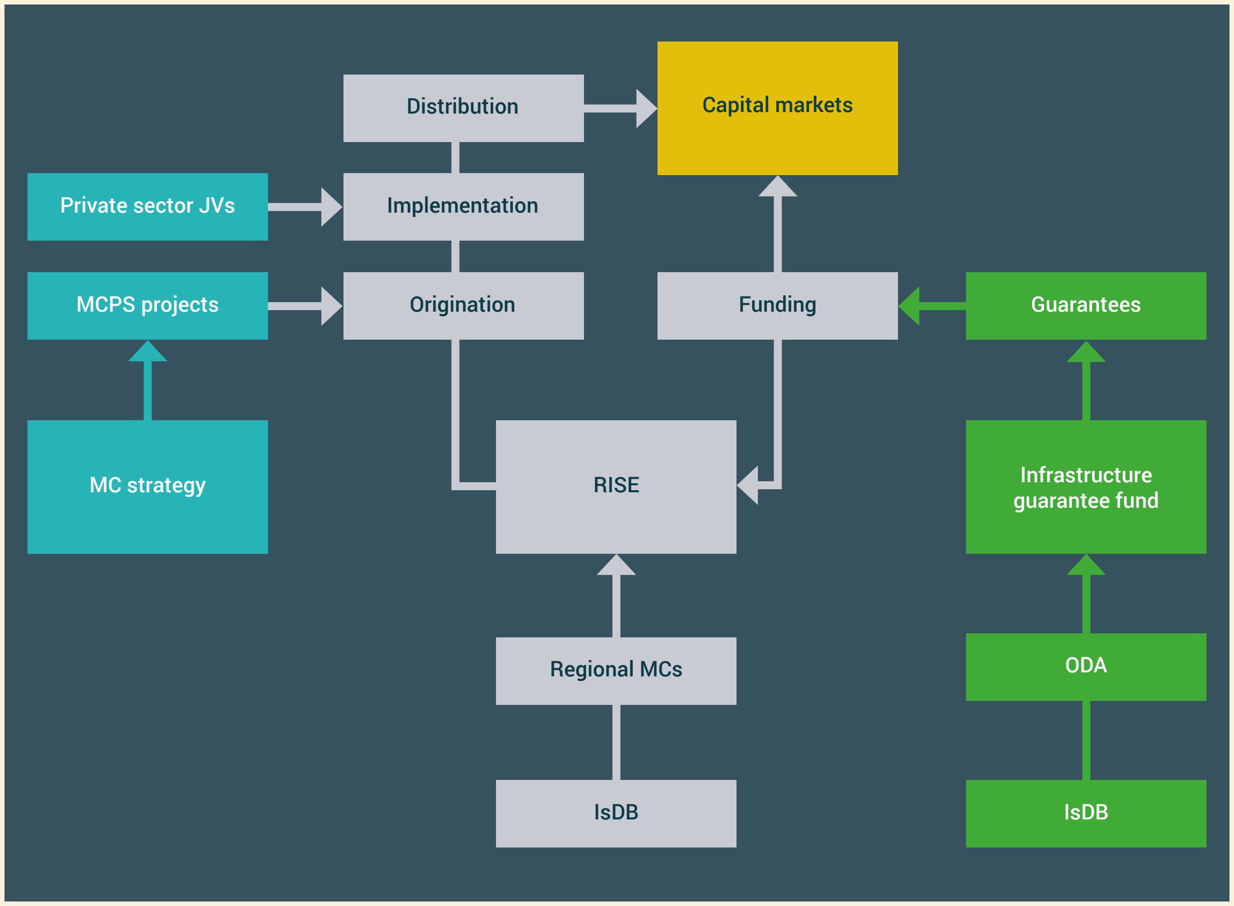
Internal financial benefits

A key financial benefit to be achieved is US$ 54 million of savings due to protecting the Bank's AAA rating, thus preventing an increase in the cost of Sukuk.

Regional Islamic Supranational Enterprises (RISE)

Cognisant of IsDB's financial sustainability imperatives and the capital investment needs to implement the Sustainable Development Goals, the Bank developed an innovative institutional mechanism that enables a more efficient use of its resources and a maximised developmental impact. This mechanism is centred around the establishment of Regional Islamic Supranational Enterprises (RISE). Instead of funding investments through Ordinary Capital Resources (OCR), RISE institutionalises an overarching integrated partnership framework where OCR acts as a resource mobilisation catalyst. This partnership model leverages the strengths of each developer to create significant synergies and deliver a combined impact that is considerably more important than the sum of each stakeholder's capacity.

A RISE is a regional developer specialised in infrastructure project funding and implementation with a geographical coverage aligned with the regional hubs. Each RISE will adapt to its respective context, complementing rather than replacing existing national institutions. Together, RISEs constitute a closely knit network of specialised developers covering all IsDB Member Countries (MCs).



Regional Islamic Supranational Enterprises in context

How does it Work?

Funding

RISE funds its activities by issuing securities on domestic and international capital markets. These securities are de-risked with a guarantee mechanism that attracts development partners with a national, regional and global mandate. The mechanism pools national development banks, National Infrastructure Guarantee Funds, and bilateral and multi-lateral official development assistance (ODA) resources, and allocates tailored residual risks to each stakeholder.

Origination

Grounded in the MC's development strategy and IsDB's Global Value Chain approach, the priority infrastructure investments are developed and brought to a bankability stage by RISE, IsDB and the MC.

Implementation

RISE implements the originated projects by partnering with a private sector developer (PSD) in accordance with multilateral development bank procurement practices. RISE seeds the projects' vehicles and the PSD mobilises the remaining funding independently.

Distribution

Post-construction projects are pooled with geographical and sectoral diversification and distributed to the capital markets. This frees up RISE's balance sheet and cuts the capital cycle by a factor of four.

Governance

RISE's governance structure balances sovereign and private sector interests. Direct involvement in project implementation is a contractual device that mitigates some of the most salient structural issues in public and public-private partnership procurement as it allows better alignment of incentives between all parties.

Managing for development results

The Bank will continue to strengthen governance through greater delegation of authority, increasing effectiveness of BED and management committee structures, and ensuring that financial and non-financial resources are aligned with the strategy.

Focus area 1

Ensure IsDB's overall organisation performance is in line with its global multilateral peers

Focus area 2

Safeguard long-term sustainability of IsDB's interventions by engaging relevant regulators and other key stakeholders within the Member Countries' ecosystem

Focus area 3

Ensure effective implementation of relevant policies and procedures across the organisation

US$ 48 million

Internal financial benefits

A key financial benefit to be achieved is an estimated US$48 million of savings generated by preventing losses due to breaches, including cyber-security, and the breakdown of controls. The new robust governance frameworks include the mainstreaming of new investment policies that improve returns on investments in IsDB-managed funds.

Integrated Strategic Programming Framework[1]

Over the 40+ years of its existence, the Islamic Development Bank has made significant contributions to the socioeconomic development of its Member Countries (MCs) as well as to Muslim communities of non-member countries.

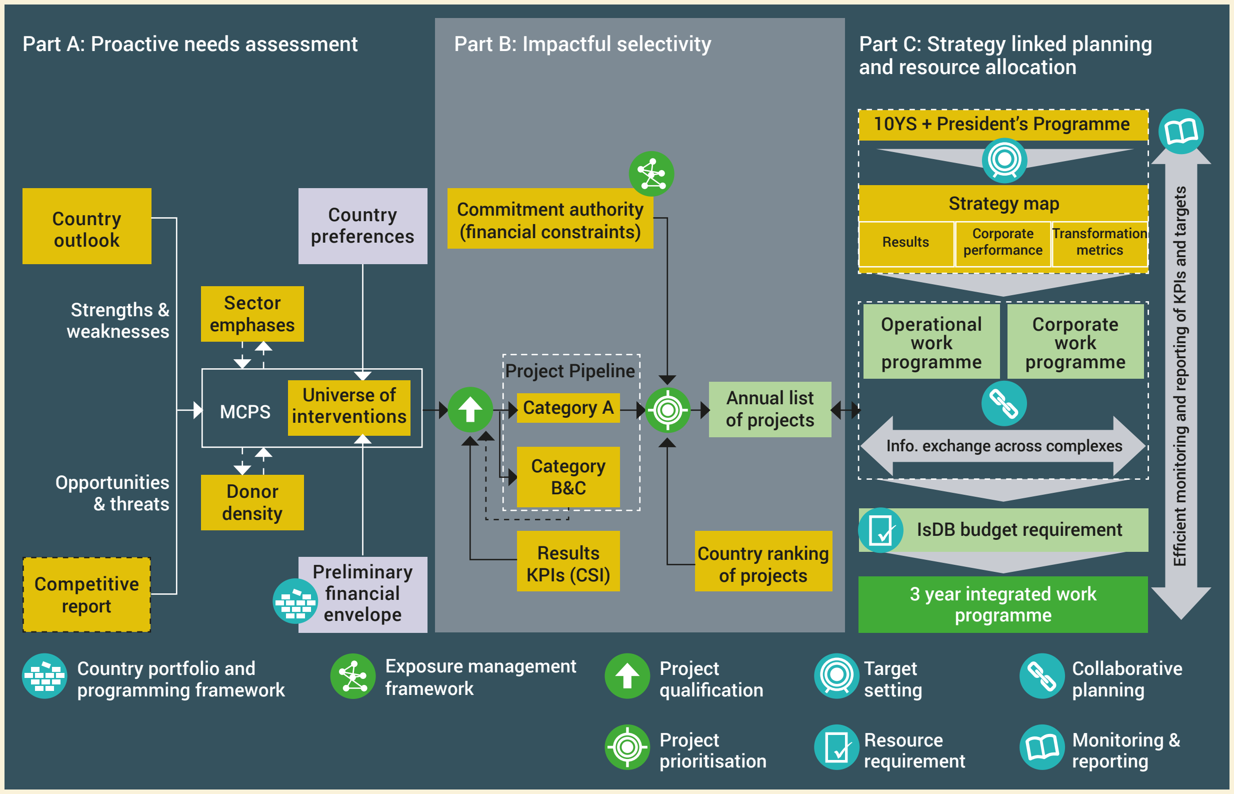
Challenge

- IsDB took a reactive approach to making interventions, as opposed to proactively working with MCs to assess critical needs.
- Project selection was not well aligned with MC needs (e.g. infrastructure financing went to countries in most need of infrastructure development).
- Resource allocations needed to be more in line with the Bank's corporate strategy in order to more effectively address specific operational, organisational and financial sustainability challenges.

Solution

To deal with these key shortcomings, the Presidency Programme introduced an Integrated Strategic Programming Framework (ISPF) across the organisation, which includes:

- Proactive needs assessment of the MCs to identify current needs and more effectively foresee future requirements, thereby establishing IsDB's transformation agenda for these MCs.
- Ensuring impactful selection of projects through a Project Qualification and Prioritisation Matrix that aligns project selection with MC needs and IsDB priorities.
- Linking strategy and resources (i.e. operations financing and administrative budget) by ensuring robust target-setting and cascading of priorities, a comprehensive and collaborative approach to planning, linking the resources requirement to targets, and finally a strong monitoring framework.



Integrated strategic programming framework[2]


THE 1/5/10 OPPORTUNITY

In This Section

With millions of new jobs needed every year, the ability to move from strategy to execution has never been more critical. Member Countries have an unprecedented opportunity to unlock barriers to investment by championing industries that drive sustainable development.

Introduction

IsDB Member Countries (MCs) can expect to benefit from a historic prospect for successful development — the 1/5/10 Opportunity. This refers to the mobilisation of US$1 trillion through five major industries to lead development in MCs, generating 10 million new jobs annually by 2030.

A major strength of the 1/5/10 Opportunity is its capacity to integrate financing sources with employment trends in key industries. Engaging these three aspects of the development landscape has the potential to completely revolutionise the way the Bank and its MCs work together. The Bank's new business model allows MCs to capitalise on each of these aspects. Integral to the new model is the understanding that the Bank's financing approach needs to take into account wider and more diverse trends.

The first of the three aspects is the estimation that, with help from the Bank, MCs can catalyse US$1 trillion from global market resources in core Sustainable Development Goal (SDG) sectors. The second aspect is that success for IsDB and its MCs depends on championing five selected industries that can make a significant difference in development outcomes globally. The third aspect is that if 10 million decent new jobs can be created annually (in particular for women and young people), this will propel MCs towards their development goals faster than would otherwise be possible.

Aligning IsDB to the new business model unlocks an enhanced scenario that increases IsDB's overall cumulative financial capacity to US$ 16.5 billion over the period 2019–2021, which represents 50%, 80%, and 80% growth in approvals for the years 2019, 2020, and 2021 respectively. The new business model has the potential to mobilise US$200 billion over a 12-year period from foreign and domestic financing sources. IsDB stands ready to work ever more closely with its MCs to turn historical challenges into historic opportunities for growth and prosperity.

By harnessing the 1/5/10 opportunities, MCs will achieve a brighter future through a combination of many factors, including increased industrial capacity and skills; stronger, more dynamic markets connected to global value chains; and accelerated job creation to meet global targets. Other benefits include increased returns to value addition; reduced price volatility and trade deficits; lower sovereign debt; higher, more equitably distributed incomes; and less poverty.

