

# Islamic Development Bank ("IsDB")

## Sustainable Finance Framework



**November 2019**

## 1. Introduction

Founded in 1973, the Islamic Development Bank (“IsDB”) is a multilateral development financing institution, with 57-member states, and an observer at the United Nations General Assembly. The IsDB aims to improve the lives of those it serves by promoting social and economic development in Muslim countries and communities worldwide, delivering impact at scale. As the only multilateral development bank to solely have developing countries as its membership and shareholder base, IsDB is essentially a ‘south-south’ bank, driven by the desire to work together to address the challenges faced by humanity.

The Bank is committed to prioritizing the UN Sustainable Development Goals in accordance with the specific development needs of its Member Countries.

As part of these ambitions, IsDB aims to boost its commitment towards sustainability through the potential issuance of Sukuk to finance sustainable investments. The issuance of Sukuk under this Sustainable Finance Framework will enable the Bank to diversify its sources of funding, while enhancing IsDB's sustainability profile as well as helping the Bank to continue to deliver environmentally sustainable growth in a socially responsible and transparent manner.

**IsDB focuses its work in the following areas:**

Climate Change	Food Security	Global Value Chains	Health
Humanitarian Relief	Infrastructure	Poverty Alleviation	Quality Education for All
Science, Technology & Innovation (STI)	Sustainable Cities	Water & Sanitation	Women & Youth Empowerment

### 1.1 Overview of Sustainable Initiatives at IsDB

The IsDB Group is committed to the UN SDGs, recognizing that development objectives will vary from one member country to another. IsDB’s motivation to participate in achieving the SDGs comes from its dedication to solving the development challenges of its member countries.

The IsDB group has established a dedicated Community of Practice (CoP) to raise awareness and develop core expertise, generate knowledge and provide an intellectual environment to discuss innovative solutions for member countries to achieve SDGs. IsDB understands that there is a huge financing gap to achieve these goals, and believes that there is a great potential for Islamic Finance to help bridge this financing gap.

IsDB is widening its scope of activities beyond financing projects to also become a facilitator and a catalyst for mobilizing resources and finding development solutions from across the globe. While introducing this new facilitator and catalyst role as its strategic intent, IsDB will continue to finance projects to achieve its objectives. These projects will address basic developmental needs in terms of poverty, health and education in low-income-countries (LICs) and countries in conflict.

### 1.1.1 Supporting Member Countries (MCs) to realise the SDGs

The IsDB Group is well positioned to provide support to MCs in achieving SDGs 1 - 11, 13 and 16 through direct and participatory funding mechanisms. In addition, it will facilitate and enhance South-South and Triangular Cooperation among its MCs by identifying and providing development solutions in the South and catalysing linkages among MCs to support each other through solidarity-based partnership relationships.



Specific initiatives are undertaken to support the implementation of the SDGs and to align the interventions of the Bank with the SDGs. Collectively, the IsDB Group entities - Islamic Corporation for the Development of the Private Sector (ICD), International Islamic Trade Financing Corporation (ITFC), Islamic Corporation for Investment and Export Credit (ICIEC), and Islamic Research and Training Institute (IRTI) - are all committed to supporting MCs to realizing their 2030 SDGs Agenda.

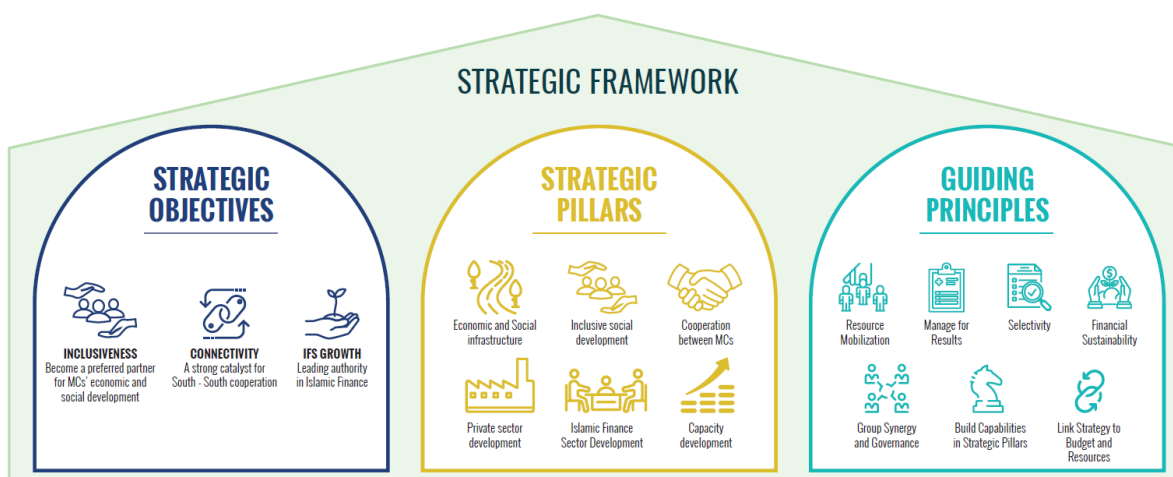
### 1.1.2 Mainstreaming strategic initiatives

As part of the Bank's efforts to deliver more inclusive and sustainable development, IsDB will integrate contribution of Women and Youth in the development interventions and focus on addressing fragility and building resilience, finance the projects that are climate-friendly, and further expand technical cooperation and reverse linkage programs. The Bank is further improving scholarship programs and encouraging science, technology and innovation in its operations.

