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THE STATE OF INVESTMENT IN OIC MEMBER COUNTRIES AND THE ROLE OF EXPORT CREDIT AGENCIES AND INVESTMENT PROMOTION AGENCIES

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Foreword

OIC Members Countries remain globally an attractive hub for foreign and domestic investors in light of various economic, political and social reforms that are sweeping through the region, resulting in a much improved business environment conducive for trade as well as for foreign and domestic direct investments.

Apart from that, there is widespread development of critical social and physical infrastructure, and there is an increasing pool of well-educated, healthy enterprising workers in most countries across the OIC region.

These examples serve to demonstrate that we should keep these inter-sectoral linkages and the diversity of our economy in perspective, as we will looking to match the aspirations of our OIC MCs so to provide high quality life for our citizens.

The potential growth of OIC Members Countries remains enormous; it is a region on the rise, I'm confident that this joint publication between ICIEC (Islamic Corporation for Insurance of Investment and Export Credit), SESRIC (Statistical Economic and Social Research and Training Centre for Islamic Countries), and WAIPA (World Association of Investment Promotion Agencies) will not only shed light on the attractiveness of our Members Countries in terms of Foreign Direct Investment (FDI), but also show how to pool the common effort toward mobilizing additional FDI so to face in a more systematic manner the bottlenecks that hinder the region from having a sustained, viable and resilient growth.

As part of IDB Group, ICIEC will remain committed to help unleash the huge potential of our MCs by boosting the intra-OIC Investment flows as well as supporting the economic and social reforms of our MCs.

On behalf of ICIEC, I wish to extend our thanks to SESRIC and WAIPA for having embarked with us on this noble initiative. We encourage all readers to make full use of this joint publication.

Oussama Kaissi
CEO, ICIEC

Executive Summary

1. Domestic and foreign direct investments remain the main precondition for the creation of wealth, new employment opportunities and improvement of living standards. Increase of sustained and resilient investment growth will also contribute positively to the achievement of the Sustainable Development Goals (SDGs) by 2030.

2. The awareness of the critical role of investment for attaining high levels of economic growth and enhancing the integration agenda of the OIC Members Countries goes along with enhancing the existing legal framework in order to create a sound business environment; characterized by predictable and stable macroeconomic conditions, strong legal systems, low levels of corruption, effective corporate governance mechanisms and sound institutional frameworks.

3. Without effective policies on investment protection and promotion, OIC MCs will continue to be marginalized in terms of their share of global investment. It is, therefore, vital that OIC Governments, IPAs and other relevant stakeholders adopt a common development vision that facilitate and stimulate the investment flows, technology transfer and innovation into the OIC MCs.

4. Enhancing the attractiveness of the MCs in terms of both domestic and foreign direct investment flows, must therefore be a central part of every Government's policies and strategies.

5. To ensure proper macroeconomic fundamentals and to facilitate new investment policies that encourage FDI, OIC are encouraged to reduce the cost of doing business and adopt a complementarity regional diversification strategy based on the regional value chain.

6. To support our MCs to access global markets, the collective partnership between IDB Group, other MDBs, private and public financiers, and relevant stakeholders, will be looking at promoting investment by both public and private capital.

7. At the global level, "FDI flows have jumped to an estimated US$1.7 trillion, representing an increase of 36% in 2015, their highest level since the global economic and financial crisis of 2008-2009 ". According to the same report, 90% of the inflows were directed to developed countries (US and EU are getting the highest share). This impressive growth was mainly driven by cross-border merger and acquisitions (M&As) and only limited greenfield investment projects benefited from this rebound of FDI.

8. FDI trend into the OIC region has recorded subsequent decline in terms of value from US$140 billion to US$ in 2010 to US$ 120 billion in 2015. This net decrease is mostly due the reduction in oil revenues. However, it is notable to emphasize that oil-producers have been proactive in addressing the negative impact of the oil crisis by adopting innovative measures that will diversify the revenues sources of their economies.

9. OIC member's countries therefore are advised to continue to speed up the reforms by setting-up schemes that promote new investment policy measures to be geared towards investment liberalization and promotion.

10. Most OIC countries have in place Investment Promotion Agencies, which market an individual country as a destination for investment and facilitates new investment. As markets integrate, it is acknowledged that there is a need for greater cooperation under the umbrella of WAIPA where IPAs (Investment Promotion Agencies) role's in the OIC region needs to be strengthened as a vehicle of promoting the FDI's destination into their respective countries.