Achieving appropriate levels of industrialisation in MCs is an important facet of IsDB's new business model. With this in mind, the Bank is championing five industries with significant potential to advance the industrialisation process in five key industries to fourth-generation levels: food and agribusiness; textiles, clothing, leather and footwear; petroleum and chemicals; construction; and Islamic finance.

With the time left to achieve the SDGs by 2030 now equivalent to less than two sovereign project cycles, it is becoming urgent to explore the alternative development financing options the Bank has identified to give MCs the best chance of success. This requires changes not only on the supply side, such as resource mobilisation instruments, but also on the demand side, affecting the nature of projects to which mobilised financing is being deployed. It is necessary to reduce project cycles significantly to achieve the required quantum leap in delivering impact to MCs.

The Bank's new business model addresses these critical issues with the aim of enabling a decisive move on the part of IsDB, from short-term interventions addressing narrow and immediate pain points to a new way of looking at development challenges, accompanied by utilisation of the 1/5/10 opportunities to overcome the barriers to sustainable growth.

A traditional leather tannery in the old medina of Fez, Morocco. The textiles, clothing, leather and footwear industry is considered to be a typical 'starter' industry for countries as a first step on the industrialisation ladder

US$ 1 trillion of investment for the SDGs

Every year, IsDB Member Countries (MCs) need to channel between US$ 700 billion and US$ 1 trillion into crucial Sustainable Development Goal (SDG) sectors.[1] Infrastructure is by far the most capital-hungry sector among countries, accounting for three out of every four dollars (72%) of total SDG financing needs.

National governments have a great responsibility to lift barriers to the inflow of both private investment and direct foreign investment in development. This will help mobilise 1% of the global capital market that MCs need in order to reach the SDGs.

By committing to creating the necessary conditions for the new business model, MCs have a historical opportunity to mobilise US$ 1 trillion into core SDGs sectors

In mobilising funds from capital markets, IsDB recognises a huge opportunity in leveraging its core strengths to multiply its developmental impact by creating global synergies

Fresh policies are needed to ensure a strong enabling environment for business. At the same time, IsDB will need to focus its financing on industries in which MCs have comparative advantage (as highlighted previously), allowing them to integrate better with the global value chains.

In mobilising funds from capital markets, IsDB recognises a huge opportunity in leveraging its core strengths to multiply its developmental impact by creating global synergies. Firstly, the Bank will play the role of a broker, crowding-in resources from private investors by bridging confidence gaps. The main factor holding back long-term infrastructure investment is the perceived riskiness of the MCs. This perception is due to factors such as a lack of familiarity with local dynamics, and narrow investment mandates. Experience shows, however, that the level of risk in infrastructure is only marginally higher than comparable transactions in the developed world.

Secondly, current private development assistance from 24 countries is estimated to be at least US$ 44.6 billion — equivalent to over a quarter of official development assistance (ODA) to developing countries. Non-governmental organisations (NGOs) and civil society organisations are the largest providers of private development assistance, contributing 53% of the total US$ 44.6 billion, while corporate entities provide 20% of the total and foundations 16%. It is worth noting that the revenues of some NGOs are on par with the GDP of some countries. Also, some foundations (such as the Bill and Melinda Gates Foundation) have provided more private development assistance than the ODA assistance from Denmark and Korea, and equal to that of Switzerland. In addition to private development assistance, 16% of official aid is channelled though NGOs.

IsDB aspires to help MCs create the necessary conditions to mobilise US$ 1 trillion into core SDG sectors. This sets the tone for the Bank's positioning, strategy and approach, placing at its core the maximisation of resources — monetary and in kind — that can be invested in MC economies. This figure includes three levels of resource funnelling — direct, indirect and induced.

Direct

This is IsDB financing, co-financing, leveraged resources and catalysed private investments that augment developmental projects such as those for infrastructure, health and education. The Bank will also play a role in promoting financial markets in order to increase internal resource mobilisation that can contribute towards such investments. This can be done, possibly through support of tax reforms, but the idea is to increase a country's ability to mobilise internal resources. This also includes resources in kind such as intellectual property generated through crowdsourcing, and creating and transferring knowledge and services at a lower cost than their market prices, such as with the blindness campaign.

Indirect

Indirect resources derive from the Bank's approach to build on venture capital and industrialisation. By focusing on impactful investment in coordination with the private sector from the outset, IsDB ensures that adequate private investment will flow into those venture capital funds at whose level the Bank operates. The approach builds on resolving bottlenecks in information, infrastructure, and human capital, as well as addressing market and coordination failures. There should be compelling economic reasons to believe that the sectors affected by these bottlenecks can prosper.

The level of risk in infrastructure is only marginally higher than comparable transactions in the developed world

The approach builds on resolving bottlenecks in information, infrastructure and human capital, as well as addressing market and coordination failures

Induced

IsDB can concentrate on those sectors with a higher propensity for generating savings and investment. The Bank will want to effect a virtuous circle of private sector investment leading to deeper industrialisation and urbanisation, and to knowledge and resource creation that can be fed back into the economy. Therefore, concentrating on sectors that can generate a high level of value addition will invariably command a higher investment rate and hence more resources being channelled back into the economy.

Championing 5 industries globally

By capitalising on Member Countries' (MCs) natural endowments and intrinsic comparative advantages, together we can lead a process of structural change towards global competitiveness, consistent with SDG 9. This change will be managed with a forward-looking perspective towards achieving Industry 4.0 levels of productivity and innovation throughout the value chains. IsDB is well positioned to leverage private investments in five industries: food and agribusiness; textiles, clothing, leather and footwear; petroleum and chemicals; construction; and Islamic finance.

Food and agribusiness

This industry's value chain extends from cultivation, agriculture and the rearing of livestock through to the final consumption of products. The chain involves a wide range of actors and industries including farmers; suppliers of agricultural machinery, seeds, chemicals, and vaccines; animal health expertise; data providers for precision agriculture; and food packaging.

Agrifood processes are the means used by the food and agribusiness industry to transform food products from animals such as cows and chickens, and from plants, including cereals, into industrially manufactured foods for human consumption. In addition to agrifood production, agribusiness includes the transformation of agricultural, fisheries and forestry produce into non-food products, such as biofuels, biomaterials and industrial biotechnologies. Based on current trends, the caloric demand is expected to increase by 70% while demand from human consumption and animal feed will increase by at least 100% by 2050.[1]

It is paramount that interventions are made in the changing technological landscape of food production

The fertile fields of Azerbaijan. The main challenge, globally, is that the private sector organisations that provide foreign direct investments do not fully understand the geography of the most attractive agribusiness regions

In order to determine the direction in which the agribusiness industry is moving, a deep understanding is required of the geographies as well as of the complex value chains, from inputs to production, processing, and retailing. The main challenge, globally, is that the private sector organisations that can provide foreign direct investments do not fully understand the geography of the most attractive agribusiness regions, some of which are located in IsDB's MCs.

Given growing concerns regarding the degradation of environmental conditions of agricultural lands, in addition to population growth, the availability of farmland is dwindling, and climate change is having an effect. Also, the bioengineering of food is a significant concern to an industry that still relies on outdated and inefficient ways of growing crops. It is therefore paramount that interventions are made in the changing technological landscape of food production.

It is encouraging, therefore, that meat and plants have recently been nurtured in the laboratory and, if these technologies become

A Burkinabe farming technician inspects transgenic cotton. If these technologies become mainstream, it could effect a significant shift in the methods used by the agribusiness industry

mainstream, it could effect a significant shift in the methods used by the agribusiness industry. Firstly, technologies can help to promote personalised nutrition, as it will become possible to produce food at home. Secondly, this shift will help to demystify the concept of cultured food, which is crucial if humanity is going to meet its growing demand. By championing this industry, the burden may be eased in meeting the entire demand and, wherever possible, the current trend disrupted by introducing unconventional development solutions to increase efficiency and productivity.

Technologies can help to promote personalised nutrition, as it will become possible to produce food at home

The export mango value chain targeting European markets presents a higher added value potential for local farmers

CASE STUDY

Exporting mango from Mali

Mali's yearly mango production amounts to an average of 65,000 tons, a large proportion of which is known to be consumed locally. Although the mango export value chain targeting European markets presents a higher added value potential for local farmers, there are multiple hurdles with regard to European market access, because of quality-related restrictions. Certification according to recognised global standards enables farmers and exporters to access these markets, and, in particular, to obtain higher prices for their products. To reach the required standards for certification, close cooperation is required between (small-scale) mango producers, (larger-scale) mango processors and exporters, in particular when it comes to information flows.

A group of 150 mango farmers from the Sikasso basin has set up a partnership with three key mango processors (dried mango, juices) and an exporter of fresh mangos (Agrumes et Oléagineux du Mali – AOM) to achieve certification to various international standards (Tesco, BSCI, Albert Heijn, GlobalGAP and organic). Through coaching and training of mango producers and quality control agents and through facilitating the official audit process, the exporter AOM and 150 associated mango producers were able to obtain certification status. As a result, they were granted access to European markets.

CASE STUDY

IT access for small farmers in Nigeria

Nigeria, the second-largest economy in Africa, has about 30 million smallholder farmers who provide 95% of the country's agricultural production. Because of the lack of effective information and extension services, most farmers do not have access to accurate information, including weather forecasts, input supply, product prices and markets.

As mobile phones are already widespread in Nigeria's rural areas, mobile apps prove to be a cost-efficient way to disseminate information to farmers. The apps, RiceAdvice and MaizeAdvice, developed by the African Rice Initiative (ARI) and by the International Institute of Tropical Agriculture (IITA), and the SMS-based weather forecast ISKA can be considered as good examples. After testing with about 2,500 pilot farmers, the apps are now actively promoted by IITA and have reached about 10,000 farmers so far. Because of ARI's and IITA's international network, the innovation can easily be spread to farmers in other African countries.

Private start-up companies, as well as international research institutes, are investing in ICT solutions targeting farmers in Nigeria and in the whole African continent

Apps are now actively promoted and have reached about 10,000 farmers so far

As mobile phones are already widespread in Nigeria's rural areas, mobile apps prove to be a cost-efficient way to disseminate information to farmers

However, farmers need to be trained and coached to use the apps effectively. This is done through Agricultural Development Programmes (ADP) as part of the public extension services in each of Nigeria's federal states. Linkages need to be set up between farmer groups and research services to adjust the information according to the needs of the farmer and in line with the latest results in agricultural research.

There is also room for improving the usability of apps, for example by integrating animated 3D videos to illustrate good agricultural practices. In the long run, ICT for Agriculture (ICT4Ag) solutions can also be spread to other African countries to enable each smallholding farmer to become an equal member of the digital society worldwide.

CASE STUDY

Organic food production in Kyrgyzstan

Kyrgyzstan´s accession to the Eurasian Economic Union (EEU) in 2015 helped to promote the country's agriculture and food exports to other EEU member countries. However, membership in the EEU also requires strong improvements in the fields of food safety and food quality control to harness the growth potential derived from extended export opportunities.

For most agricultural commodities, competition will likely increase in the future, not only from the EEU countries, but also from neighbouring countries, such as China, Uzbekistan and Tajikistan.

In response to these challenges, Kyrgyzstan is now strengthening its competitiveness for organic production where the country also benefits from its relatively uncontaminated environment. Kyrgyz farmers and food processors alike get advice on the development of organic value chains through introduction and facilitation of organic certification. Examples are dried apricots or jam and marmalade made out of wild berries. The Kyrgyz government supports organic production and in 2013 adopted the Kyrgyz Organic National Action Plan (KONAP). It also supported the establishment of the Federation on Organic Movement (Bio-KG).

At this stage, premium prices for organic products are being obtained mainly in the EU and in the US. The Kyrgyz Republic also plans to develop new export markets in Russia and in the Middle East and to strengthen the domestic market for certified organic food products.

Kyrgyzstan places the emphasis on the issue of market niches it can serve as a result of its comparative advantages

The Kyrgyz Republic plans to develop new export markets in Russia and in the Middle East and to strengthen the domestic market for certified organic food products

Interested youth groups receive training at farmer field schools, and are provided with starter kits of farm tools, improved seedlings, and post-harvest processing equipment

CASE STUDY

Rehabilitating coffee and cocoa plantations in Sierra Leone

About one third of Sierra Leone's population consists of young people aged between 18 and 35 of whom 63% lack employment and income opportunities. In the Eastern districts of Kono and Kailahun, more than 100,000 hectares are covered with cocoa and coffee plantations which perform considerably below capacity or which were neglected during the civil war. A programme by the national government together with international donors is now supporting young people from rural areas to become coffee and cocoa farmers.

Interested youth groups receive training at farmer field schools and are provided with starter kits comprising farm tools, improved seedlings, and post-harvest processing equipment. Private extension services are being set up to provide training and technical advice in a sustainable way to the young farmers.

A strong advantage is that Sierra Leonean cocoa and coffee is organic by default, and production is based on old varieties and species. One example is the coffee species *Coffea stenophylla* which is endemic to Sierra Leone and sought after by coffee growers and aficionados worldwide who are interested in specialty coffees outside the ubiquitous Arabica/Robusta spectrum.

IsDB can bring Blue Economy investing to those countries that are currently left out of investment initiatives

Investing in the Blue Economy

Shipping and maritime logistics carrying 90% of the world's trade and the ocean is a cornerstone of the global economy[1], contributing around US$ 2.5 trillion[2]. It provides a range of commodities that are essential to human life, including fish, hydrocarbons and minerals.