In 2015, the Board of Governors of IsDB endorsed a Ten-Year Strategy (10YS)<sup>1</sup> for the Bank which established high level goals and the resulting strategic objectives based on aspirations of the MCs, primarily measured by the 2030 Agenda of Sustainable Development Goals (SDGs). The 10YS is aligned with 13 out of 17 SDGs and has three strategic objectives: Inclusiveness; Connectivity; and the Global Development of the Islamic Finance Sector (see Figure 1). The strategic objectives of 10YS are based on the evolving global development landscape in general, and the development aspirations of IsDB's 57 MCs in particular.

<sup>1</sup> [https://www.isdb.org/docs/10\\_yr\\_framework.pdf](https://www.isdb.org/docs/10_yr_framework.pdf)

Figure 1: IsDB Group 10 Year Strategic Framework (2016 - 2025)



The President's Five-Year Program (P5P) was launched in 2017 in order to accelerate the implementation of 10YS and support MCs to achieve the ambitious targets of SDGs by 2030.<sup>2</sup> The P5P requires a shift in the strategic orientation of the Bank in order to contribute to development in MCs by offering a menu of development financing solutions through mobilization of resources from national and international markets and by engaging the private sector. The P5P also aims to address the root causes impeding sustainable growth in MCs. The P5P aims to create an efficient Bank that is capable of delivering its products and services in a competitive manner. This will be achieved through enhancing organizational efficiency by decentralizing operations management to regional hubs, as well as achieving operational efficiency through the established Global Practices Departments relevant to thematic areas like Climate Action, Resilience, Youth and Women Empowerment and Science, Technology and Innovation. The mainstreaming of these thematic areas will serve as a catalyst for MCs to make progress towards achieving the SDGs.

### 1.1.3 Development of Related Policies

The IsDB has completed various sector policies including energy, transport, education, agricultural sector policies which establish the overall direction for IsDB's operations in MCs, in line with the IsDB 10-Year Strategy, the P5P, the requirements of the development arena and the targets underlying the SDGs.

- Climate Change Policy<sup>3</sup>: Emphasises on mainstreaming climate action in all of the Bank's operations, promoting climate change resilience and green growth and supporting the transition to a green economy as three main pillars of the climate change policy. The Climate Policy builds on IsDB's adherence to the Voluntary Principles for Mainstreaming Climate Action within Financial Institutions and the Common Principles for Climate Mitigation Finance Tracking.<sup>4</sup>
- Energy Sector Policy<sup>5</sup>: Establishes the overall direction for IsDB's energy operations in MCs, in line with the IsDB Articles of Agreement, 10-Year Strategy (10YS) and reform agenda based on the President's Five-Year Programme (P5P). With this policy, IsDB aims to tackle the most disturbing aspects of the global energy landscape – energy inequality and lack of affordability.

<sup>2</sup> <https://www.isdb.org/leadership/president%E2%80%99s-five-year-program>

<sup>3</sup> <https://www.isdb.org/sites/default/files/media/documents/2019-04/IsDB%20Climate%20Change%20Policy.pdf>

<sup>4</sup> [https://www.eib.org/attachments/documents/mdb\\_idfc\\_mitigation\\_common\\_principles\\_en.pdf](https://www.eib.org/attachments/documents/mdb_idfc_mitigation_common_principles_en.pdf)

<sup>5</sup> [https://www.isdb.org/sites/default/files/media/documents/2019-04/IsDB\\_Energy%20Sector%20Policy.pdf](https://www.isdb.org/sites/default/files/media/documents/2019-04/IsDB_Energy%20Sector%20Policy.pdf)

- Transport Sector Policy<sup>6</sup>: The theme of this policy, ‘Sustainable transport for inclusion and prosperity’, reflects the importance of sustainability in transport-sector interventions while focusing on the objectives of (i) developing transport solutions that contribute to human inclusion among the neediest populations, and (ii) improving the performance of transport solutions that contribute to population prosperity.
- Education Sector Policy<sup>7</sup>: Intended to guide all education programmes and operations of the IsDB. It highlights IsDB’s education philosophy, as well as its investment priorities and criteria for making decisions on support to education. This support is aimed at building national human capital to strengthen the long-term global competitiveness of MCs by enhancing systems for education and skills development. The overarching objective of this policy is learning for human development.
- Agricultural and Rural Development Sector Policy<sup>8</sup>: Aims to provide strategic direction for investment by the IsDB in the agricultural and rural development of its MCs. The thesis of the policy is to promote the commercialization of smallholder agriculture through the development of agriculture value chains, with an emphasis on private-sector participation.

