

TRANSPORT SECTOR POLICY

Sustainable Transport for Inclusion and Prosperity



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Abbreviations

10YS	10-Year Strategy (IsDB)
CO₂	Carbon Dioxide
IsDB	Islamic Development Bank
MDB	Multilateral Development Bank
P5P	President's Five-Year Programme (IsDB)
PPP	Public–Private Partnership
SDG	Sustainable Development Goal (United Nations)
SuM4All	Sustainable Mobility for All
UN	United Nations

Purpose, objectives and background

1. This Transport Sector Policy of the Islamic Development Bank (IsDB) establishes the overall direction for the Bank's future interventions in the transport sector in its Member Countries. This policy aligns IsDB's transport-sector operations with its overall corporate reform agenda.
2. 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*.
3. The movement of people and goods from one place to another is a basic requirement for the functioning of human society. Transport is intrinsic to the production and use of goods and services, and influences the way that economic and other opportunities are distributed among the population. It also consumes resources and can have negative effects, such as congestion, traffic accidents, environmental pollution and carbon dioxide (CO₂) emissions.
4. Rising incomes, trade and urbanization are driving demand for the transport sector. Between 2015 and 2050 the global demand for maritime freight, surface freight and non-urban transport is expected to triple, while the demand for urban transport is expected to double. In many developing countries, existing gaps in access need to be addressed in both rural and urban areas. To meet the rising demand and improve this access, massive investments are needed in developing countries.
5. There are differences in the transport needs of Member Countries in different regions and subregions that IsDB will take into account when planning interventions. In sub-Saharan Africa, for example, the main needs are to complete national and regional road and rail corridors, improve rural access and strengthen the maintenance of existing road assets. In west Asia and south-east Asia, where many Member Countries have reached middle- or high-income status, the transport needs include urban public transport improvement and the expansion of port, airport and railway transport. There is also potential here to expand the use of public-private partnerships (PPPs). In central and southern Asia, a key priority is to improve access to ports and markets by developing regional road and rail corridors. Fragile and conflict-affected Member Countries need support in many regions to rebuild their damaged transport infrastructure.

6. International development institutions and United Nations (UN) member states have pledged to improve the availability and performance of transport, and to reduce its negative effects. In 2010, a decade of action for road safety was announced by the UN General Assembly, with the aim of stabilizing and then reducing road traffic deaths. In 2012, IsDB and seven other multilateral development banks (MDBs) jointly committed at Rio+20, the UN conference on sustainable development, to provide US\$175 billion over 10 years for financing more sustainable types of transport. In 2015, through the Paris Agreement on climate change, UN member states committed to reduce transport-related CO₂ emissions. Finally, in 2016, the UN Habitat III conference introduced a new urban agenda calling for the adoption of more sustainable types of urban transport using mass transit modes.
7. The global development agenda for transport is centered around the implementation of the Sustainable Development Goals (SDGs) adopted by the UN General Assembly in 2015. Five SDGs covering sustainable infrastructure include direct targets for transport (including those for rural access, connectivity, climate adaptation and road maintenance). Seven SDGs include indirect targets for transport, covering the role of transport in agricultural productivity, in access to safe drinking water, mobility within sustainable cities, climate mitigation and adaptation, and in the reduction of air pollution, food loss and waste.
8. IsDB is a member of Sustainable Mobility for All (SuM4All), a consortium of more than 50 leading organizations in the transport sector, formed in 2017 to support the sector's implementation of the SDGs. SuM4All has conceptualized the transport-related SDGs in terms of four overarching themes – access, efficiency, green transport and safe transport – and is preparing a global road map of action supported by a tracking framework. IsDB will continue to support and utilize such platforms to achieve its policy objectives.
9. This policy builds on the following strengths of IsDB's transport operations: transport is one of the leading sectors for IsDB, and among the largest in terms of IsDB annual financing approvals; most of the completed projects in the transport sector have been rated as successful; Member Countries consider IsDB to be a trusted partner; and IsDB is a leading provider of Islamic finance.
10. This policy has adopted the following three guiding principles of the IsDB Group's 10-Year Strategy (10YS) for enhancing IsDB's effectiveness and efficiency:

- (i) to practise selectivity in the choice of operations; (ii) to build capabilities around strategic pillars by reallocating resources to them from non-strategic areas; and, (iii) to use results-based management approaches for achieving development results.
11. IsDB interventions in the transport sector contribute directly to two of the strategic pillars of 10YS – economic and social infrastructure, and cooperation between Member Countries. They also contribute indirectly to three other pillars – inclusive social development, private sector development and Islamic financial sector development.
 12. This policy is also aligned with the reforms introduced by the IsDB President’s Five-Year Programme (P5P): strengthening the country focus by delegating authority and decentralizing staff from headquarters to regional hubs; adopting a strategic approach to country programming so as to move from want-oriented to need-oriented financing, based on the practice of selectivity; using partnerships with leading development partners and knowledge institutions to enhance IsDB’s competitive edge; and strengthening project delivery by introducing new financing mechanisms for project preparation.
 13. This policy outlines the non-discretionary principles and intentions to permit, guide and constrain IsDB’s transport-sector operations to achieve institutional goals. Further, detailed instructions – including organizational and procedural aspects – will be provided in the form of a policy implementation plan, which will be updated periodically.

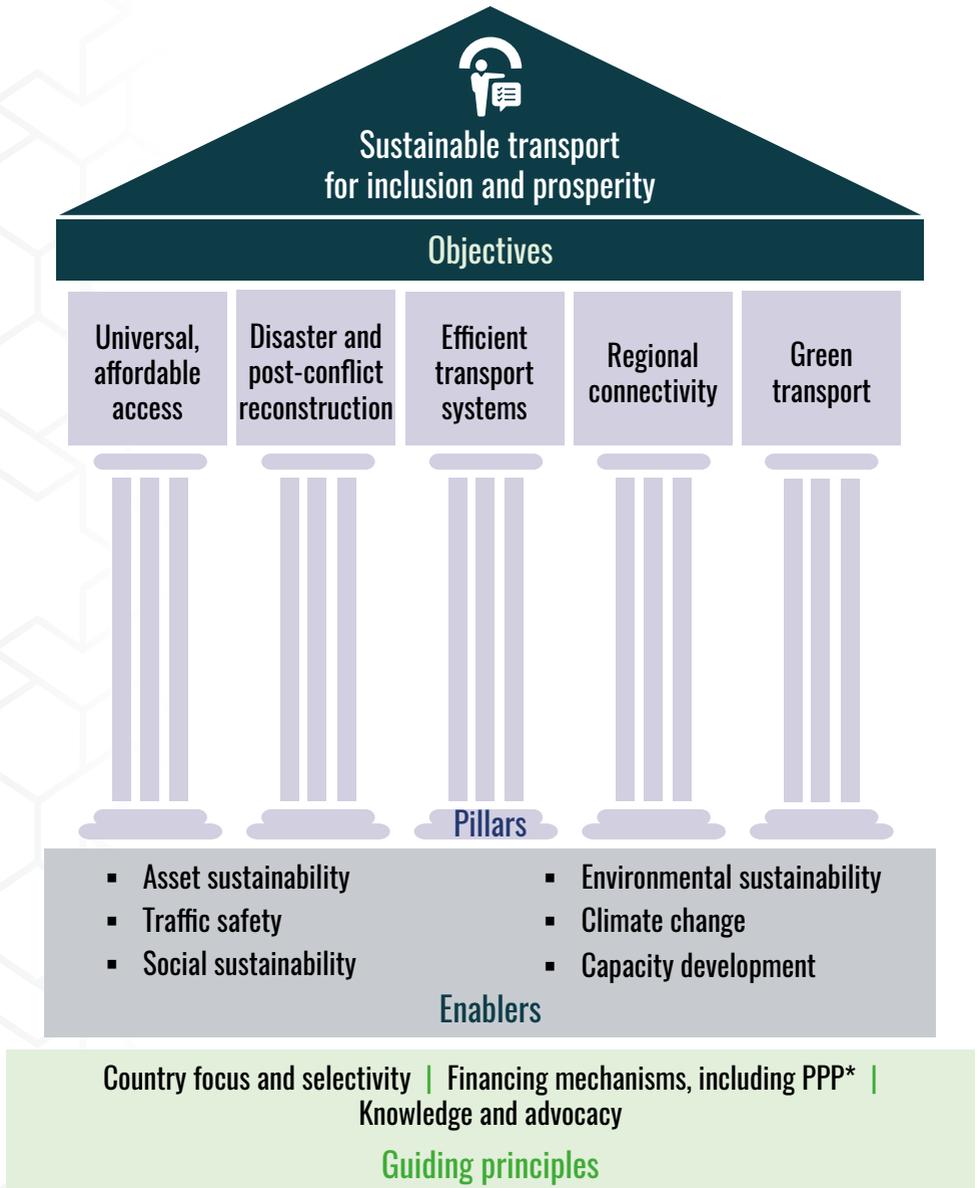
Definitions

14. **Sustainable transport** is defined as transport that is accessible, affordable, efficient, financially sustainable, environmentally friendly and safe.
15. **Inclusion** is one of the strategic objectives of 10YS, in which IsDB prioritizes support for inclusive economic growth and social development, and commits to assisting the neediest populations, notably by providing basic access and connectivity.