11. In line with ICIEC's 10-year strategy, the IDB 10 Year Strategy and the IDB President Five Year Plan, the focus will be on taking practical steps toward enhancing the synergy between ICIEC and various entities of the Group so to boost the FDI inflows into OIC Member Countries.

12. With its unique mandate as a multilateral Sharia compliant export and investment credit insurer, ICIEC will continue to boost intra-OIC investment and trade flows by channeling profitable, inclusive and sustainable projects to the region. Thus, ICIEC will take advantage to strengthen its longstanding strategic partnership with ECAs so to meet the investor's requirements in terms of a balanced profitable and risk mitigation project portfolio.

13. This publication is the first collective publication between ICIEC, the Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC), and he World Association of Investment Promotion Agencies (WAIPA).It will provide a comprehensive overview on the state of investment in OIC Countries in a comparative perspective and identify existing challenges that negatively affect the overall investment climate, deteriorate perceptions of investors, and reduce the level of investment. Finally, it will address the right stakeholders of ECAs industry and IPAs and provide recommendations to bring the needed changes at a legal, institutional and policy level.

14. ICIEC would like to extend its sincere thanks to SESRIC and WAIPA, without whom this publication would not have been possible.

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CHAPTER 1

THE STATE OF INVESTMENT IN OIC MEMBER COUNTRIES: CHALLENGES AND PROSPECTS

By Dr. Cem Tintin, SESRIC

This Chapter provides a comprehensive comparative overview of the state of investment in OIC Countries to identify challenges that negatively affect the overall investment climate, deteriorate perceptions of investors, and thus reduce the level of investment. In this regard, the Chapter first focuses on the importance of investment for economic growth and development and elaborates on the linkages between investment and growth in the case of OIC Countries.

Section 2 provides an assessment about the state of investment climate in OIC Countries by looking at the Ease of Doing Business Index of the World Bank and the Country Risk Classification (CRC) Indicator of the OECD. The analysis of such indicators reveals the state of overall investment environment in OIC Countries in comparison with non-OIC developing countries and developed countries.

Section 3 investigates the major trends in private investment, public investment and Foreign Direct Investment (FDI) by using selected indicators such as the volume of total private investment in OIC Countries and its share in the world. Such a detailed analysis, taking into account the time dimension, sheds light on the state of different types of investment and also helps to display the relative position of OIC Countries as a group in the global economy.

Finally, based on the findings of the previous sections, Section 4 proposes some policy implications on how to overcome challenges that affect the overall investment climate in OIC Countries and discusses specific reforms and actions that policy-makers need to focus on to foster private, public and foreign direct investment.

1. Role of Investment in Economic Growth and Development

The development trajectory to high income levels is often multifaceted and requires overcoming many obstacles at different stages of development. The problems faced by developing economies are generally of similar characteristics. These countries need to tackle various issues including, among others, improving the productive base of the economy by building up the physical and human capital stocks, ensuring full employment, enhancing productivity and competitiveness, achieving economic diversification, and dealing with fiscal and monetary policy challenges. Despite possessing rich natural and human resources, many developing countries are struggling to achieve their development goals and fulfil their aspirations for prosperity. This has led many developing countries to fundamentally re-examine their development policies and, in the process, discover the importance of investment (private, public, foreign) as a crucial driving force behind economic growth, development, modernization, income growth, poverty reduction and employment creation. Against this backdrop, this section reviews the literature on the importance of investment for economic growth and development.

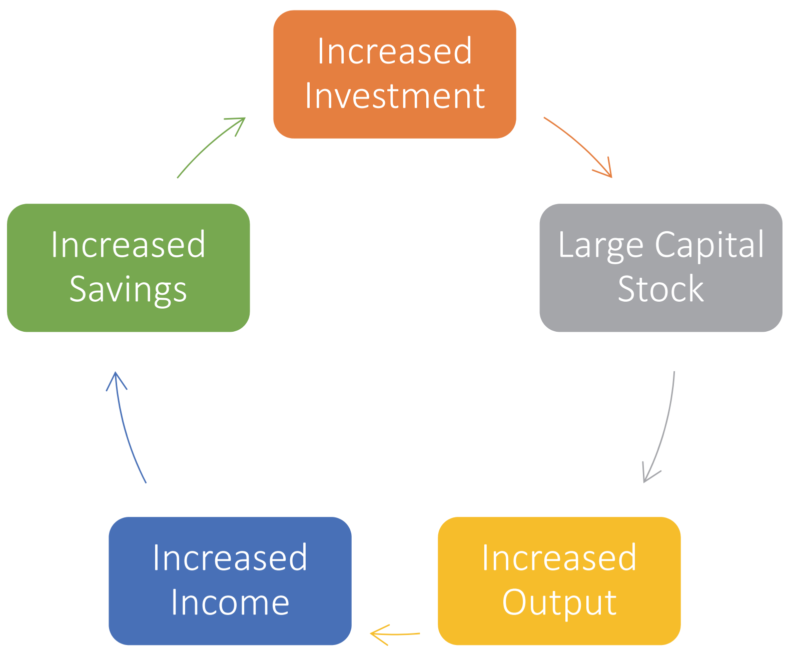
The role of investment in fuelling economic growth and development is proven empirically and theoretically (Caballero, 1999). Additionally, evidence on the predominant role of investment for long-run growth has been supported by cross country and country-level analysis indicating that there is a positive association between investment and growth, as has been shown in the case of many African countries (UNCTAD, 2014).