Since its inception, the Islamic Development Bank Group has undertaken a number of initiatives focusing on youth development. On average, IsDB allocates around 8 per cent of its financial support to youth development projects and programs on an annual basis. The Bank has recently developed a Youth Development strategy (2019-2025) which has three interlinked strategic pillars, Education, Economic Empowerment and Engagement.

In 2018, the IsDB undertook new three initiatives to enhance its institutional commitments in support of inclusive social development anchored on women and youth empowerment as well as other support activities. Through these initiatives, the Bank will focus on transforming its institutional commitments to women’s empowerment into visible actions by increasing financial, technical and human investments in programs and initiatives that create opportunity for women to participate and benefit from the development assistance provided by the Bank which champions the empowerment of women and girls, both inside the Group and within member countries.

The Bank has also completed its Women Empowerment Policy which defines the commitment of the Bank to promote women’s empowerment as a means to reduce poverty and foster sustainable development and inclusive growth. It also marks IsDB’s promise to unlock the ‘untapped potential’ of women in its MCs and Muslim communities by establishing fundamental principles to guide its programmes and interventions to reduce the barriers to their economic and social development.

#### **1.1.4 Reverse Linkage (RL) mechanism**

As a multilateral development institution that consists only of member countries from the Global South, IsDB continues to dedicate resources as a key player in promoting South-South Cooperation (SSC). The mechanism is defined as a technical cooperation mechanism enabled by IsDB whereby member countries and Muslim communities in non-member countries, exchange their knowledge, expertise, technology and resources to develop their capacities and devise solutions for their autonomous development.

#### **1.1.5 Partnerships to grow sustainable infrastructure**

<sup>6</sup> [https://www.isdb.org/sites/default/files/media/documents/2019-04/IsDB\\_Transport%20Sector%20Policy.pdf](https://www.isdb.org/sites/default/files/media/documents/2019-04/IsDB_Transport%20Sector%20Policy.pdf)

<sup>7</sup> [https://www.isdb.org/sites/default/files/media/documents/2019-04/IsDB\\_Education%20Sector%20Policy.pdf](https://www.isdb.org/sites/default/files/media/documents/2019-04/IsDB_Education%20Sector%20Policy.pdf)

<sup>8</sup> [https://www.isdb.org/sites/default/files/media/documents/2019-04/IsDB\\_Agriculture%20Sector%20Policy.pdf](https://www.isdb.org/sites/default/files/media/documents/2019-04/IsDB_Agriculture%20Sector%20Policy.pdf)

- a) Partnership with the UN: IsDB and the United Nations are working together to align the partnership strategies of IsDB's member countries with the relevant SDGs. They also aim to develop private sector partnerships, advance the Global Islamic Finance and Impact Investing Platform (GIFIIP) for blending Islamic Financing and Private Sector resources, and promote institutional cooperation.
- b) Partnership with the Multilateral Development Banks MDB and other Donors: IsDB has built an effective cooperation with the international community including MDBs (including the World Bank, African Development Bank, Asian Development Bank, and the Asian Infrastructure Investment Bank), Bilateral Banks and other international institutions to establish a framework for strategic cooperation, including actively seeking to co-finance projects in common areas of operations. Areas of cooperation focus on sustainable infrastructure including the development of energy and power, transportation and poverty reduction, empowerment of women, rural infrastructure water supply and sanitation, environmental protection, and urban development and logistics.

### 1.1.6 The Transform Fund

In April 2018, IsDB launched a US\$500m Transform fund, to provide seed money for start-ups and SMEs to develop their ideas and facilitate the commercialization of technology among the IsDB's member countries. The fund is closely aligned with the following SDGs:

- SDG 2: Zero Hunger
- SDG 3: Good Health and Well Being
- SDG 4: Quality Education
- SDG 6: Clean Water and Sanitation
- SDG 7: Affordable and Clean Energy
- SDG 9: Industry, Innovation and Infrastructure

The IsDB has also recently launched a new crowd-funding platform – IsDB Innovate – which allows the bank to bring even more people's ideas and innovations to life. The platform is supporting projects in 9 member countries.

## 2. Sustainable Finance Framework

As part of this continued commitment to sustainability, IsDB has decided to create a Sustainable Finance Framework (the "Framework") which is in accordance with the four components of Green Bond Principles 2018<sup>9</sup>, Social Bond Principles 2018<sup>10</sup>, and Sustainability Bond Guidelines 2018<sup>11</sup>, and under which IsDB can issue Green or Sustainability Sukuk.

1. Use of Proceeds
2. Process for project evaluation and selection
3. Management of proceeds
4. Reporting

It is our intention to follow best practices in the market as the standards develop.

### 2.1 Use of Proceeds

<sup>9</sup> 2018 Green Bond Principles: <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

<sup>10</sup> 2018 Social Bond Principles: <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>

<sup>11</sup> 2018 Sustainability Bond Guidelines: <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

Under this Framework, IsDB can issue two types of Sukuk (the “Sukuk”):



1. **Green Sukuk** – for which the funds raised are exclusively allocated to Green Projects Categories;
2. **Sustainability Sukuk** – whereby the funds raised are allocated to Green Projects Categories and to Social Projects Categories.