16. **Prosperity** is the intended outcome of development efforts that are based on the strategic pillars of 10YS. It entails achieving sustained growth in incomes and means that a good quality of life is shared widely among the population.

Scope

17. This policy applies to the transport-sector operations of IsDB, focusing mainly on sovereign operations. It also identifies the broad priorities for non-sovereign operations in the transport sector, including, subject to IsDB's overall policy direction, private-sector operations and PPPs.
18. This policy is intended to focus IsDB's future transport operations on addressing the priority transport needs of Member Countries and to align operations to support the implementation of the transport-related SDGs and support the IsDB corporate direction set by 10YS and P5P. The policy is guided by a policy framework (Figure 1) of two objectives, five pillars, six enablers and three guiding principles.
19. The five pillars of this policy identify the main types of transport intervention that IsDB will finance – based on a consideration of those needed by Member Countries and of IsDB's comparative advantage. These pillars are aligned with the transport-related SDGs and the operational direction established by 10YS.
20. Support for the policy objective of **inclusion** comprises the following two policy pillars to provide basic access and connectivity in assistance of the neediest populations.
 - (i) IsDB will support **universal, affordable access** in countries and parts of countries that are poor and disadvantaged. This will include improvements in rural access

Figure 1. Framework for the Transport Sector Policy



*PPP = Public-Private Partnership

to increase the share of the population with all-season access to low-volume roads, and improvements in urban access to increase the share of the urban population with access to convenient, safe and affordable public transport.