However, the maritime sector faces mounting problems. Climate change is undermining ocean health with impacts on many ecosystems from rising ocean temperatures, while ocean acidification and ocean plastic are of major concern. Recognising the enormity of these challenges, the United Nations has created its first ever Special Envoy for the Ocean.

These are significant issues for many IsDB Member Countries (MCs), 85% of which have coasts on the ocean or inland seas.[3] In the context of the increasing level of crisis these countries are likely to encounter or may already face, the Bank is exploring the Maritime Investment market, with the goal of eventually establishing a Maritime Investment Fund. The aim is to meet identified needs among those MCs located in coastal zones that are affected by exposure to adverse impacts.

Through such maritime investment funds, MCs can invest in both large- and small-scale maritime projects using Islamic finance.

Through such maritime investment funds, MCs can invest in both large- and small-scale maritime projects using Islamic finance

Carrying the branding 'Building the Base of the Blue Economy' and modelled in part on the Transform Fund, it will be global in ambition and reach, working across the entire IsDB portfolio with a particular focus on least-developed MCs. It will invest in a range of Blue Economy activities, including aquaculture and seafood, maritime logistics, offshore energy, marine science and tourism.

Significant capital will be needed to address these problems and to adapt ocean industries so that they work more effectively. While maritime industries remain undercapitalised due to perceived risks by commercial investors and the lack of targeted financial instruments, such a platform can provide an opportunity for IsDB to provide leadership for new investors in the sector.

To date, investment funds targeting the Blue Economy have focused on developed countries and, to a lesser extent, low- and middle-income countries. IsDB can use its poverty-reduction mandate to bring Blue Economy investing to those countries that are left out. To enable these economies to tackle their maritime challenges, the Bank will deploy a full range of services from all of the IsDB Group's departments, partnering with external stakeholders including impact investors, philanthropic organisations and commercial investors.

Maritime facts

- 85% of IsDB countries are coastal states.[3]
- All IsDB countries have communities along rivers and lakes.
- Aquaculture is the fastest growing segment of the food industry.
- The ocean's contribution to the global economy is approximately US$ 2.5 trillion.[2]
- 90% of global fisheries are either at or beyond replenishment capacity.[1]
- The global seafood industry generates 350 million jobs[4], 10–12% of global employment.[5]
- One billion people rely on fish as the primary source of protein in their diet and 3.2 billion people rely on fish for at least 20% of their animal protein consumption.[6]
- Shipping carries 90% of global trade.[7]

Weaving cotton fabric on an airjet loom — a technology that has far-reaching economic consequences for Member Countries

Textiles, clothing, leather and footwear

The textiles, clothing, leather and footwear (TCLF) sector involves various stages of production such as the processing of raw materials, and the design and assembly of finished clothing to be sold on the global market. The sector has proven to be integral to the growth and development strategies of developing countries, and is considered a typical starter industry in the first steps to industrialisation, offering entry-level jobs for unskilled labour. When the industry expands, it provides a base on which to build capital for more technologically demanding industries. Some of IsDB's MCs are the top producers globally in the textile industry, which supports their exports and creates a large number of jobs. Any disruption to this sector could therefore have disastrous economic effects.

With the growth of the fourth industrial revolution (see page 20), the industry might face challenges, as labour-intensive jobs are replaced by machines, especially where automation provides advances in smart manufacturing solutions that may extensively replace the existing jobs in the industry.

The emergence of airjet loom technology has increased the speed of weave processing by up to 1,000%

For example, the emergence of airjet loom technology has increased the speed of weave processing by up to 1,000%.[1]

Nanotechnology is also predicted to further transform the industry. Nanoscience will bring about advances in how materials are processed that will lead to the design of lightweight and durable materials. In addition, nanotechnology will help improve the efficiency of production, especially in terms of energy savings.

The TCLF industry landscape is inevitably changing very rapidly. The insulation from adverse effects on MCs is vital and will require substantial capacity building for some of them where TCLF comprises the main tradable sector. In order to introduce high value added, more engineers will have to be trained in classical disciplines such as the mechanics of the materials, and thermodynamics, as well as in the new technical sciences such as those dealing with composite materials.

Turkish slippers manufactured in Istanbul. Nanotechnology will help improve the efficiency of production, especially in terms of energy savings

In recent years there have been vigorous initiatives in innovative local start-ups specialising in the textile fashion industry

CASE STUDY

Linkages within the Jordan textile industry

The textile industry in Jordan contributes to the country's economic system, with more than 50,000 workers across the sector nationwide. In 2016, articles of apparel and clothing accessories, knitted or crocheted, represented the highest exported value for the Jordanian economy at US$ 1,128,058,000. The US, China, India and the European Union were the main markets. There is also potential for increasing exports and opening new markets.

One of the challenges that the sector is currently facing is the inability to attract local workers. Only 30% of the local workforce is Jordanian, while the rest are migrants.

The government deployed a programme to encourage and improve the conditions of those employed in the textile sector. An important component of this action programme is Better Work Jordan. Established in 2009, it focused on targeting social upgrading and boosting competitiveness of the textile industry.

In recent years there have also been initiatives in innovative local start-ups, specialised in the textile fashion industry. Dedicated start-up incubator DeZain, in Amman, places strong emphasis on reinforcing and building capacities for Jordanian designers and textile producers.

An integrated approach is being developed to articulate and promote linkages between the challenges of textile production and the encouragement of entrepreneurship within the industry. The aims are to increase best practice exchanges to support small and micro enterprises within the industry and to diversify local production.

An integrated approach is being developed to articulate and promote linkages between the challenges of textile production and the encouragement of entrepreneurship within the industry

In order for the sector to continue integrating migrants and refugees, while also trying to increase employment opportunities for Jordanians, social upgrading is a fundamental parameter within the global value chain to improve the rights and entitlements of workers.

CASE STUDY

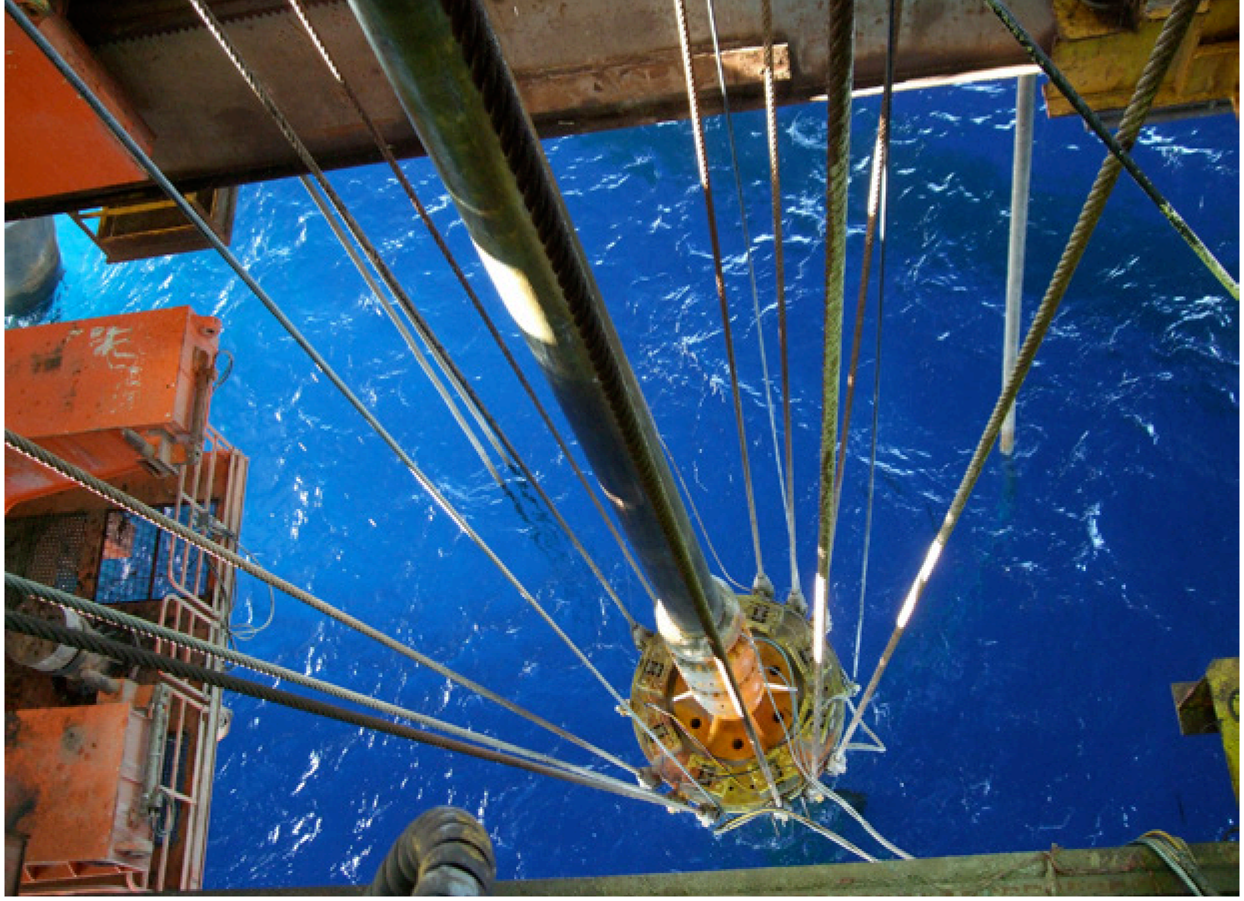
Soccer ball industry in Pakistan

Sialkot, Pakistan is a major producer of hand-stitched soccer balls, with roughly 130 firms manufacturing them for all major brands.[2] Since soccer has never been a very popular sport in the country, the existence of the soccer-ball cluster seems to argue against the home-market effect, which holds that countries will tend to export goods for which they have large domestic markets.

However, the cluster's late nineteenth-century origins suggest that the home-market effect appears to have been important in creating the cluster in the past and that agglomeration effects and industrial policy led to continued growth of the sector. This indicates that a lack of contemporary local demand is not in itself an argument against home-market effects.

It is also consistent with the idea that close exposure to final consumers is a key to manufacturing success in developing countries, at least in the early stages.[3]

Leather production in Pakistan



A semisubmersible oil rig moon pool. If these technologies are combined with a changing market landscape, such as the mainstreaming of bioplastic technology and 3D printing, it will drive demand upwards for more specialised plastics

Petroleum and chemicals

The value chain of the petroleum industry extends from exploration to the retailing and trading of crude oil and/or other petroleum products. The wide range of intervening steps include production, storage, shipping, and the refining or transformation of petroleum resources into usable products by industries and private consumers. The market is larger than the combined size of all metal markets, with the largest proportion of products comprising fuel oil and gasoline.

This industry has the potential to create a high volume of employment requiring a wide range of expertise, from highly skilled jobs to labour-intensive, low-skilled jobs. This is particularly attractive for IsDB's MCs, with their diverse economic profiles. Many MCs are petroleum and chemicals producers, with a fifth of jobs related to these industries.

The new technologies capable of disrupting the industry can be divided into two groups, each of which will have a different effect. On one hand, new drilling technologies could increase petroleum supply sixfold.[1] This increase will put enormous downward pressure on the prices of petroleum feedstock, with the implication that the reliance on sales and distribution of crude petroleum products to finance national budgets is no longer a problem for MCs.

Future interventions of the Bank should be geared towards building the capacity to develop upstream manufacturing of petroleum products

Future interventions of the Bank should therefore be geared towards building the capacity to develop upstream manufacturing of petroleum products, and to develop petrochemical value chains — especially in terms of upstream manufacturing and downstream manufacturing where most of the value-add is located. This is crucial, as it will help the petroleum producing MCs diversify their economies. Also, developments in petroleum and petrochemical upstream and downstream manufacturing will make the countries more resilient to price shocks in petroleum products by creating buffer products.

Besides petrochemicals, many MCs are also heavily involved in products that feed into the industrial chemicals sector, providing raw materials and manufactured products for industrial, agricultural, horticultural, domestic and pharmaceutical uses. The importance of the industry to the economy of MCs is self-evident.

On the other hand, new technologies such as fracking will enable petroleum products to be sourced at a more competitive cost. If these technologies are combined with a changing market landscape, such as the mainstreaming of bioplastic technology and 3D printing, it will drive demand upwards for more specialised thermoplastics, including the biodegradable Polylactic Acid (PLA).[2]

Firstly, therefore, MCs must adjust their sourcing technologies to remain competitive with the other global players. Secondly, the future increase in demand for more complex plastics can be an opportunity for MCs to enhance their existing petroleum and chemicals value chains and to position themselves to capture these new markets.

With greater value-add in those industries with high impact, the MCs will be able to turn collectively from being simply oil producing countries into becoming technology developers while, at the same time, diversifying into several other product lines.

The new pipeline will serve South Sudan, Uganda, Tanzania and the Democratic Republic of Congo and positively contribute to the local economy

CASE STUDY

Research in the Democratic Republic of Congo

Due to the high price that end consumers in Africa pay for the petrochemical products exploited on their own soil, there is a strong need to establish a petrochemical industry on the continent, with real added value. This was the purpose of a materialisation process that took place in the Albertine graben in the East of the Democratic Republic of Congo. The process consisted of field research and mapping, population behavioural studies, the preparation of records and minutes of conformity of geographic coordinates, the determination of the types or dimensions of infrastructure to be implanted, and the types of equipment to be used. To achieve this, in a first phase, local staff were recruited for a budget of nearly US$ 60,000. In the second phase, during the seismic campaign, several large-scale works were carried out with a larger workforce for a total budget of nearly US$ 27 million, of which 10% was allocated to the local population. As a result, a project to construct a pipeline has been agreed. The pipeline will serve South Sudan, Uganda, Tanzania and the Democratic Republic of Congo and positively contribute to the local economy. Given that the establishment of such an industry requires major investment, the governments of the different countries of the region could consider introducing a quote when defining the fuel prices, with the positive consequence of gradually reducing the imports of refined products as well as petroleum derivatives.