For any Sustainability Sukuk issuance IsDB will endeavour to allocate the sukuk proceeds to a mix of both Green and Social projects. However, in the event that IsDB should only have Social Projects available for allocation of sukuk proceeds, any issuance shall still be classified as a Sustainability Sukuk given the integration of climate risk in the Project Selection Process of this Framework (see Section 2.2).

### 2.1.1 Project Categories

The Use of Proceeds of any IsDB Green or Sustainability Sukuk (GSS) under this Framework will be subject to the following eligibility criteria, to be applied to new or existing<sup>12</sup> projects. This list may be further updated as technologies and other circumstances evolve. Any updated version of this framework will either keep or improve the current levels of transparency and reporting disclosures, including the corresponding External Review.

#### Green Projects Categories:

Project Category	Alignment with IsDB's objectives	Eligibility Criteria	Alignment with the UN SDG Targets
 <p><b>Renewable energy</b></p>	<ul style="list-style-type: none"> <li>Improve energy access, promote renewable energy and enhance energy efficiency in generation and distribution. Enhance engagement of private sector<sup>13</sup></li> </ul>	<ul style="list-style-type: none"> <li>Generation of electricity from renewable sources such as solar, wind, geothermal and hydro (less than 25 MW in size)</li> </ul>	<p><b>SDG 7.2:</b> By 2030, increase substantially the share of renewable energy in the global energy mix</p>
 <p><b>Clean transportation</b></p>	<ul style="list-style-type: none"> <li>Support economic infrastructure including sustainable transport for greater connectivity. Support Science, Technology and Innovation. Provide solutions for sustainable urban development<sup>13</sup></li> </ul>	<ul style="list-style-type: none"> <li>Investment in electric rail transportation, rail transport for the movement of goods and people as well as related infrastructure projects (metric gauge lines, signalization systems, station/depot expansion, pedestrian crossings), and mass-transit<sup>14</sup> projects including light rail</li> </ul>	<p><b>SDG 11.2:</b> By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport</p>
<p><b>Energy efficiency<sup>15</sup></b></p>	<ul style="list-style-type: none"> <li>Improve energy access, promote</li> </ul>	<ul style="list-style-type: none"> <li>Buildings energy efficiency improvements</li> </ul>	<p><b>SDG 7.3:</b> By 2030, double the global rate of improvement in energy efficiency</p>





<sup>12</sup> The look-back period of existing assets for the inaugural transaction will potentially be up to 5 years to allow for capture of larger projects that have had ongoing support from IsDB. For future transactions, IsDB commit to reducing this look back period to a target of 2 years. This data will be included in the annual green or sustainability sukuk reporting.

<sup>13</sup> [https://www.isdb.org/sites/default/files/media/documents/2019-07/IsDB\\_DER%202018\\_1April19\\_Optimized%20for%20Website..pdf](https://www.isdb.org/sites/default/files/media/documents/2019-07/IsDB_DER%202018_1April19_Optimized%20for%20Website..pdf)

<sup>14</sup> Transport projects (including mass transit) are only included under green project category under this framework if a modal shift and a projected net emission reduction can be demonstrated at project level.

<sup>15</sup> Under the Climate Finance Principles, the general principle for brownfield energy efficiency activities involving the substitution of technologies or processes is that: (i) the old technologies should be substituted well before the end of their lifetime and the new technologies



 	<p>renewable energy and enhance energy efficiency in generation and distribution. Enhance engagement of private sector<sup>13</sup></p>	<p>in lighting, appliances and equipment, including energy-management systems</p> <ul style="list-style-type: none"> <li>• Substitution of existing heating or cooling systems for buildings by co-generation plants that generate electricity in addition to providing heating or cooling</li> <li>• Architectural or building changes that enable reduction of energy consumption</li> <li>• Rehabilitation of district heating and cooling systems</li> <li>• Reduction of heat loss in utilities and/or increased recovery of waste heat</li> <li>• Improvement in utility-scale energy efficiency through efficient energy use, and loss reduction, or resource efficiency improvements<sup>16</sup></li> </ul>	<p><b>SDG 9.4:</b> By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities</p>
<p><b>Pollution prevention and control</b></p>  	<ul style="list-style-type: none"> <li>• Green growth and supporting the transition to a green economy, including reducing pollution and greenhouse gas emissions, minimizing waste and the inefficient use of natural resources, maintaining biodiversity and strengthening energy security<sup>17</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Wastewater, waste recycling, and waste reduction projects<sup>18</sup></li> </ul>	<p><b>SDG 6.3:</b> By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally</p> <p><b>SDG 12.5:</b> By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse</p>
<p><b>Environmentally sustainable management of natural living resources and land use</b></p>	<ul style="list-style-type: none"> <li>• Invest in raising productivity of small farm agriculture, build resilience to climate change, improve access to</li> </ul>	<ul style="list-style-type: none"> <li>• Interventions on climate smart agriculture encouraging afforestation and agroforestry, reforestation and sustainable forest</li> </ul>	<p><b>SDG 2.4:</b> By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation</p>