- (ii) IsDB will introduce support for **disaster and post-conflict reconstruction** in the transport sector. This will help affected Member Countries to reconstruct their essential transport infrastructure – and so support economic recovery and help to restore living standards.
20. Support for **prosperity** will comprise the following three policy pillars to enhance the contribution of transport to competitiveness, trade and economic growth, and to help Member Countries to transition appropriately to clean and low-carbon types of transport.
- (i) Through its support for **efficient transport systems**, IsDB will include investments to improve the efficiency and competitiveness of high-volume transport systems with a view to optimizing the use of resources and enabling economic growth. This will address requirements for both infrastructure and transport services, as well as streamlining and upgrading multimodal logistics chains. IsDB will prepare studies and will finance investments to enhance value chains for principal products (for example, investments in ports, multimodal transport and logistics), and will mobilize additional investment resources from other development partners and the private sector.
 - (ii) IsDB support for **regional connectivity** will finance high-volume regional transport corridors and the streamlining of procedures and logistics arrangements for border crossings, thereby contributing to growth in trade. IsDB will also explore opportunities to finance multi-sector initiatives to transform regional transport corridors into regional economic corridors that – by taking advantage of the improved market access, transport and logistics along the corridors – attract private investment in productive activities and job creation. Based on its comparative advantage as being seen as an honest broker assisting Member Countries in regional cooperation programmes, IsDB will expand its support for the transport-corridor projects included in the investment programmes of existing regional cooperation platforms.
 - (iii) The policy pillar of **green transport** will assist middle- and high-income Member Countries that wish to reshape their transport systems to reduce adverse environmental impacts such as urban congestion, air pollution, noise pollution and CO₂ emissions. IsDB will finance investments to help Member Countries to transition to clean and low-carbon types of transport with a view to building economic prosperity that is environmentally sustainable. This form of financing will include investments in urban public transport,

green freight (improving freight deliveries and collections so that they are organized to reduce journey distances and fuel consumption), and the expanded use of clean vehicles and clean fuels.

21. The pillars of this policy are supported by the following six enablers to be considered when preparing all transport operations. These enablers will address issues that are important for both project sustainability and achieving the transport-related SDGs.
 - (i) **Asset sustainability.** To address the problem of inadequate maintenance, all road projects will consider the adequacy of Member Country asset-management systems and, where necessary, IsDB will include outputs or stand-alone projects to strengthen such systems and will finance investments to address maintenance.
 - (ii) **Traffic safety.** When preparing projects, IsDB will consider the adequacy of the national traffic safety policy and programme – taking into account support from other development partners – and, if needed, will include outputs to strengthen the policy and programme.
 - (iii) **Social sustainability.** During project preparation, IsDB will examine options for serving the needs of different groups of potential user, taking into account youth and gender dimensions and the needs of poor, disadvantaged and vulnerable groups. It will also consider including link roads and small-scale infrastructure to extend the benefits of highway investments into rural hinterlands. On the request of Member Countries, IsDB will also provide support for the preparation and implementation of social safeguards, such as against involuntary resettlement, human trafficking and HIV/AIDS.
 - (iv) **Environmental sustainability.** IsDB will apply environmentally friendly approaches to the design of transport projects and provide, on request, support for the preparation and implementation of environmental safeguards.
 - (v) **Climate change.** Regarding climate adaptation, IsDB will begin screening all projects for climate risks early in project preparation, and where significant risks are identified, will incorporate climate-resilient design. Regarding climate mitigation, IsDB will encourage Member Countries, especially those with higher financial and technical capacities, to seek support for investments in green economic transformation and low-carbon transport, and will aim to mobilize additional resources to finance the additional costs involved. When considering Member Countries' financing requests and undertaking project preparation, IsDB will also explore alternatives and options for lowering the carbon footprint. Taking into account approaches used by other MDBs,

IsDB will begin: (i) calculating the carbon footprint of new transport projects and (ii) tracking the portion of transport financing that can be counted as climate finance (for both mitigation and adaptation).

- (vi) **Capacity development.** At the project level, IsDB will increase its support to strengthen the project-implementation capacities of Member Countries. At the sector level, IsDB will consider providing capacity-development support to address sector-wide issues and needs. This will include promoting reverse linkages through South–South cooperation between Member Countries of differing capacities.

Guiding principles

23. The guiding principles of this policy include a country-focused selectivity over the types of transport support that IsDB will offer to Member Countries at different stages of development, and the use of cutting-edge knowledge to help IsDB offer best-practice transport solutions and financing mechanisms, including PPPs. The three guiding principles are explained in more detail below.

- (i) **Country focus and selectivity.** IsDB has decentralized operational staff positions and the decision-making authority to subregional hubs in Member Countries. Greater country presence will raise staff knowledge of the country's context and needs, make it possible to have enhanced transport-sector dialogues with Member Country governments and enable the Bank to provide in-country support quickly to executing agencies and project-management units to address implementation problems.