The future increase in demand for more complex plastics can be an opportunity for MCs to enhance their existing petroleum and chemicals value chains and to position themselves to capture these new markets

CASE STUDY

Towards sustainability in the Maldives

In the last 40 years, the Maldives has been able to more than double its economy. During the last 20 years, the economic growth rate has been 7% per year. This steady development is mostly due to an increase in tourism, which today represents 28% of total GDP.

However, tourism is an impacting industry that requires empowering in the service capacity and utility services. In the Maldives, energy supply is largely dependent on imported fossil fuel. Recently, the cost of energy has reached 18% of GDP. On the national level, energy security accounts for US$ 40 million; on the local level, the lack of proper and affordable energy supply can hinder day-to-day life in some of the most remote islands.

Economic growth based on tourism came with significant costs and disadvantages, prompting the necessity to procure sustainable services

Benefits include reducing CO_2 emissions by displacing 40,000 tons of equivalent CO_2 per year

In 2015, studies showed that investments in 25 MW Solar PV, including 8 MWh storage capacity and 44 modern diesel power plants, could be easily implemented through rooftop- or ground-mounted systems in 166 of the 194 islands in the archipelago. These benefits can be translated to:

- Reducing general energy consumption by cutting losses and diminishing energy imports
- Improving security and reliability of supply
- Building of new capacities inside the two local utilities (STELCO and FENAKA)
- Creating new jobs for operating and maintenance services in power generation and grid facilities
- Contributing to a greener image of the tourism industry
- Reducing CO_2 emissions by displacing 40,000 tons of equivalent CO_2 per year.

CASE STUDY

Benefits from interconnections in Nigeria

Nigeria has abundant natural resources such as gas and oil, and the energy industry can play a key role in the national economy. At the same time, neighbouring countries such as Benin, Niger and Togo are completely dependent on imports of electricity. Local operators are often obliged to resort to expensive methods (such as diesel generators) to manage the lack of supply.

The creation of the Western Africa Power Pool (WAPP), whereby MCs such as Nigeria, Benin, Niger, Togo and others are interconnected and exchange electricity, will help tackle these regional problems.

Currently WAPP is completing the physical interconnections to send power across borders. About 7% of the region's electricity is currently traded among the 10 already connected countries.

The economic benefits of WAPP are estimated at US$ 5–8 billion a year.[3] These benefits come from lower costs of operation and reduction of grid costs. Integration will improve reliability and make electricity more affordable by allowing all countries to benefit from the least-costly resources available.

The power system will also become more resilient through easier compensation for unexpected energy shortages. The sizable market created by integrating these and other countries will be more attractive to private sector investment in power generation.

Through spillover effects, enabled by an interconnected electricity market, the investment environment in Benin and Niger will also benefit from the interconnections and the WAPP framework.

Through spill-over effects, enabled by an interconnected electricity market, the investment environment in Benin and Niger will benefit

The Western Africa Power Pool enables MCs such as Nigeria, Benin, Niger and Togo to interconnect and exchange electricity

The Lekki-Ikoyi bridge, Nigeria. New technologies, such as big data and the Internet of Things, are widely used in new infrastructure projects and have made it easier to connect the developers of various infrastructure assets to their users, with the effect of increasing the capacity to manage more sustainable infrastructure projects

Construction

This is a critically important industry, contributing greatly to the economic growth of a nation. One tenth of global GDP revolves around the construction industry. Due to its strong linkages with other industries, construction plays a leading role in the economic recovery of any country. The sector is also a potential employment generator, providing work for almost 7% globally of those employed. By 2030 the industry will account for 14.7% of all global economic output.[1] With IsDB's experience in infrastructure projects, there are several opportunities in which support can be given, in unconventional ways, to construction and infrastructure for development. For instance, it is possible for the Bank, among others, to mobilise the Zakat and Awqaf funds to support small and social infrastructure projects.

One tenth of global GDP revolves around the construction industry. Due to its strong linkages with other industries, construction plays a leading role in the economic recovery of any country

There is also a vast opportunity for the construction industry within the sharing economy. New and innovative interventions could include developing the Internet of Things (IoT), an infrastructure project-based activity of acquiring, providing and sharing access to goods and services that are facilitated by a community-based online platform. New technologies, such as big data and the IoT, are widely used in new infrastructure projects and have made it easier to connect the developers of various infrastructure assets to their users, with the effect of increasing the capacity to manage more sustainable infrastructure projects.

The construction Industry is vital for the prosperity of any nation, and crucial in the development of infrastructure related to health, transport and education. Well-constructed buildings and roads create a healthy environment in which to work, thereby increasing productivity and, importantly, the flexibility of the labour force.

CASE STUDY

The timber industry in the Congo Basin

Covering 243 million hectares, the Congo Basin's forest is a world-class reservoir of wood resource and biodiversity. However, its economic potential is underexploited, due to a range of geographical, logistical and political constraints.

Two sectors coexist: a modern one, led by foreign companies and well-connected to the global value chain (GVC), that exports low added-value products to European and Asian markets. In parallel, an informal sector processes low-quality wood products for local markets.

The creation of a truly regional market, integrating the narrow national markets with adapted infrastructure and business environments, would allow for an increase in local processing capacities with a greater share of local products in local markets and more locally processed wood in the region's exports.

Actions would be needed in the fields of infrastructure, business environment, and vocational training, inter alia, together with a strong political commitment from local authorities. All of the countries of the Congo Basin are part of the Economic Community of Central African States and already share common regulations. The potential of 'green' regulations (FSC) and instruments (REDD+) could also be taken into account.

Strong commitment from a major donor could lead to significant steps forward, especially if such a donor were to act in a coordinated, consistent and coherent manner.

As a starting point, efforts will focus on the Democratic Republic of Congo in connection to its region, the Congo Basin, where constraints, challenges and opportunities are similar. Then it could be promptly extended at a regional level in order to promote a regional GVC economic upgrading approach.

The construction industry is a potential employment generator, providing work for almost 7% of those employed globally

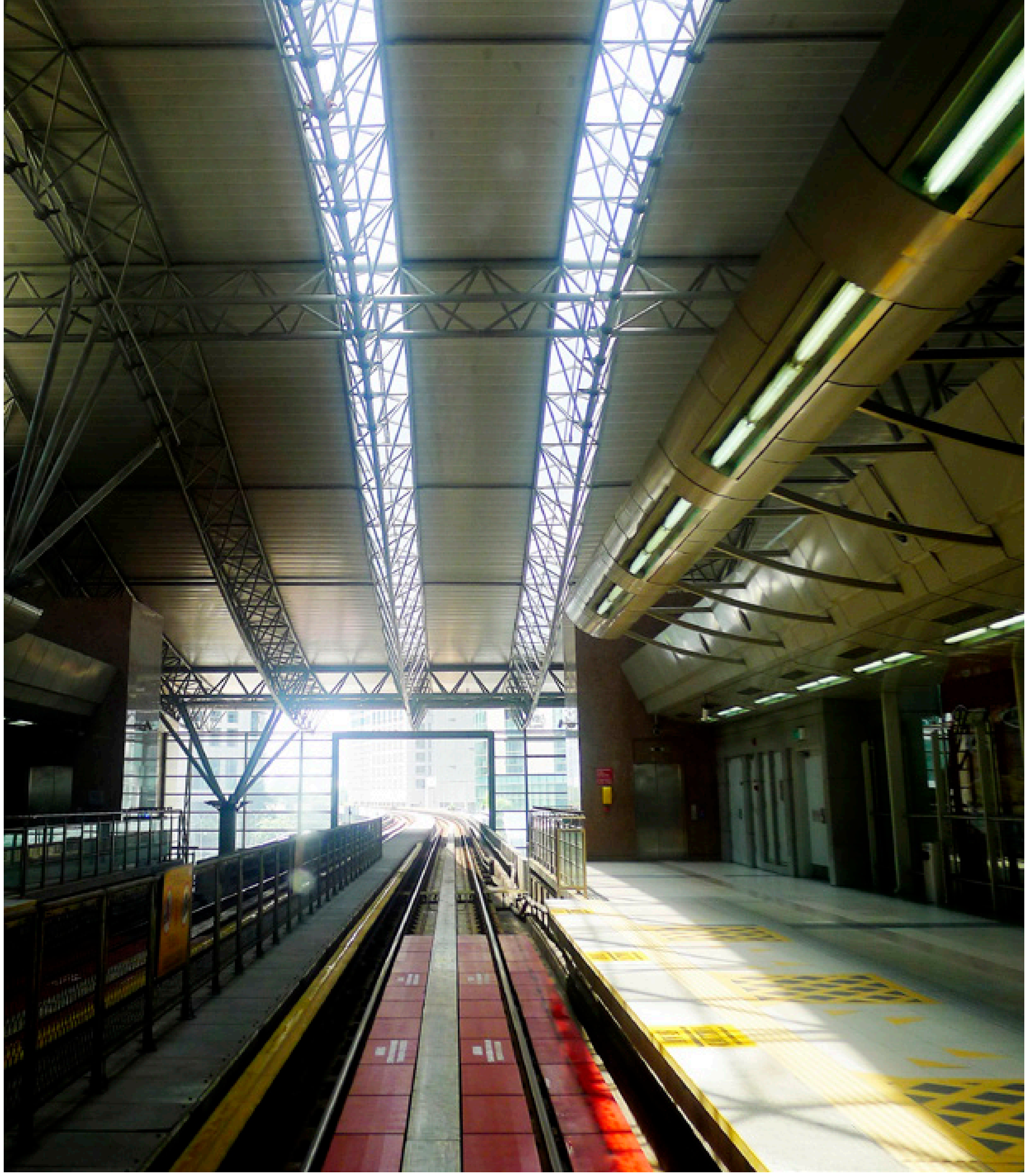
The economic potential of the Congo Basin is underexploited, due to a range of geographical, logistical and political constraints

CASE STUDY

Malaysia's Industrialised Building System

The Industrialised Building System (IBS) is a local description for the mechanisation, prefabrication of components, and use of automation within Malaysia's building industry. IBS components are manufactured offsite, and require little additional site work once installed. This means faster completion times, greater productivity, less waste, fewer accidents and lower overall construction costs for the industry. Because components are custom-built to exact requirements in a controlled, factory environment, quality can be closely monitored and standardised, reducing defects. Projects with a high degree of repeatability give rise to cost benefits as high-quality components can be replicated numerous times, reducing the price per unit.

IBS solutions for contractors have been used in Malaysia for almost half a century. Kuala Lumpur's Sentral station, the LRT system, and Kuala Lumpur's International Airport all used prefabricated components in their construction. IBS steel beams and floor decking were used in the construction of the Petronas Twin Towers. The fact that at the time of its opening it was the world's tallest building offered a further boost to IBS's reputation among property development companies.



Sentral station, Kuala Lumpur, was built using Malaysia's Industrialised Building System

The cost savings of IBS are also well-documented. Pre-casting offsite means faster installation and reduced labour costs. Down-time due to adverse weather conditions is reduced as workers spend less time exposed to the elements onsite. A controlled factory environment also reduces waste, lowering material costs, and allows for far closer monitoring of energy usage. Taken together, particularly if building in large volume, the financial savings can be significant.

A growing driver for IBS in recent years has been the call for more green building materials, for example in the manufacture of cement, which is one of the largest emitters of CO_2.

A growing driver has been the call for more green building materials, for example in the manufacture of cement, which is one of the largest emitters of CO_2

Islamic finance

Islamic finance both emphasises the importance of tangible assets that support the real economy, and discourages financial speculation. These two factors help to promote greater financial stability, and have been shown to act as an effective tool globally, with the potential to help address the twin challenges of ending extreme poverty and boosting shared prosperity.

Islamic finance will be IsDB's most important tool to fuel the industries and foster the inclusion of sectors deprived of finance in order to unlock the potential of MCs.

In recent years, Islamic finance has grown to reach US$ 2 trillion of Sharia-compliant financial assets.[1] It has been increasing faster than conventional banking assets as a whole, with a 12% annual increase. With only 14% of Muslims as yet using banks, the future potential for Islamic finance is clear.

Micro, small and medium-sized enterprises (MSMEs) comprise a large proportion of the workforce and enterprises in the MCs. The Islamic finance sector is ready to meet its true potential in addressing the needs of the MSMEs with a value chain approach. Conventional financing has so far omitted MSMEs because of the perceived higher risk and lower return of SMEs, which is due to a lack of infrastructure and access to markets. Hence, combining MSMEs with a value chain-based development approach will unlock a sustainable source of financing to the SMEs. Under this scheme, any individual will be classified as an entrepreneur and therefore as a plug-in to a business sector rather than as an isolated business.

To best meet the needs of the markets, Islamic banks have to be able to adopt technological changes. Opportunities exist for Islamic finance to incorporate technological developments in artificial intelligence (AI), big data, and blockchain, helping to create profitable, scaled and diverse banking institutions. The success of crowdfunding platforms is a sign that the fintech platform could become the main source of Sharia-compliant funding for MSMEs.