A high investment rate is a key differentiating feature of countries that enjoy sustained high growth rates. In countries where growth is high, total domestic and foreign investment often exceeds 25% of gross domestic product (GDP). On the opposite side, countries with low investment rates often struggle with low growth rates, as for example the countries located in Sub-Saharan Africa, where the average gross capital formation has hovered at around 18% of GDP for the last two decades (OECD, 2006). Where investment is low, the productive capacity of the economy fails to increase. This results in lower rates of growth and job creation and fewer opportunities for the poor to break away from the poverty cycle.

The way in which investment leads to economic growth is best explained by the Harrod-Domar Growth Model illustrated in Figure 1. The model stresses the importance of savings and investment as key determinants of growth. Basically, the model suggests that investment can increase the capital stock of an economy and generate economic growth through the increase in production of goods and services. Extending the logic presented by the Harrod-Domar growth model a link between investment and development can be established as follows: increased investment leads to increased income which helps generate revenue for governments to achieve development through expanding access to health, education and infrastructure services, which in turn, increases productivity and lead to economic growth.

Countries at every stage of development in general, but particularly the developing countries, need investment in many sectors to promote growth and productivity. Investment in infrastructure is particularly important for the development of least developed countries (LCDs). LCDs generally suffer from insufficient, inappropriate and poorly maintained infrastructure. Investing in infrastructure makes it possible for producers to use modern technology, and, in turn, by introducing modern technology to producers, infrastructure expansion directly stimulates productive activities.

Figure 1: *Harrod-Domar Growth Model*

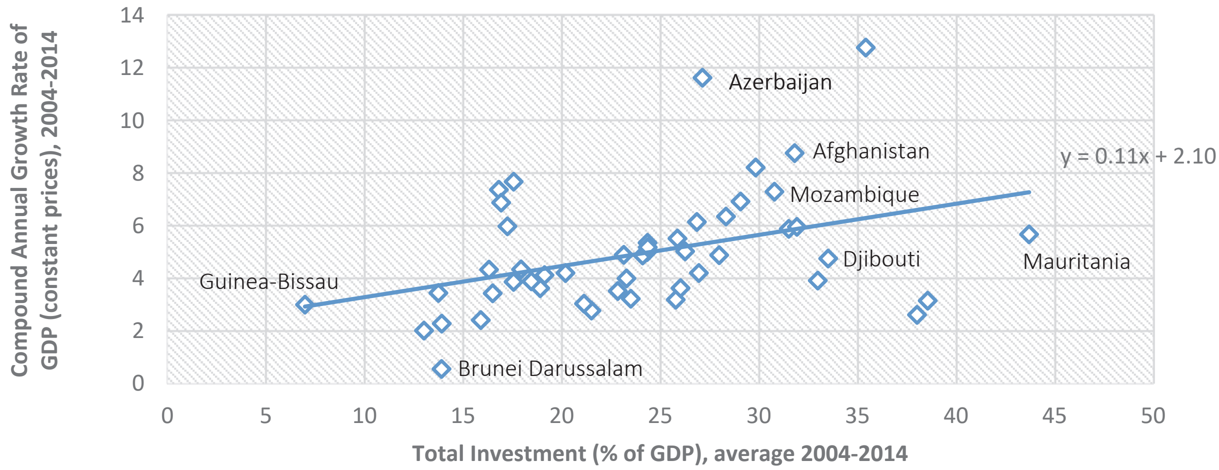


Source: Author's construction

Furthermore, investment in education and training produces skilled and more productive labour. Investment in agriculture is vital for reducing poverty. Investment in agricultural research and in extension services improves and facilitates the dissemination scientific research results which then lead to an increase in production (Anwer and Sampath, 1999.) Also, investment generates trade related benefits for developing countries by its long-term contribution to the integration of these countries to the world economy through the process of higher imports as well as exports.