are substantially more efficient; or (ii) new technologies or processes should be substantially more efficient than those normally used in greenfield projects. The general principle for resource efficiency activities is that activities should be substantially more efficient than substituted technologies or processes, noting that efficiencies and avoided may occur upstream or downstream of the project. Additionally, all energy efficiency projects are evaluated to asset if the reduction in energy intensity of a facility results in increased net emission compared to the baseline emission of the facility prior to IsDB investment. In case this happens, such project will not be eligible.

<sup>16</sup> These projects will only be eligible if significant energy savings can be demonstrated through carbon intensity performance ((tCO2/unit of outcome) of the facility aligned with low-carbon pathways. IsDB will consider the following metrics serving as examples to guide establishing thresholds: (a) GHG emissions per unit of production (b) energy consumption per unit of production (c) recycling rate and (d) percentage of renewable energy used in the manufacturing process.

<sup>17</sup> <https://www.isdb.org/sites/default/files/media/documents/2019-04/IsDB%20Climate%20Change%20Policy.pdf>

<sup>18</sup> Waste Projects entail Improvements to solid waste management (minimisation, collection, recovery, treatment, recycling). As noted in 2.1.2 (Exclusions), landfill construction or expansion is excluded.










	<p>markets, and strengthen capacity<sup>13</sup></p>	<p>management activities that increase carbon stocks or reduce the impact of forestry activities</p> <ul style="list-style-type: none"> <li>• Preservation or restoration of natural landscapes</li> <li>• Soil remediation</li> <li>• Integrated soil fertility management (inorganic and organic)</li> <li>• Measures to enhance conditions and carrying capacity of existing grazing land to minimize the introduction of new lands into the grazing system (solely if net emission reductions can be demonstrated)</li> <li>• Plantation to support the production of biofuels (solely if net emission reductions can be demonstrated, and production does not compete with food resources)<sup>19</sup></li> <li>• Livestock projects that reduce methane or any other GHG emissions, such as manure management with biodigesters, and improved feeding practices to reduce methane emissions<sup>20</sup></li> </ul>	<p>to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality</p>
<p><b>Sustainable water and wastewater management</b></p> 	<ul style="list-style-type: none"> <li>• Increase resilience to natural disasters<sup>13</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Projects relating to flood prevention in the event of storms such as efficient water drainage systems in urban areas</li> </ul>	<p><b>SDG 13.1:</b> Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries</p>

### Social Project Categories:

Project Category	Alignment with IsDB's objectives	Eligibility Criteria	Alignment with the UN SDG Targets
<p><b>Employment generation / SME Financing</b></p>	<ul style="list-style-type: none"> <li>• Support productive and economic empowerment of youth, and create</li> </ul>	<ul style="list-style-type: none"> <li>• Providing and increasing access to finance for micro, small and medium enterprises, and</li> </ul>	<p><b>SDG 1.1:</b> By 2030, eradicate extreme poverty for all people everywhere, currently measured as</p>





<sup>19</sup> As noted in Exclusion Criteria (2.1.2), Eligible Projects exclude any projects which involve deforestation. In addition, as per the Project Selection Process (2.2.1), all Eligible Projects will align to international conventions and standards – including the Convention on Biodiversity, Convention on International Trade in Endangered Species of Wild Fauna and Flora, Ramsar Convention, and International Plant Protection Convention.

<sup>20</sup> As livestock projects can only be included if they reduce methane or other GHG emissions, this eligibility criteria de facto excludes any expansion of livestock production.

  	<p>decent employment opportunities for their gainful engagement<sup>13</sup></p> <ul style="list-style-type: none"> <li>• Support pro-poor growth, reduce inequality, promote human development, human dignity, financial inclusion, increase productivity and sustainable means of income generation<sup>13</sup></li> </ul>	<p>providing jobs for youth or underprivileged individuals in IsDB's MCs</p>	<p>people living on less than \$1.25 a day</p> <p><b>SDG 8.3:</b> Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services</p> <p><b>SDG 8.6:</b> By 2020, substantially reduce the proportion of youth not in employment, education or training</p> <p><b>SDG 9.3:</b> Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets</p>
<p><b>Affordable housing</b></p> 	<ul style="list-style-type: none"> <li>• Meeting the basic human needs of food, shelter, health and primary education in Africa and Latin America<sup>13</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Affordable and improved housing projects<sup>21</sup> for rural population</li> </ul>	<p><b>SDG 11.1:</b> By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums</p>
<p><b>Affordable basic infrastructure</b></p>   	<ul style="list-style-type: none"> <li>• Address growing rural and urban needs for water and sanitation. Improve water services, drainage and irrigation<sup>13</sup></li> <li>• Support sustainable infrastructure.</li> </ul>	<ul style="list-style-type: none"> <li>• Projects providing / expanding access to electricity, clean drinking water, sanitation and transport<sup>22</sup> in IsDB MCs</li> <li>• Development of telecom network and related infrastructure in underserved areas</li> </ul>	<p><b>SDG 6.1:</b> By 2030, achieve universal and equitable access to safe and affordable drinking water for all</p> <p><b>SDG 6.A:</b> By 2030, expand international cooperation and capacity-building support to developing countries in water- and sanitation-related activities and programmes, including water harvesting, desalination, water efficiency, wastewater treatment, recycling and reuse technologies</p> <p><b>SDG 7.1:</b> By 2030, ensure universal access to affordable, reliable and modern energy services</p> <p><b>SDG 11.2:</b> By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older person</p>