Digital financial services, such as mobile wallets, can be a driver for improved access to basic financial inclusion

CASE STUDY

Digital financial services in Jordan

According to official figures (UNHCR), more than 650,000 registered Syrian refugees are living in Jordan, the majority of them in urban areas. Digital financial services can be a driver for improved access to basic financial inclusion for these refugees, as well as for low-income Jordanians.

A successful roll-out of digital services requires the establishment of a sound regulatory framework to enable the business environment. As a complement, a nationwide strategy should allow financial service providers to develop demand-driven digital financial products. Customised products need to tackle problems like the time and cost required to transfer money or pay bills, or the high preference for conducting transactions in cash and low financial literacy levels that might lead to a slow uptake of services. Improving financial awareness and financial literacy levels through training and nationwide campaigns is also essential.

While the focus of services is currently targeting payments, a high potential lies in the evolution of trans-border transactions, such as remittances. As already explored in other MCs of the Islamic Development Bank, digitalising transactions along different value chains could also lead to economic empowerment of the target group. In particular, micro-entrepreneurs could then benefit from decreased transaction costs as well as quicker and more secure payment for services, that can be translated into easier management of funds.

The Islamic finance sector is ready to meet its true potential in addressing the needs of the micro, small and medium-sized enterprises with a value chain approach

CASE STUDY

Takaful — Islamic insurance in Indonesia

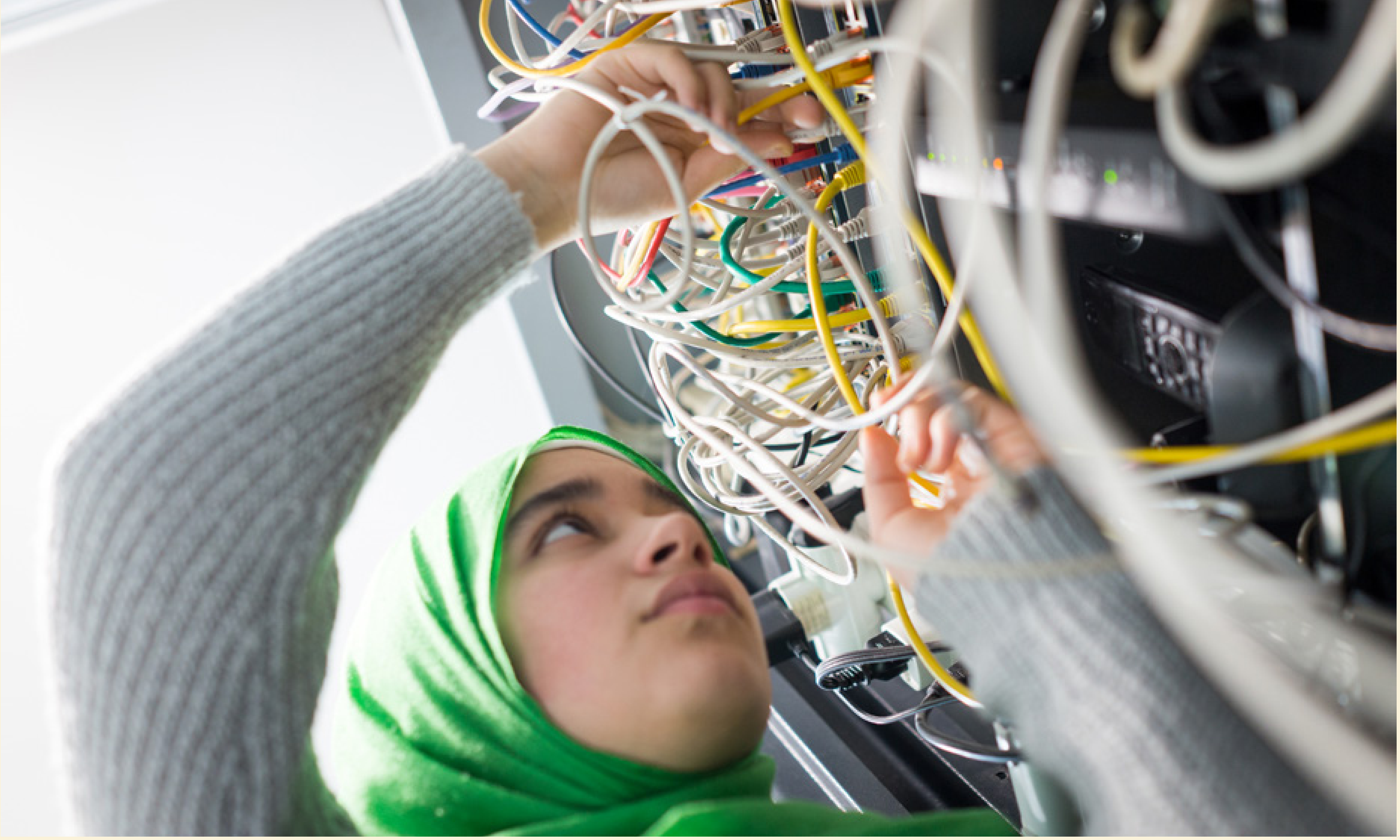
Indonesia has a population of more than 260 million inhabitants, more than 85% of them Muslim. It is also the most populated Islamic country in the world.

Currently, around 50% of the population has a formal bank account, compared to an estimated 35% in 2014. Over the past five years, there have been some efforts to introduce micro-insurance schemes such as life and health insurance, but these still fall short in meeting the needs of the most vulnerable.

The Sharia-compliant Takaful life insurance industry has been growing at a significantly higher rate, reaching an average of 26% from 2011 to 2015, compared to the conventional life insurance industry which experienced a growth rate of 12%. Nevertheless, availability of the product range to the most vulnerable citizens (80% of Indonesians live on less than US$ 4.50 per day) remains limited, as common Takaful insurance products are not affordable.

With a view to reaching the most vulnerable areas of the population, necessary actions have been undertaken at a regulatory level as well as in financial product development. Also, innovative and well targeted distribution channels have been created to reach potential clients including in rural areas.

With a view to reaching the most vulnerable areas of the population, necessary actions have been undertaken at a regulatory level as well as in financial product development



Opportunities exist for Islamic finance to incorporate technological developments in AI and big data, helping to create profitable, scaled and diverse banking institutions

CASE STUDY

Islamic finance products in Yemen

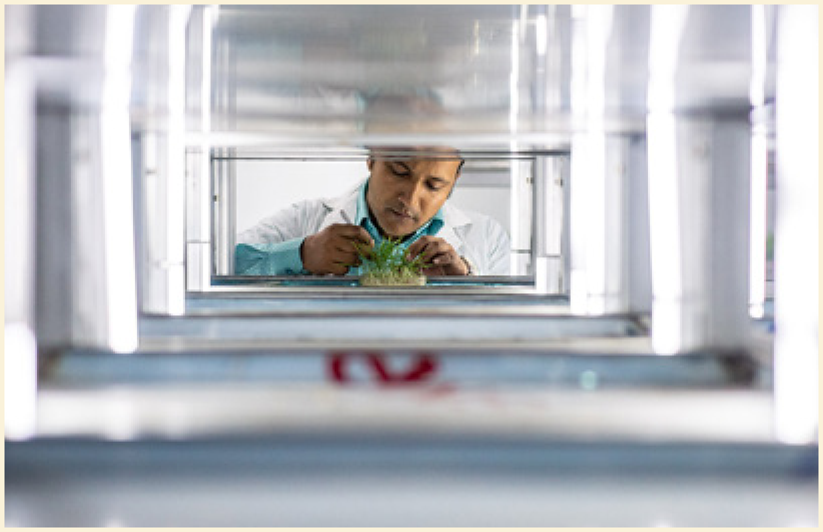
Established in 2009, Al Amal Bank is the first microfinance bank in Yemen. It resulted from efforts by the Government of Yemen, the Arab Gulf Development Fund and the private sector to bring comprehensive financial services to the poorest segment of the Yemeni population.

In the first five years after its establishment, the bank provided more than 7,670 microfinance services to micro-enterprises, amounting to about US$ 1.5 million. Approximately 3,700 job opportunities have been created indirectly through the support of the micro-entrepreneurs.

To receive funding from private social investors, the bank has established the Al Amal Investment Fund, all transactions of the fund being based on the Islamic Sharia doctrines and principles.

More than 200,000 microfinance credits have been provided through 40 bank branches, with a special focus on rural areas.

The bank is currently implementing a contingency plan and has developed a package of financial services which target the implementation of humanitarian relief programmes and community-based employment measures.



Approximately 3,700 job opportunities have been created indirectly through the support of micro-entrepreneurs

Islamic finance has grown to reach US$ 2 trillion of Sharia-compliant financial assets

Creating 10 million decent new jobs annually

The meeting of targets set by the Sustainable Development Goals (SDGs) demands a significant increase in productivity, entrepreneurship and innovation, requiring a high degree of adaptation throughout Member Countries (MCs). The current youthful population — the result of the youth bulge – now promises the necessary degree of adaptive energy to drive sustainable socioeconomic development in the successful achievement of the goals.

The youthful population of IsDB MCs would potentially provide a pool of 10 million job seekers and entrepreneurs, annually, with the talent, energy and adaptability required to drive sustainable socioeconomic development at a time of structural change and transformation in the SDG era and beyond, consistent with SDG 8.

Economists have dubbed this opportunity made possible by a younger working population a "demographic dividend", in that the relative abundance of young people of working age can lead to increased savings, higher productivity and more rapid economic growth.[1] However, the ability of MCs to harness this opportunity critically depends on their investments in job creation through the transformation of their economies along with investment in human capital, particularly among those young people poised to enter the labour force. If the labour market is unable to absorb new workers, either because of reluctance to transform economies in order to create jobs or a lack of investment in human capital, the opportunity of this demographic dividend may be squandered.[2]

It is estimated that the population of the MCs will increase by 500 million over 15 years, jumping from 1.7 billion in 2015 to 2.2 billion in 2030. Meanwhile, the working youth population — those between 15 and 30 — who will represent the vast majority of entrants to the workforce will increase by 100 million between 2015 and 2030. In other words, the working population in that age group in MCs will grow from 26% to 30% of the global group of young people in work between 2015 and 2030.

Between now and 2030, 40 million jobs will need to be created globally and, according to demographic trends, between 10 and 12 million of these will be within Member Countries

It is also estimated that between now and 2030, 40 million jobs will need to be created globally[3] and, according to demographic trends, between 10 and 12 million of these will be within the MCs, amounting to a substantial 130 to 160 million jobs required between now and 2030.[4]

Almost 80% of this growth will happen in urban areas causing the proportion of the population living in those areas to increase from 49% to 56%. An increase of up to 10% in urbanisation is forecast for countries such as Albania, Burkina Faso, Bangladesh, Indonesia, Nigeria and Mali.

In addition, poverty — predominantly seen as a rural phenomenon — is being steadily urbanised, especially in Africa where the increasing share of urban population coincides with either stagnant or even decreasing real GDP per capita.

Young people in Morocco. These are representative of a demographic dividend with the possibility of increased savings, higher productivity and more rapid economic growth

It is incumbent on policymakers to carefully design and operationalise policies and development plans in order to seize the opportunities in industrialisation, urbanisation and a burgeoning inter-IsDB trade nexus.

Rising youth and urbanisation, coupled with premature deindustrialisation, will result in increasing urban poverty and, eventually, the erosion of citizens' rights leading to increasing disenfranchisement, precarious living conditions, high living costs and a rising crime rate. These trends can converge to constitute a heightened risk to the stability and security of countries, by creating civil unrest and an increasing mobilisation of youth in terrorist-related activities and conflict.

An important gender dimension in the youth component is the underemployment of women in many of the MCs, hence an untapped opportunity and inability to exploit the demographic dividend for half of the youth population in the labour force. This is happening despite the fact that the percentage of women in engineering and the sciences in MENA countries is comparable to, or higher than, that in more developed countries. In fact, Middle Eastern women actively pursuing science, technology, engineering and mathematics, comprise 59% of total students enrolled in computer science in Saudi Arabia, while the enrolment of women in the UK and US were 16% and 14% respectively.[5] Nevertheless, women's enrolment in engineering and the sciences does not automatically lead to higher female labour force participation or lower female unemployment. Graduate women attempting to pursue careers or postgraduate degrees are often excluded on the basis of gender, and are therefore marginalised, and much less likely to begin a career or remain in a job. Few achieve leadership positions, hence the opportunity for women to participate actively in the labour force is lost.