Figure 2 shows the relationship between total investment and economic growth in the case of the OIC Countries. There is a positive correlation between total investment (as % of GDP) and economic growth; that is, as the total investment increases in an economy so does economic growth. More specifically, a one percentage point increase in total share of investment in GDP is associated with a 0.11 percentage point increase in economic growth. In other words, data on OIC Countries also confirmed the existence of a meaningful positive association between investment and economic growth. No doubt, higher economic growth rates observed in OIC Countries translate into better living conditions over time and help people to enjoy improved standards of living. In other words, economic growth tends to translate into development where people will be better off as a result of increased investment.

Figure 2: *Correlation between Investment and Growth in OIC Countries*



Source: Author's calculations based on IMF WEO Database

2. Investment Climate in OIC Member Countries

The World Bank's 2005 World Development Report (World Bank, 2004) highlighted that it is not just the quantity of investment that matters for promoting growth and sustaining development. What ultimately counts are the productivity gains that result from product and process innovation brought about through investments, as well as the extent to which jobs and capital flow from declining industries to expanding and emerging economic activities. The investment climate consequently needs to provide opportunities and incentives for firms and entrepreneurs to develop, adapt and adopt better ways of doing Business as well as to encourage investments (World Bank, 2014). In other words, existing investment climate affects both the quality and quantity of investments. An investment climate conducive for new investments not only triggers economic growth but also helps transition of economic sectors and actors to a higher level of development.

Against this backdrop, in this section, two internationally recognized indicators are analysed that can be used to assess the investment climate in OIC Countries namely the Ease of Doing Business Index of the World Bank and the Country Risk Classification Indicator of the OECD. Both indicators provide unique and comparable information that can be used in cross-country comparisons over a given period. Both indicators are being utilized by domestic and foreign investors frequently in various phases of their investment decisions such as assessment, feasibility and financing.

2.1. The Ease of Doing Business Index

The ease of doing business index is meant to measure regulations directly affecting businesses and does not directly measure general conditions such as a nation's proximity to large markets, quality of infrastructure, inflation, or crime. A nation's ranking on the index is based on the average of 10 sub-indices:

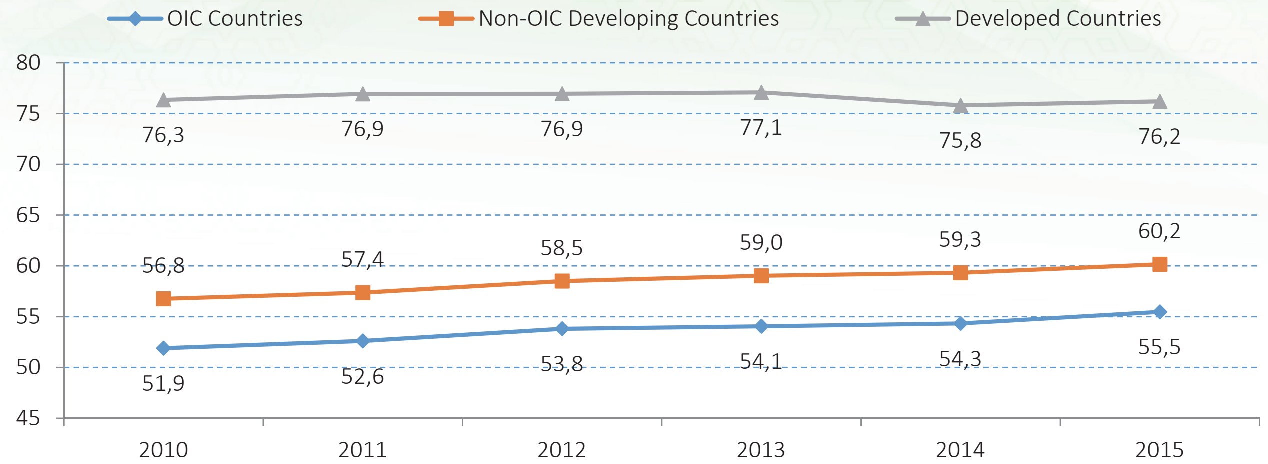
1. Starting a business – Procedures, time, cost and minimum capital to open a new business;
2. Dealing with construction permits – Procedures, time and cost to build a warehouse;
3. Getting electricity – procedures, time and cost required for a business to obtain a permanent electricity connection for a newly constructed warehouse;
4. Registering property – Procedures, time and cost to register commercial real estate;
5. Getting credit – Strength of legal rights index, depth of credit information index;
6. Protecting investors – Indices on the extent of disclosure, extent of director liability and ease of shareholder suits;
7. Paying taxes – Number of taxes paid, hours per year spent preparing tax returns and total tax payable as share of gross profit;
8. Trading across borders – Number of documents, cost and time necessary to export and import;
9. Enforcing contracts – Procedures, time and cost to enforce a debt contract; and
10. Resolving insolvency – The time, cost and recovery rate (%) under bankruptcy proceeding.