10YS and P5P call for greater selectivity in determining future financing operations, taking into account country needs and the sustainability criteria adopted by MDBs and other development partners. In the transport sector, this selectivity will ensure the relevance of future operations in addressing priority development challenges, taking into account changing Member Country circumstances and needs. Overall, this process will help IsDB to build the capabilities of its transport practice around the strategic pillars of this Transport Sector Policy.

Country-focused selectivity will be differentiated according to groupings of Member Countries with similarities in terms of their situation and needs in the transport sector.

The policy of selectivity recognizes that country circumstances will change, and allows for country groupings and priority types of operation to be amended if needed.

- (ii) **Financing mechanisms, including PPPs.** IsDB will expand its support for private-sector transport projects and PPPs, taking into account country circumstances and the need for the prudent management of risks. IsDB will explore opportunities for financing PPP investments in transport in Member Countries with conducive policies and appropriate legal frameworks, institutional capacity and governance. These will focus on transport sub-sectors that are well suited to PPP arrangements, notably high-traffic tolled expressways, ports and airports. IsDB will also help Member Countries to strengthen their policy frameworks and institutional capacities for transport PPPs, with a view to improving the basis for future PPP investments.

In addition to working with its traditional co-financing partners among MDBs and members of the Arab Coordination Group, IsDB will explore options to attract additional Islamic co-financing for transport projects, including from private-sector Islamic commercial banks and pension funds.

IsDB will also examine options to diversify the Islamic financing instruments it uses for transport operations, with a view to lowering transaction costs and preparation time, and streamlining implementation. It will explore Sharia-compliant approaches to the multi-tranche financing of large programmes that comprise a series of investments of a similar type.

- (iii) **Knowledge and advocacy.** IsDB recognizes knowledge as a fundamental underpinning of its transport operations. Such recognition will strengthen its internal capacity to harness sector knowledge and best practice, incorporating these into the scope of approved transport projects to enhance the quality and value added in the Bank's support to Member Countries.

To support the role of sector knowledge, IsDB will:

- selectively establish additional knowledge partnerships with centres of excellence in priority fields of transport;
- conduct workshops and conferences – including South–South events – to discuss and disseminate the latest knowledge on key topics strategically relevant to future transport operations; and
- develop learning activities, such as short training workshops, to augment staff knowledge on technical subjects relevant to future transport operations (such as road-safety auditing and road-asset management).

IsDB will assist Member Countries in selectively introducing new and innovative types of transport operation to address changing needs and improve transport

sustainability. These types may include, for example, interventions to reduce vehicle-related air pollution in cities; the introduction of energy-efficient and clean-vehicle technologies such as electric vehicles, hydrogen vehicles and energy-efficient locomotives; and the development of intelligent transport systems.

IsDB will continue to participate in the MDB working groups on sustainable transport, the SuM4All initiative and other relevant global transport initiatives, through which it plays a tangible role in assisting the implementation of the global transport development agenda in Member Countries.

Roles and responsibilities

24. The main roles and responsibilities of the parties involved with this policy are defined by the six enablers needed for the successful implementation of this policy. To strengthen transport-sector dialogue and to support country-focused selectivity in each Member Country with IsDB transport operations, IsDB will prepare a Member Country transport-sector note to summarize the sector situation, needs and priorities for IsDB support. The preparation and updating of these notes will be aligned with annual country programming and the preparation of Member Country partnership strategies.
25. This policy requires IsDB to constantly monitor its own performance in support of the transport sector. The policy needs to gauge how well the investments in the sector are contributing to progress in its Member Countries. IsDB will facilitate the formal evaluation of the performance of its investments under this transport-sector policy.

Related documents

26. This policy seeks to align IsDB transport operations with the related global priorities for transport set by the SDGs, and with 10YS and P5P as well as with the changing needs of Member Countries.