<sup>21</sup> Affordable housing projects will have to meet eligibility criteria for building's energy efficiency whenever possible. Moreover, for affordable housing to be included as an Eligible Project, projects would have to be consistent with the low carbon-resilient development plan and/or the NDC of that country.

<sup>22</sup> For infrastructure) projects included under social project category under this framework, in a given country, they would have to be consistent with the low carbon-resilient development plan and/or the NDC of that country.

<p><b>Access to essential services</b></p>  	<ul style="list-style-type: none"> <li>Enrol &amp; retain out-of-school children, support bilingual education, vocational literacy programs and education for competitiveness and employment<sup>13</sup></li> </ul>	<ul style="list-style-type: none"> <li>Projects expanding access to free/subsidized healthcare, education and training facilities<sup>23</sup></li> </ul>	<p><b>SDG 3.C:</b> Substantially increase health financing and the recruitment, development, training and retention of the health workforce in developing countries, especially in least developed countries and small island developing States</p> <p><b>SDG 4.1:</b> By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes</p>
<p><b>Socioeconomic advancement and empowerment</b></p>  	<ul style="list-style-type: none"> <li>Support pro-poor growth, reduce inequality, promote human development, human dignity, financial inclusion, increase productivity and sustainable means of income generation<sup>13</sup></li> </ul>	<ul style="list-style-type: none"> <li>Projects that help improve the socio-economic status of women like enhancing the resilience of Women-owned SMEs through the Women Entrepreneurs Finance Initiative (WE-FI)</li> <li>Projects that help improve the supporting education for refugees and strengthening community resilience such as the IsDB Syrian Education Support Program</li> </ul>	<p><b>SDG 5.1:</b> End all forms of discrimination against all women and girls everywhere</p> <p><b>SDG 5.5:</b> Ensure women’s full and effective participation and equal opportunities for leadership at all levels of decision making in political, economic and public life</p> <p><b>SDG 5.C:</b> Adopt and strengthen sound policies and enforceable legislation for the promotion of gender equality and the empowerment of all women and girls at all levels</p> <p><b>SDG 10.2:</b> By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status</p> <p><b>SDG 10.7:</b> Facilitate orderly, safe, regular and responsible migration and mobility of people, including through the implementation of planned and well-managed migration policies</p>

### 2.1.2 Exclusion criteria

IsDB follows the principles of Shariah and as such is not involved in any financing of alcohol, gambling, adult entertainment, or weapons.

In addition, the following kinds of financing is excluded as potential use of proceeds under this Sustainable Finance Framework:

- Upstream fossil fuel extraction and production (including gas, coal and oil)
- New standalone fossil fuel electricity production
- Energy efficiency of coal infrastructure
- Energy efficiency projects that lead to an increase in CO<sub>2</sub> emissions (through capacity expansion and increased output as a result of the project/investment)
- Processing, storing, marketing of gas, coal, and oil
- Refining of oil

<sup>23</sup> Education/Healthcare buildings will have to meet eligibility criteria for building’s energy efficiency whenever possible

- Nuclear power generation and related assets
- Distribution or transport of fossil fuels
- Construction, maintenance or expansion of roads
- Heavy duty vehicles, infrastructure for fossil fuels (e.g., fuel stations) or bunker fuelled shipping infrastructure
- Landfill construction or expansion
- Any activities involving deforestation
- Palm Oil related activities

## 2.2 Project Selection and Evaluation Process

### 2.2.1 Sustainability Assessment Process at IsDB

All projects that IsDB considers for potential allocation to a Green or Sustainability Sukuk, are subject to compliance with international conventions and agreements, including the ILO Labour Standards, host country laws and regulations, and IsDB's policies to manage potential environmental and social risks - including the energy, transport, education, agricultural sector policies defined in section 1.1.3 above. Furthermore, as per IsDB's Climate Change Policy and commitment to mainstreaming Climate Finance all of IsDB's activities across all areas of its operations, investments and policies, incorporate climate risk identification and management. All physical assets are screened using a customized online tool, Aware. The tool helps to inform project design on potential climate change, environmental and disaster risks and ensure that robust climate adaptation and resilience measures are incorporated in project formulation and design. The evaluation of projects also includes alignment with medium and long-term climate change plans of member countries, including Nationally Determined Contribution (NDC) commitments.