Although the Doing Business indicators measure business regulations and their enforcement from the perspective of a small to medium-size domestic firms, the overall index score gives a good idea about the quality of investment climate both for domestic and foreign investors as they need to complete similar formalities in many steps of their operations. In presenting the results of the doing business indicators, the World Bank utilizes the "Distance to Frontier" concept. The distance to frontier shows the distance of each economy to the "frontier," which represents the best performance observed on each of the indicators across all economies in the Doing Business dataset since 2005. An economy's distance to frontier is reflected on a scale from 0 to 100, where '0' represents the lowest performance and '100' represents the frontier.

Doing Business – OIC Countries lagging but steadily improving

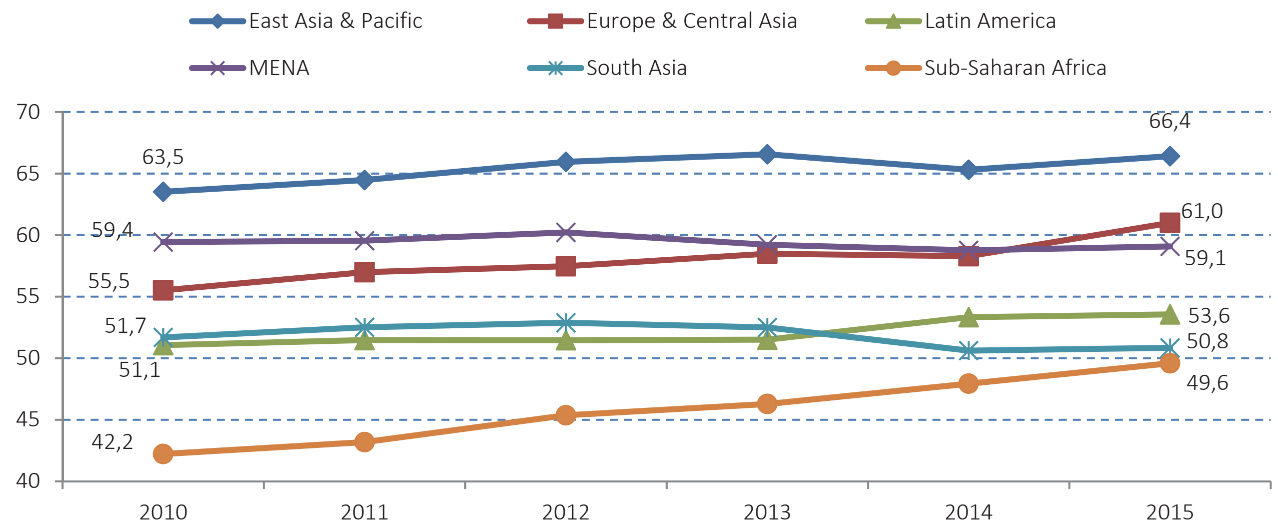
Figure 3 shows the average value of ease of doing business indicator for OIC Countries in comparison to other country groups. The business environment in OIC Countries is rather poor compared with both non-OIC developing countries and developed countries. In 2015, the average score for OIC Countries was 55.5, which is behind the score of 60.2 recorded by non-OIC developing countries and 76.2 recorded by developed countries. However, the business environment in OIC Countries has shown a positive trend over time and improved steadily. OIC Countries have been able to raise their average score from 51.9 in 2010 to 55.5 in 2015. Nevertheless, in the same period, a similar improvement was also observed in non-OIC developing countries.