Graduate women attempting to pursue careers or postgraduate degrees are often excluded on the basis of gender

Poverty is being steadily urbanised, especially in Africa where the increasing share of urban population coincides with either stagnant or even decreasing real GDP per capita

Almost 80% of this growth will happen in urban areas causing the proportion of the population living in those areas to increase from 49% to 56%

Opportunity for 200,000 new jobs in Saudi Arabia[1]

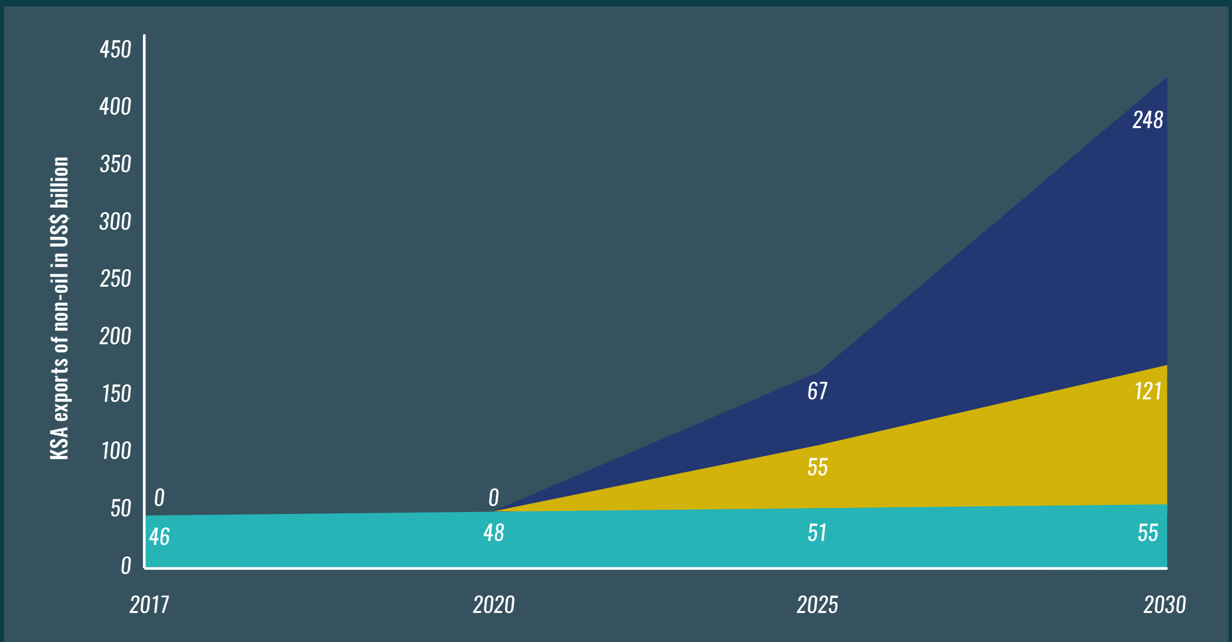
The Kingdom of Saudi Arabia (KSA) is engaged in a quest for economic diversification that requires an increase of non-oil revenue from US$ 44 billion to US$ 207 billion. The country has embarked on a journey to transform its economy with Vision 2030, which lays out a solid foundation for inclusive development.

By exploring untapped areas of its economy through specialisation and a market value chain approach, Saudi Arabia is seizing opportunities in two industries with revealed comparative advantage. The petrochemical and plastics industries have the potential to grow thanks to the country's expansion in new technology and innovation in the selected value chains, which promises to add US$ 200 billion to non-oil exports and create 200 thousand jobs in line with KSA Vision 2030.

By focusing on its comparative advantage in industries where it has the potential to be a global leader, the country is making the most of technology breakthroughs in specialised technology. This in turn will allow the country to diversify its economy with higher value-add, while creating quality jobs that are essential for inclusive development.

The Kingdom of Saudi Arabia is engaged in a quest for economic diversification that requires an increase of non-oil revenue from US$ 44 billion to US$ 207 billion

Currently, Saudi Arabia has one of the highest export values of plastic in the world, with the overwhelming majority of the export value in the form of raw material. The major market players of the plastic value chain are concentrated in its upstream portion. Strengthening the downstream portion is paramount to fully realising the potential of the plastic industry in Saudi Arabia by investing in projects that manufacture specialised end-consumer plastic-based products, including medical devices such as syringes.



The effect of proposed transformation of two value chains on non-oil exports, in US$ billion[2]

Targeted investment in the medical device industry is expected to have a spillover effect into more specialised pharmaceutical products, due to the expansion and strengthening of research and development.

Global chemicals industry sales are expected to grow significantly between 2018 and 2030, with petrochemicals capturing around 40% of the market. The main value chain of the petrochemical industry in Saudi Arabia is the production of olefins such as propylene, methanol and ethylene, which contribute up to 75% of the petrochemical production in the country. Saudi Arabia has the potential to exploit a lack of investment in the downstream chemical conversion industries, leading to the creation of a high number of sustainable manufacturing jobs for the country.

With a predicted market size of US$ 800 billion for the plastics industry and US$ 1.3 trillion for the petrochemicals industry by 2030, expansion and greater specialisation in both these industries will enable Saudi Arabia to tap into these markets. Having strength in the upstream value chain for both these industries provides sufficient value-add in the downstream sector due to cost and resource advantage. At the same time, expanding the value chain will create quality jobs, particularly in research and development.

As an outcome of the proposed transformation of the two value chains, the Kingdom of Saudi Arabia is expected to increase non-oil exports by US$ 248 billion and create 200,000 jobs while increasing high-income jobs from 23,609 to 114,407 for both these industries by 2030.

End-to-end value chain programmes in practice

As IsDB supports its Member Countries (MCs) in achieving their commitments to the Sustainable Development Goals (SDGs), the Bank's new business model is already delivering benefits in key projects to support value-chain improvements for selected MCs. The Central African country of Gabon is an example of this process. With an economy that depends on the manganese and timber industries, Gabon faces significant value-chain challenges in both. The Bank conducted an in-depth analysis of each of these industries, resulting in learnings that will allow the country to move more quickly and effectively towards its development goals.

Developing the timber value chain in Gabon[1]

Timber is one of the main industries driving the economy of Gabon in West-Central Africa. Forests cover about 22 million hectares of the country, with 12 million hectares allocated for wood production concessions. Although total production of logs for this export-oriented industry has fallen since 2007, value added in the industry has increased, owing to the increase in production volume of sawn wood, veneer sheets and plywood.

Gabon's connection to the global value chain (GVC) is mainly through exports and some imports of machineries to support the industry. Since 2016, most of the country's exported timber products have undergone at least one process of transformation, thanks to Gabon's transformative plan for the industry. The main export at product level for Gabon is sawn wood, which recorded a huge growth between 2012 and 2016 at 8% annually with an export value of US$ 322.7 million.

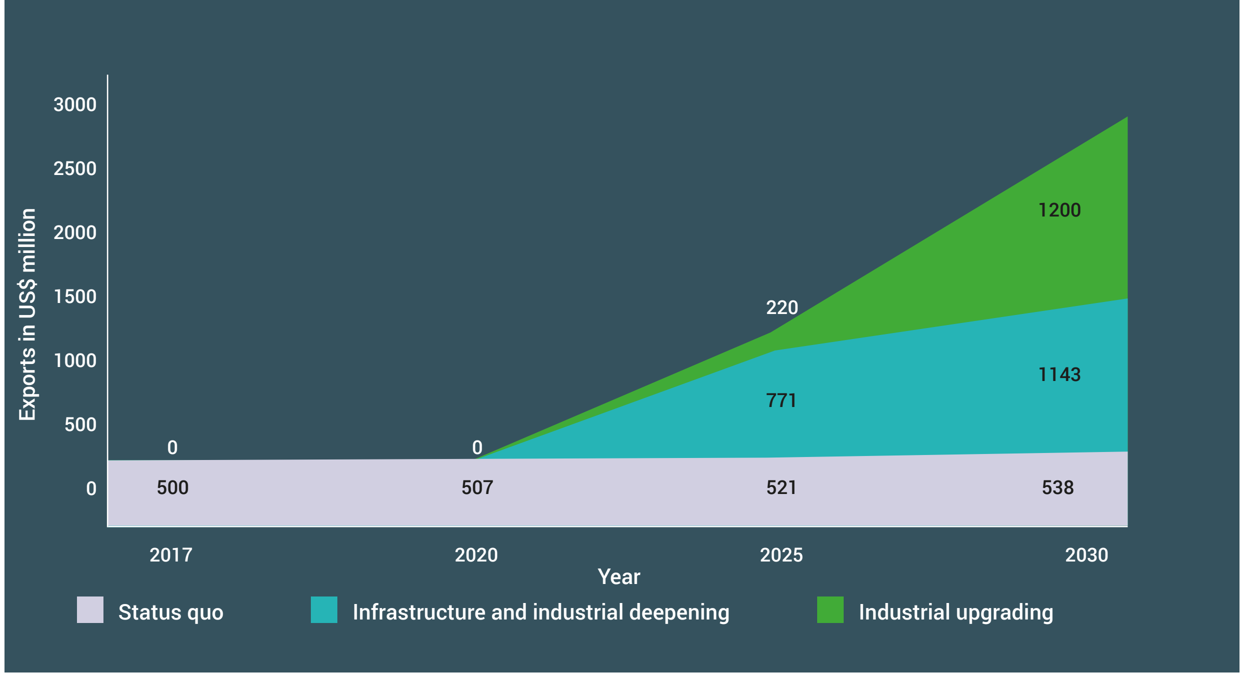
The trend in timber exports is a reflection of changes in policies to strengthen Gabon's wood industry. In 2001, the introduction of the Forestry Code was the first move towards eliminating illegal logging. In 2009, the government banned the export of unprocessed logs, to encourage more value-added products. The policy forced the industry to move away from profitable logging activities into more capital-intensive sub-chains such as sawn wood The recovery in export value since 2012 is an indication that the policy has been successful in its aims.

Enhancements along Gabon's timber industry value chain could enable the wood industry to create higher-value-added products and hence create more high-skilled jobs

The Government of Gabon introduced a policy in September 2018 requiring all forest concessionaires operating in Gabon to be certified by the Forest Stewardship Council (FSC), an international certification scheme that advocates socially equitable, environmentally sustainable and economically viable forest management. In addition, the certification boosts the marketability of Gabonese wood products in foreign markets.

A preliminary GVC analysis on Gabon's timber exports conducted by IsDB revealed high domestic value-add, low foreign value-add, and moderate indirect value-add. This suggests that the industry is weakly

The two main issues are transportation from the logging sites to the plant and transportation from the plant to the port



Timber exports in US$ million with interventions[2]

linked to the GVC and that there are huge opportunities for growth. The analysis also found low capabilities along the research and development and downstream manufacturing value chains. Enhancements along these value chains would enable the wood industry to create products with higher added value and hence create more skilled jobs.

Gabon has several important strengths in terms of high capabilities in raw material acquisition, with the necessary resources, policies and skills already present. However, upstream manufacturing is still at a very basic level, while downstream manufacturing lacks the capability to enter the exports market.

In terms of distribution and sales, IsDB found that Gabon's upgraded infrastructure has helped with the export of wood products globally, but a survey of the major wood companies identified a range of issues that lead to delayed exports and high costs.

Addressing the challenges

One of the biggest constraints for the wood value chain is the high logistics costs (around 15–25% of total production costs). The two main issues are transportation from the logging sites to the plant and transportation from the plant to the port. Problems are also caused by unpaved roads that are almost impassable in the rainy season, making log supply unpredictable.

Another challenge is information asymmetry between operators, resulting in delays in processing goods for export due to the lack of digital communication in clearing the exported goods as well as missing information on logs and its inventory. Finally, companies across the entire value chain face uncertainty regarding policies and regulations.

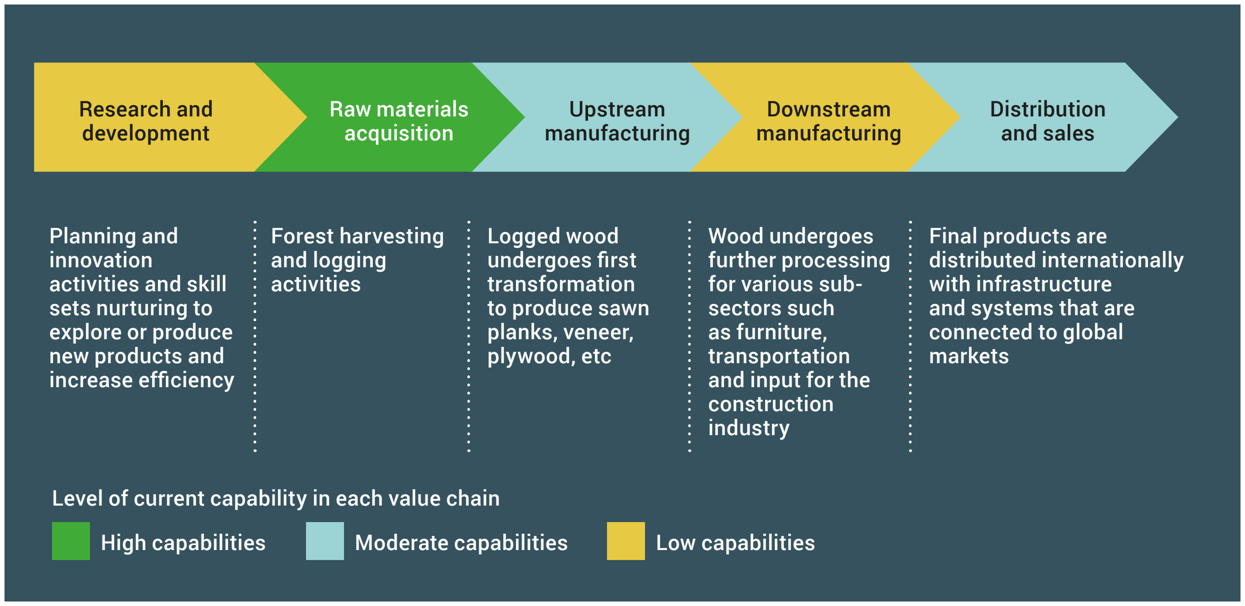
Following its analysis of the value chain, IsDB presented a range of options that Gabon might choose to improve its timber value chain, including road projects, improved infrastructure and an increase in the number of supporting industries.