IsDB's Environmental and Social Safeguards (ESS) policy will be made publicly available in 2020, as it is currently in working form internally and provides reference for project screening. Moreover, projects co-financed with other Multilateral Development Banks, are subject to compliance with best practice guidelines such as the IFC Performance Standards and the World Bank EHS Safeguards. IsDB's due diligence processes preclude the financing of any projects considered economically, social, or environmentally unsustainable.

### 2.2.2 Sustainable Financing Project Selection Process

The evaluation and selection process for any Sukuk issued under this Sustainable Finance Framework will be carried out by a Sustainable Finance Task Force (SFTF), which will monitor the project selection and evaluation allocation process as per the eligibility criteria defined in the Use of Proceeds section.

The SFTF will consist of representatives from different Global Practices departments with relevant technical expertise as follows:

- Resilience and Social Development Department
  - Climate Change Division
  - Women and Youth Empowerment Division
- Treasury Department
  - Capital Markets Division
- Risk Management Department, and,

- Budget, Performance and Results Department

Each of these Global Practices encapsulates relevant technical expertise on climate, resilience, youth empowerment. In addition, it will also include IsDB Group Spokesperson, who is also the Advisor to the IsDB President on Global Advocacy.

If a project satisfies the Eligibility Criteria of the Eligible Project Categories listed above, the project can then be considered as a potentially Eligible Project for allocation to a Green or Sustainability Sukuk and is sent to the Sustainable Finance Task Force (SFTF) for final review.

Each project approved by the SFTF for inclusion in the Green or Sustainability Sukuk portfolio is recorded by this group and either included in the GSS Sukuk Register (if proceeds are waiting to be allocated) or remains identified but not utilised if all outstanding Green or Sustainability Sukuk are fully allocated.

As part of IsDB project management system, implemented projects have a Monitoring and Evaluation Plan incorporated during project formulation and design. This is carried out at the level of the (1) in-country project management team and system (2) at the bank level, which includes ongoing diligence on key performance indicators through the Project Implementation Assessment & Support Report (PIASR), usually prepared biannually. In the case of any climate finance projects, these projects will be monitored according to their net emissions reductions. If ongoing monitoring demonstrates that the project fails to meet the emissions reductions estimated during the design phase, remedial measures aimed at actualising the planned objectives are introduced.

If at any point a project fails screening, either at the level of IsDB’s environmental and social assessment procedures/ policies level, or the Project Implementation Assessment & Support Report (PIASR), or at the level of the Eligibility Criteria of the Eligible Project Categories, the project will be placed under review and the SFTF will reassess its inclusion if the screening criteria are met at a later date. No time limit is applied, and if a project does meet the respective eligibility criteria after remediation work, it may then become eligible for inclusion. If a project continues to fail screening it will not be considered as an Eligible Project for either a Green or Sustainable sukuk.

The Sustainable Finance Task Force will be responsible for the following:

- Review and validate the selection of Eligible Projects based on the defined Eligible Criteria listed in the Use of Proceeds section above.
- Monitor the Eligible Projects portfolio, specifically, during the life of each Sukuk issued; the SFTF can decide to exclude or replace select Eligible Projects if an Eligible Project no longer meets the eligibility criteria, or the Eligible Project in the pool no longer requires funding.
- Determine if an Eligible Project requiring re-financing could be included in the pool as replacement or to enhance the asset diversity of the pool.
- Manage any future updates of the Framework and corresponding Second Opinion.

### 2.3 Management of Proceeds

It is IsDB’s intention to manage the proceeds of the IsDB Green or Sustainability Sukuk, establishing a Green or Sustainability Sukuk Register (known as the “GSS Sukuk Register”). The proceeds of each IsDB

Green or Sustainability Sukuk will be deposited in the general funding accounts and earmarked for allocation using the GSS Sukuk Register. Until they are allocated to eligible projects, proceeds will be invested according to IsDB's normal liquidity policy.

All of IsDB's investments are Shariah-compliant and IsDB strives to incorporate ESG criteria in their investment process.

The GSS Sukuk Register will be reviewed half yearly.

The GSS Sukuk Register will contain relevant information including:

- (1) Details of the Sukuk: ISIN, pricing date, maturity date, etc.
- (2) Per each Green and Sustainability Sukuk issued, details of Eligible Use of Proceeds, including:
  - Eligible Projects identified (including eligibility criteria considerations)
  - Project Categories utilised
  - Allocation made to each Eligible Project
  - Estimate of impact of each respective Eligible Project

## 2.4 Reporting

On an annual basis and until the proceeds of any Green or Sustainability Sukuk have been fully allocated, IsDB will publish an Annual Report that contains both allocation and impact metrics, as detailed below.

If, after completion of the allocation period, some Eligible Projects are divested or become otherwise ineligible, IsDB will publish an updated report, containing allocation and impact metrics of the revised portfolio.