Forest Stewardship Council certification boosts the marketability of Gabonese wood products in foreign markets

Leveraging Gabon's potential in the manganese industry value chain[1]

Gabon has one of the world's highest reserves of manganese, and has been a major producer and exporter of the metal since the early 1960s. Manganese contributes US$ 1.1billion to the economy each year, but IsDB analysis has revealed room for growth in various areas of the industry.

In its national strategy, 'Gabon Emergent 2025', the Government of Gabon committed to moving away from exporting raw minerals, and towards developing a complete value



Macro-level value chain assessment[3]

chain for the entire industry. Key goals in this regard include the development of upstream transformation of manganese, and production of higher-value-added products.

The export of manganese has increased by over fivefold over the past 10 years, with the main exports being manganese ores and concentrates. Even during periods when the prices of manganese and steel have declined, Gabon has continued to increase the value of its exports.

With the manganese market growing in Gabon, as well as in the world, the country's manganese ores and concentrates score highly on IsDB's Product Champion Index (PCI), which combines demand, supply, trade and resilience indicators.

The value-add analysis for Gabon shows that the mining industry has very high domestic value added, and indirect value added, coupled with very low foreign value added, which underlines both its importance in the Gabonese economy and its potential to recapture the transferred value added from other countries. In the last 15 years, Gabon had very high revealed comparative advantage for ores, slag and ash products in particular, with natural potential to plug into the GVC.

Gabon has high potential for development, not only because it produces the highest grade ore in the world, but also because of the high capacity to up production through increased efficiency

Despite having high capabilities in raw materials acquisition and moderate capabilities in upstream manufacturing, Gabon has low capabilities in research and development, downstream manufacturing, and sales and distribution. The Gabon mining industry is also poorly connected to the GVC. However, there is high potential for development through enhanced efficiency.

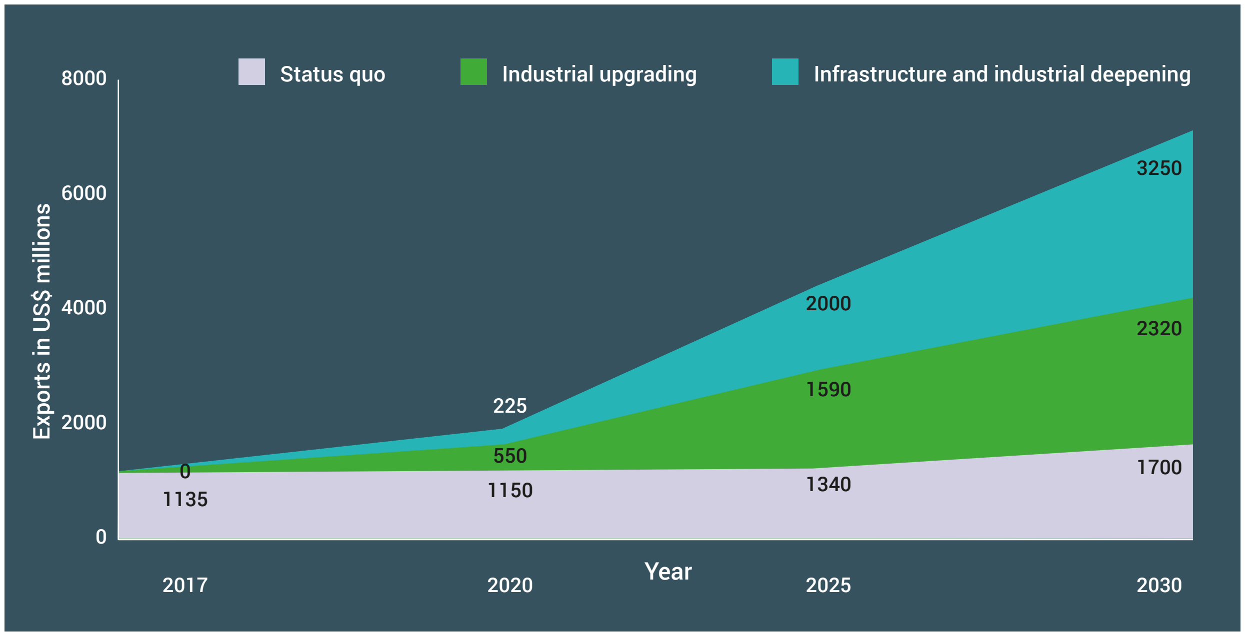
There are three main companies in the manganese value chain in Gabon, all concentrated in the extraction and export of manganese ore: Compagnie Minière de l'Ogooué, Nouvelle Gabon Mining, and Compagnie Industrielle et Commerciale des Mines de Huazhou. The industry generates 4,383 jobs, mostly through Comilog's Moanda mine project and Eramet's Transgabon railway concession. Of these, 60% are associated with the extraction of manganese ore and 10% with the upstream transformation. The remaining 30% is indirect job creation associated with logistics.

The inauguration of a section of the Transgabon railway, an essential link for the Gabonese mining industry

Issues affecting the manganese value chain

The country's manganese ore is the most expensive in the world, in part due to its being the highest quality ore in the world, but also because the main port and the mining sites are situated hundreds of kilometres apart. Because most of the manganese extracted in Gabon is directly exported without any transformation, the industry is missing out on high potential value addition.

The railway line is the main transportation mode to deliver the manganese ore from the mining site to the ports. A major initiative to modernise the railway is currently underway, with completion due in 2022. The lower costs this will bring will improve the ability of manganese exporters to compete with those of neighbouring countries.



Exports in US$ millions with interventions[2]

Upstream manufacturing of manganese is very energy-intensive and cheap electricity is required to make it profitable. Industrial-grade cheaper electricity in Gabon is from hydroelectric energy from two dams. However, the required hydroelectric energy is not available near the export port due to poor power interconnectivity throughout the country. Reducing energy costs is paramount to developing the manganese sub-value chain activities. IsDB's analysis found that development of the upstream and downstream sub-value chains of the manganese industry in Gabon will require the development of many supporting sectors, such as the energy sector.

In terms of linking the industry to the GVC, the Bank's analysis identified significant opportunity to increase backward linkage by focusing on upstream sub-value chains such as the transformation of manganese ore into manganese alloy. Removing or reducing the constraints on the industry can help expand the value chain in upstream and downstream industries, and can therefore increase value-added exports and the number of skilled jobs created.

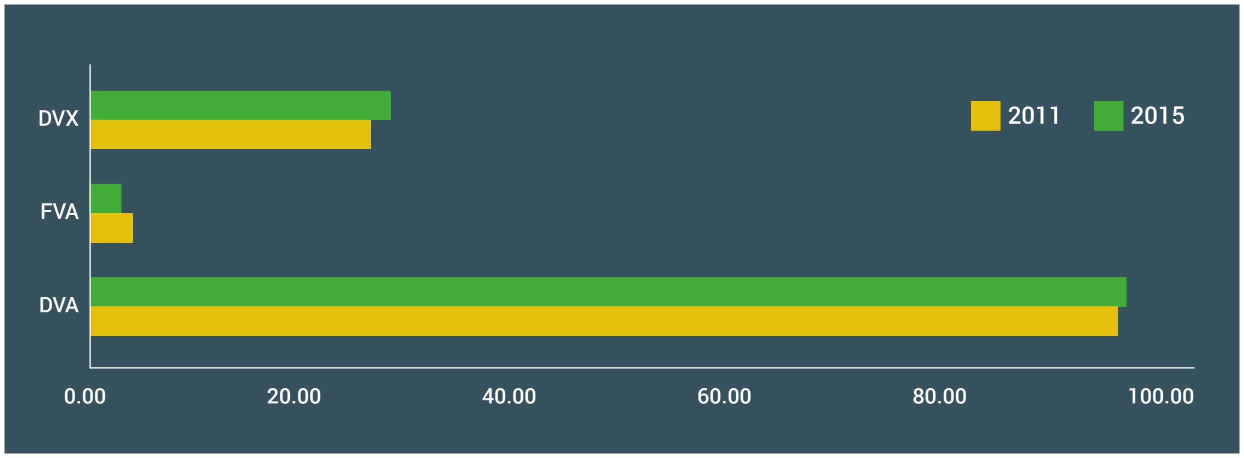
Job creation in the manganese value chain

Using employment and mineral production data, the number of jobs created per unit of product exported can be calculated for each activity along the manganese value chain in Gabon. For manganese ore extraction and first-level transformation, five jobs are created for every 10,000 tons of manganese ore exported, which is much lower than the number of jobs created per unit of exports if the manganese were to be transformed in Gabon. The upstream manufacturing for the transformation of manganese ore into manganese alloy alone creates 47 jobs for every 10,000 tons of manganese alloy exported (although it is important to bear in mind that alloy production creates less well-paid and lower-skilled jobs than manganese ore extraction).

There is huge untapped potential to move into upstream and downstream production that may create more stable jobs

Considering the international rate of job creation for manganese alloy, there is potential to create 27,061 jobs in the transformation from manganese ore to manganese alloy. The opportunity in terms of value added for Gabon from the production of manganese alloy is US$ 11 billion from the current US$ 1.1 billion in terms of exports.

The conclusion reached by IsDB as a result of this research is that, due to the current nature of ore extraction and its export orientation, there is huge untapped potential to move into upstream and downstream production that may create more stable jobs in the country.



Value of domestic (DVA), foreign (FVA) and indirect (DVX) value-add for gross export of mining and quarrying[3]

BRINGING IT ALL TOGETHER

Summary

By becoming more proactive, adaptive and agile, IsDB is committed to moving away from reactive, one-off investments in order to address the root causes that are impeding sustainable growth in Member Countries (MCs). The focus in this process is on helping the Bank's MCs to build their industrial capacity in a variety of ways, including leveraging the latest opportunities in science, technology and innovation, and decentralising operations.

An important part of this is the promotion of solutions that empower MCs in their work to end poverty and enable sustainable development. Simultaneously, the Bank is working hard to provide access to the resources MCs need to achieve their goals. The overall aim is to ensure a flow of financing facilities to help progress innovative ideas linked to real development solutions.

In keeping with a growing trend among organisations worldwide, IsDB is moving towards a leaner organisational structure with simpler business processes. In practical terms, this involves greater use of cloud-based technologies and platforms, along with investment in enhanced delivery capacity and dedicated delivery entities in MCs. By empowering decentralised regional hubs, the intention is to enable the independent execution of projects targeted specifically at meeting the needs identified in these regions.

It is important to note that in encouraging a decentralised approach, IsDB is not forfeiting any of its traditional strengths in terms of strong relations with the governments of its MCs. Indeed, the Bank will increasingly work with governments to jointly identify priority needs and opportunities in individual MCs and to leverage the resources required to produce much-needed changes. It will undertake coordinated interventions that catalyse investments by private companies, philanthropic organisations, individuals, governments, non-governmental organisations and civil society. Such interventions will be most effective where they take account of specific local and regional challenges. For example, investments in science, technology and innovation (STI) will vary according to a country's location and its particular requirements.

Sustainable job creation will be emphasised by empowering nationally competitive value chains and encouraging global partnerships to close the Sustainable Development Goal (SDG) financing gap. In particular, IsDB seeks to foster a wider understanding of the positive impact that can be achieved by improving the employment prospects of women and young people. The Bank is building on its existing efforts to assist MCs in this regard by prioritising employment and entrepreneurship for these groups.

In addition, the Bank is forming strong public-private partnerships that are critical to achieving sustainable development. These initiatives will be supported by three strategic shifts in IsDB's operations and culture: proactive leadership; impactful selectivity; and adaptability and organisational agility.

The recent establishment of two high-level boards at IsDB, with special responsibility for fostering progress with STI, adds weight to the existing IsDB framework. Each board will provide critical advice and guidance to the Bank and help set its strategic objectives towards achieving its development mission.

By undertaking these crucial internal shifts, IsDB will be strengthened in its stated aim of transitioning from a development bank to a bank of developers. This in turn will place the Bank in a position to catalyse US$ 1 trillion of development financing, to strengthen the global value chains of five major industries, and to create 10 million new jobs annually by 2030.

In turn, MCs will benefit from increased industrial capacity and skills, along with better connections to strong, dynamic markets and global value chains. They will be able to capture a larger share of the value they add to the products they produce, and rely less on the export of single commodities. As a result, they will experience less price volatility and greater improvements in their balance of trade, as well as reduced reliance on sovereign debt. The resulting decline in poverty and increase in incomes and food security are at the heart of the SDGs to which the Bank and its MCs are committed.

Shared efforts for shared goals

While IsDB's Member Countries (MCs) represent a wide range of political and social approaches, all are in agreement on the urgent need to safeguard their children's future. To make the Bank proactive in building a better future for all, nothing short of a paradigm shift in its approach to development is underway.

Commitment to the implementation of the 2030 Agenda for Sustainable Development (as articulated in the Sustainable Development Goals, or SDGs) is central to all of IsDB's activities, as is building strong partnerships to achieve the SDGs. The Bank is also determined to play its part in encouraging the governments of MCs to create an enabling environment, where all economic agents in the market have a role in development.