The Sustainable Finance Task Force (SFTF) will be responsible for preparing and reporting on any Green or Sustainability Sukuk issuance. They will request the assistance and input of relevant Global Practices when collating the necessary information.

The first report will be published within one year from the time of Green or Sustainability Sukuk issuance.

Each Green or Sustainability Sukuk will have an independent report created.

### 2.4.1 Allocation Reporting

IsDB will provide information on the allocation of the net proceeds of its Green or Sustainability Sukuk. The information will contain at least the following details:

- I. A list of Eligible Projects financed through IsDB's Green or Sustainability Sukuk, including amounts allocated to each Eligible Project; and
- II. Sukuk proceeds allocated per each Eligibility Category;
- III. The geographic distribution of green or social Eligible Projects;
- IV. The remaining balance of unallocated proceeds;
- V. Wherever material and possible, the share of Green/ Sustainability Sukuk financing, wherever a project requires more financing than the allocation received from the Green/ Sustainability Sukuk.

## 2.4.2. Impact Reporting

The impact reporting will include:

- A qualitative description of the green or social Eligible Projects;
- The Environmental Objective pursued with the green or social Eligible Projects;
- A breakdown of green or social Eligible Projects by the nature of what is being financed (assets, capital expenditures, operating expenditures, etc.);
- IsDB's share of financing;
- Potential key environmental impact indicators (as mentioned in the below table)
- Information on the methodology and assumptions used to evaluate the green or social Eligible Projects impacts

Potential key impact indicators include:

### Green Eligible Categories

Project Category	Indicative impact Reporting Metrics
Renewable energy	<ul style="list-style-type: none"> <li>• Renewable MWh generated or purchased</li> <li>• % of electricity consumption from renewable sources</li> <li>• Estimated avoided GHG emissions (tCO<sub>2</sub>eq)</li> </ul>
Clean transportation	<ul style="list-style-type: none"> <li>• Estimated GHG emissions reduced (tCO<sub>2</sub>eq)</li> <li>• % reduction in energy use</li> </ul>
Energy efficiency	<ul style="list-style-type: none"> <li>• Estimated GHG emissions reduced (tCO<sub>2</sub>eq)</li> <li>• Expected energy saved (in MWh)</li> <li>• % reduction in energy use</li> </ul>
Pollution prevention and control	<ul style="list-style-type: none"> <li>• Amount of waste recycled (tons)</li> <li>• Amount of waste reused (tons)</li> </ul>
Environmentally sustainable management of natural living resources and land use	<ul style="list-style-type: none"> <li>• Estimated annual GHG emissions reduced (in tCO<sub>2</sub>e/year)</li> <li>• Estimated land area with biodiversity management (including species, soil and water)</li> <li>• Area under afforestation or reforestation (hectares)</li> <li>• Area under preservation or restoration (hectares)</li> <li>• Type of harmful substances removed</li> <li>• Area of remediated land (square meters)</li> <li>• Quantity of remediated soil (tons)</li> <li>• Crop yield increased (tons/hectare)</li> <li>• Crop production increased (tons)</li> <li>• Area irrigated (hectares)</li> <li>• Population accessing microfinance (number)</li> <li>• Rural (farm, non-farm or cottage industry) enterprises established or promoted (number)</li> </ul>
Sustainable water and wastewater management	<ul style="list-style-type: none"> <li>• Estimated kilometres of areas protected from flooding</li> <li>• Estimated number of flood disasters avoided</li> </ul>

### Social Eligible Categories:

Employment generation	<ul style="list-style-type: none"> <li>• Number of SMEs supported or funded</li> <li>• Number of employees of SMEs supported or funded</li> </ul>
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	<ul style="list-style-type: none"> <li>• Number of jobs generated</li> <li>• Number of women/youth supported</li> </ul>
Affordable housing	<ul style="list-style-type: none"> <li>• Number of dwellings</li> <li>• Number of beneficiaries</li> <li>• Number of women/youth supported</li> </ul>
Affordable basic infrastructure	<ul style="list-style-type: none"> <li>• Number of beneficiaries</li> <li>• Share of people with mobile network</li> <li>• Share of people with broadband network</li> <li>• Number of women/youth supported</li> </ul>
Access to essential services	<ul style="list-style-type: none"> <li>• Number of patients reached</li> <li>• Number of students reached</li> <li>• Number of women supported</li> </ul>
Socioeconomic advancement and empowerment	<ul style="list-style-type: none"> <li>• Number of beneficiaries (for each respective criteria: Gender equality, Refugee)</li> <li>• Diversity % statistics for monitored groups</li> </ul>

IsDB's annual reporting will be made public on their website: <https://www.isdb.org/publications>

## 2.5 External Review

### 2.5.1 Second Party opinion

IsDB has appointed [Second Party Opinion provider] to provide an External Review for its SDG Framework. This Second Party Opinion document will be made available on IsDB's website <https://www.isdb.org/publications>

### 2.5.2 Post issuance external verification

IsDB will obtain an external review of its reporting from a third party and this will be available at IsDB's website <https://www.isdb.org/publications>