IsDB is determined to play its part in encouraging the governments of MCs to create an enabling environment

An elderly man in Somalia. IsDB can track progress against goals, results and corporate performance objectives, with clear visibility of outcomes such as the degree of reduction in poverty in MCs

For the SDGs to be effective, it is important that all parties involved in pursuing them set clear targets and implement systems that measure progress. The Bank's new business model offers MCs a pattern for best practice in this regard as it follows an outcome-oriented approach that uses Key Performance Indicators to ensure compliance with policies, procedures and guidelines. In this way, IsDB can track progress against goals, results and corporate performance objectives, with clear visibility of outcomes such as the degree of reduction in poverty in MCs, or the percentage of MCs which have benefited from IsDB's reverse linkage operations. Other factors that the indicators can monitor include the outcomes of private-sector support interventions and the total number of jobs created in MCs as a result of initiatives.

This measured approach allows IsDB to have a clear understanding of its own track record in mobilising resources through effective implementation of partnerships with various stakeholders, including factors such as the ratio of value chain projects that have successfully engaged external developers, and the external resources mobilised compared to IsDB financial resources deployed. Equally importantly, the information gathered helps IsDB to act sustainably by maintaining its high credit rating.

To enable it to lead by example in the global development agenda towards 2030, the Bank has adopted an Integrated Strategic Programming Framework. This framework includes a proactive needs assessment of the MCs to identify current and future needs. It also focuses on impactful selection of projects using a project qualification and prioritisation matrix that aligns project selection with MC

A young girl in Karachi, Pakistan. A determination to empower people and communities is a key aspect of the Bank's new business model

needs and IsDB priorities. A robust approach to target setting and cascading of priorities means that resources requirements will be better paired with targets within a strong monitoring framework.

An IsDB roundtable held in 2018 on the theme of 'Partnering to build the future we want' had set a clear direction for the IsDB Group on key strategic priorities and principal challenges for MCs. In particular, it emphasised the need for the Bank to align itself in setting priorities through concerted efforts to create a better IsDB, and the strengthening of its human and financial capacity to support the achievement of agreed priorities. The new business model provides a response to these priorities.

The Bank has also launched several initiatives and awareness campaigns aimed at highlighting the capacity of Islamic finance to help MCs make their contributions to the SDGs. As part of its plan to foster partnerships, a Futures Alliance Network has been established to bring the Bank's collective wisdom to bear in considering the possible futures facing MCs in this time of change. Meanwhile, the bank is working with a global network of think-tanks, to participate in the IsDB strategy development process.

Building the future we want requires the collective action of governments, the private sector, financiers and the third sector to leverage opportunities and mitigate threats that may arise. If all stakeholders are willing to think the unthinkable, to reimagine and to consider alternative futures, this will ensure better strategic decision-making in the present.

The Bank's new business model follows an outcome-oriented approach using Key Performance Indicators to help ensure compliance with policies, procedures and guidelines

Endnotes

Making markets work for development **4**
1 SESRIC (2018) SWOT Outlook 2018 for OIC Countries.

A rapidly changing world **5**
1 Oxfam (2018) 'Reward work, not wealth'. Oxfam briefing paper, 2018.

Introduction **15**
1 OECD Development Co-operation Report 2017.

Rapid urbanisation **16**
1 SESRIC (2018) SWOT Outlook 2018 for OIC Countries.
2 The Pew Research Center, Forum on religion & public life (2011) 'The future of the global Muslim population: Projections for 2010-2030'. Pew-Templeton Global Religious Futures project.

Youth bulge **18**
1 SESRIC SWOT Outlook 2018 for OIC Countries.
2 ibid.
3 ibid.
4 ibid.
5 ibid.
6 United Nations (2015) 'Youth population trends and sustainable development'. In Population facts, No 2015/1.
7 ibid.
8 ibid.
9 ibid.
10 ibid.
11 ibid.

Industry 4.0 .... **20**
1 Schwab (2015), in Xu, M. et al (2018) 'The Fourth Industrial Revolution – Opportunities and Challenges'. *International Journal of Financial Research*, Vol. 9, No. 2.
2 ibid.
3 Manyika et al (2017) in Xu, M. et al (2018) 'The Fourth Industrial Revolution – Opportunities and Challenges'. *International Journal of Financial Research*, Vol. 9, No. 2.
4 Prisecaru (2016) in Xu, M. et al (2018) 'The Fourth Industrial Revolution – Opportunities and Challenges'. *International Journal of Financial Research*, Vol. 9, No. 2.

The technologies enabling Industry 4.0 .... **21**
1 Ministry of International Trade & Industry, Malaysia (2018) 'Draft National Industry 4.0 Policy Framework'.

New sustainability challenges **22**
1 OECD, 2018.
2 IsDB Business model to Meet Member Countries 2030 Agenda (Working Draft), Annex 1.
3 Source: World Bank, and Harmeling and Eckstein (2013), Germanwatch. In: Economic Impacts of Climate Change: Evidence from OIC Member Countries, Journal of Economics & Development Studies, December 2017, Vol. 5, No. 4, pp. 71–78.

The economic impacts of climate change **23**
1 Sillah, B. (2017) 'Economic Impacts of Climate Change: Evidence from OIC Member Countries'. *Journal of Economics and Development Studies*, December 2017, Vol. 5, No. 4, pp. 71–78.
2 ibid.
3 FAO, IFAD, UNICEF, WFP and WHO (2018) The State of Food Security and Nutrition in the World, 2018.

Roadblocks on the way to productivity **23**
1 ODI, 2017; SESRIC 2017.
2 SESRIC, 2017.

Refugees and system fragility **25**
1 'Briefing on refugees and forced displacement'. Islamic Development Bank.
2 UNHCR: UNHCR Global trends: Forced displacement in 2017
3 Source: Islamic Development Bank.

The challenge of unequal wealth distribution **26**
1 Oxfam (2018) 'Reward work, not wealth'. Oxfam briefing paper, 2018.
2 ibid.
3 ibid.

Food security and nutrition challenges **27**
1 Food and Agriculture Organization of the United Nations (2018) 'The state of food security and nutrition in the world: Building climate resilience for food security and nutrition', pv. Rome, 2018.

The lingering crisis of undernourishment **28**
1 Prevalence of Undernourishment (% of Population), 2015. In 'Food Insecurity as Threat' — from SESRIC SWOT Outlook 2018 for OIC Countries.
2 Source: SESRIC (2018) 'Prospects and Challenges of OIC Member Countries: SWOT Outlook 2018 for OIC Countries'.

Endnotes

The widening financing gap **29**

1 Gottschalk, R. and Poon, D. (2017) 'Scaling up Finance for the Sustainable Development Goals: Experimenting with Models of Multilateral Development Banking'. Intergovernmental Group of Experts on Financing for Development, Geneva, 8–10 November 2017. UNCTAD, 2017. Working Paper.

Gaps in the private sector and Islamic finance industry ... **30**

1 From aid to empowerment: How IsDB helps in making the market work for development'. Lecture given by H.E. Dr. Bandar Hajjar, Islamic Development Bank Group at Oxford Centre for Islamic Studies, Oxford University, 13 November 2018.

Barriers to private sector investment in infrastructure..... **31**

1 WEF, OECD (2015) Blended Finance Vol. 1: A Primer for Development Finance and Philanthropic Funders.
2 UNCTAD (2014) World Investment Report, 2014.

Inclusiveness through competitive value chains **36**

1 Faiz Shaul Hamid, M. et al. 'Making Markets Work for Development through Global Value Chains: Methodology and tools to identify and measure highest potential value chains', p18. Islamic Development Bank, Department of Strategy and Transformation.
2 United Nations Conference on Trade and Development (UNCTAD) (2013) *United Nations Trade and Development Report 2013*. New York and Geneva: United Nations.
3 OECD (2013) 'Mapping Global Value Chains'. Paris: Organisation of Economic Co-operation and Development.

Paradigms for sustainable value chains **37**

1 Faiz Shaul Hamid, M. et al. 'Making Markets Work for Development through Global Value Chains: Methodology and tools to identify and measure highest potential value chains', p. 19. Islamic Development Bank, Department of Strategy and Transformation.
2 ibid.

Cooperation on green industrial innovation **38**

1 Faiz Shaul Hamid, M. et al. 'Making Markets Work for Development through Global Value Chains: Methodology and tools to identify and measure highest potential value chains'. Islamic Development Bank, Department of Strategy and Transformation.
2 Source: ibid. p. 45.
3 Source: ibid. p. 45.
4 Ibid. p. 20.

Understanding industrialisation **39**

1 Faiz Shaul Hamid, M. et al. 'Making Markets Work for Development through Global Value Chains: Methodology and tools to identify and measure highest potential value chains', p. 42. Islamic Development Bank, Department of Strategy and Transformation.
2 Ibid. p. 43.

A global partnership strategy to close the SDG financing gap **42**

1 United Nations (2018) Synopsis — The Secretary-General's Strategy for Financing the 2030 Agenda for Sustainable Development (2018–2021).

Rug producers test market access **45**

1 Atkin, D. et al (2016) 'Exporting and Firm Performance: Evidence from a Randomised Trial'. CDEP-CGEG WP No. 23.

Sustainable development through South-South cooperation **47**

1 Çaglar, O. 'South-South Cooperation: a pioneering model for sustainable development in OIC Countries'. Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC), a subsidiary of the Organisation of Islamic Cooperation.

Science, technology and innovation for sustainable development.. **49**

1 Global Innovation Index Report: www.globalinnovationindex.org

Partnership for infrastructure investment **51**

1 Al-Manar – Rabi II / Jumada I 1439 17.

Harnessing the power of blockchain for economic empowerment...................................... **53**

1 'Blockchain for economic empowerment: A global platform for social and environmental resilience'. Al-Manar, Dhu Al-Qa,dah / Dhu Al-Hijjah 1439.

IsDB Developers' Platform **61**

1 Source: Islamic Development Bank internal document.

Why decentralise IsDB? **65**

1 Source: Islamic Development Bank. In' Financial impact of a potential rating downgrade'.

Endnotes

Integrated Strategic Programming Framework 69
1 Source: Islamic Development Bank. In 'Financial impact of a potential rating downgrade'.
2 Source: Islamic Development Bank.

US$1 trillion of investment for the SDGs 74
1 From aid to empowerment: How IsDB helps in making the market work for development'. Lecture given by H.E. Dr. Bandar Hajjar, Islamic Development Bank Group at Oxford Centre for Islamic Studies, Oxford University, 13 November 2018.

Food and agribusiness 76
1 McKinsey.

Investing in the Blue Economy 80
1 UN FAO. 2018. State of World Fisheries and Aquaculture 2018. p. 40.
2 https://www.bcg.com/publications/2017/transformationBCG. 2017. The Economic Imperative to Revive Our Oceans. sustainability-economic-imperative-to-revive-our-oceans.aspx
3 Nine of the 57 IsDB member countries are not coastal: Niger, Burkina Faso, Mali, Kyrgyzstan, Uganda, Tajikistan, Uzbekistan, Afghanistan, and Chad. Kazakhstan, Turkmenistan, and Azerbaijan are considered coastal due to their prominent coasts on the Caspian Sea.
4 The Commonwealth. Blue Economy. http://thecommonwealth.org/blue-economy
5 World Bank. 2018. Oceans, Fisheries, and Coastal Economies. http://www.worldbank.org/en/topic/environment/brief/oceans
6 State of World Fisheries and Aquaculture 2018 UN FAO. 2018. p. 2.
7 https://business.un.org/en/entities/13United Nations. International Maritime Organization.

Textiles, clothing, leather and footwear 81
1 American Textile History Museum.
2 Atkin, D. et al (2015) 'On the origins and development of Pakistan's soccer-ball cluster'. World Bank Economic Review, Vol. 30, Issue Supplement 1, pp. S34–S41.
3 Artopoulos, D. and Hallak, J. (2013) 'Export emergence of differentiated goods from developing countries: Export pioneers and business practices in Argentina.' *Journal of Development Economics*, 105: pp. 19–35.

Petroleum and chemicals 83
1 Lux Research.
2 SCBEIC.
3 World Bank.

Construction 86
1 'Global Construction 2030: A global forecast for the construction industry to 2030'. Global Construction Perspectives Limited and Oxford Economics Limited, 2015.

Islamic finance 88
1 World Bank Islamic finance brief, 2015.

Creating 10 million decent new jobs annually 91
1 Mason, 2005.
2 United Nations, 2015.
3 World Development Report, 2013.
4 Figures based on the proportion of the 15–30 age group in Member Countries over the world's youth population that currently stands at 26% and is slated to rise to 30%.
5 Islam, 2017; UNESCO; World Bank.

Opportunity for 200,000 new jobs in Saudi Arabia 93
1 Article first published in: IsDB 'Kingdom of Saudi Arabia: Making Markets Work for Development'.
2 Source: Islamic Development Bank.

Developing the timber value chain in Gabon 94
1 Islamic Development Bank (2018) 'Preliminary Global Value Chain Analysis: Wood and Manganese Value Chains in the Republic of Gabon', November 2018.
2 ibid.
3 ibid.

Leveraging Gabon's potential in the manganese industry value chain 95
1 Islamic Development Bank (2018) 'Preliminary Global Value Chain Analysis: Wood and Manganese Value Chains in the Republic of Gabon', November 2018.
2 ibid.
3 ibid.

CONTACT US
Email: DoST@isdb.org
Web: strategy.isdb.org

IsDB
البنك الإسلامي للتنمية
Islamic Development Bank