Figure 3: *Ease of Doing Business Index*



Source: World Bank Doing Business Dataset

Figure 4: *Doing Business Indicator in OIC Regions*

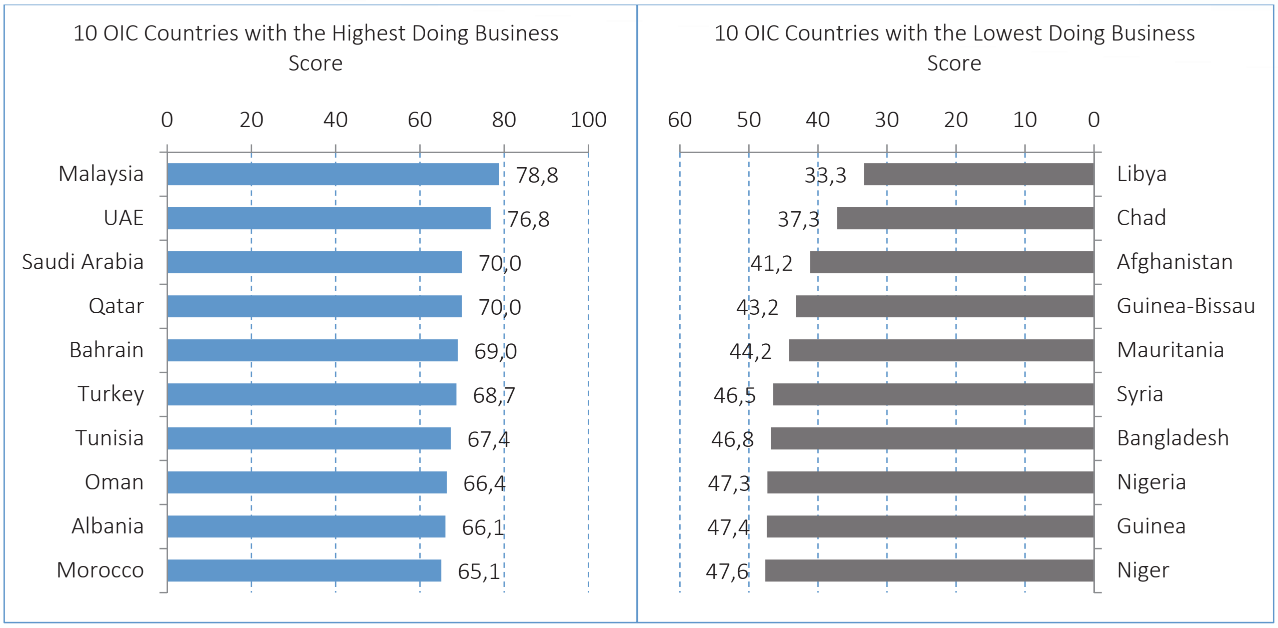


Source: World Bank Doing Business Dataset

In terms of sub-regional performance, the best business environments, as measured by the ease of doing business index, are observed in OIC Countries in East Asia & Pacific, which recorded an average score of 66.4 in 2015, while the least favourable business environment was observed in OIC Countries in Sub-Saharan Africa which recorded a low score of 49.6 (Figure 4). Nonetheless, OIC Countries in Sub-Saharan Africa have been improving their business environment over the past few years. In fact, the largest improvement on the index has been achieved by OIC Countries in Sub-Saharan Africa by increasing their average score from 42.2 in 2010 to 49.6 in 2015. OIC Countries in Europe and Central Asia and OIC Countries in East Asia & Pacific have also improved their average performance, albeit at a slower rate than that of OIC

Countries in Sub-Saharan Africa. Contrary to the general trend observed in OIC Countries as a group, OIC Countries in the Middle East & North Africa and OIC Countries in South Asia have witnessed deterioration in their business environments. The average score for OIC Countries in the Middle East & North Africa receded from 59.4 in 2010 to 59.1 in 2015, while for OIC Countries in East Asia it went down from 51.7 to 50.8 during the same period.

Figure 5: *OIC Countries with the Highest and Lowest Doing Business Score in 2015*



Source: World Bank Doing Business Dataset

The OIC country with the highest score on the ease of doing business index in 2015 is Malaysia with a score of 78.8. Malaysia was closely followed by the United Arab Emirates (UAE) with a score of 76.8 and Saudi Arabia with a score of 70.0 (Figure 5). Figure 5 indicates that the Gulf Cooperation Council (GCC) countries are performing well with all member countries (except for Kuwait) making it to the OIC top 10 list. On the other hand, the OIC country with the lowest score on the index is Libya, which is given a low score of 33.3 in 2015. Libya is followed by Chad with a score of 37.3 and Afghanistan with a score 41.2. It is observed that most of the countries (six out of 10) in the bottom 10 list of OIC Countries are from the Sub-Saharan Africa region.

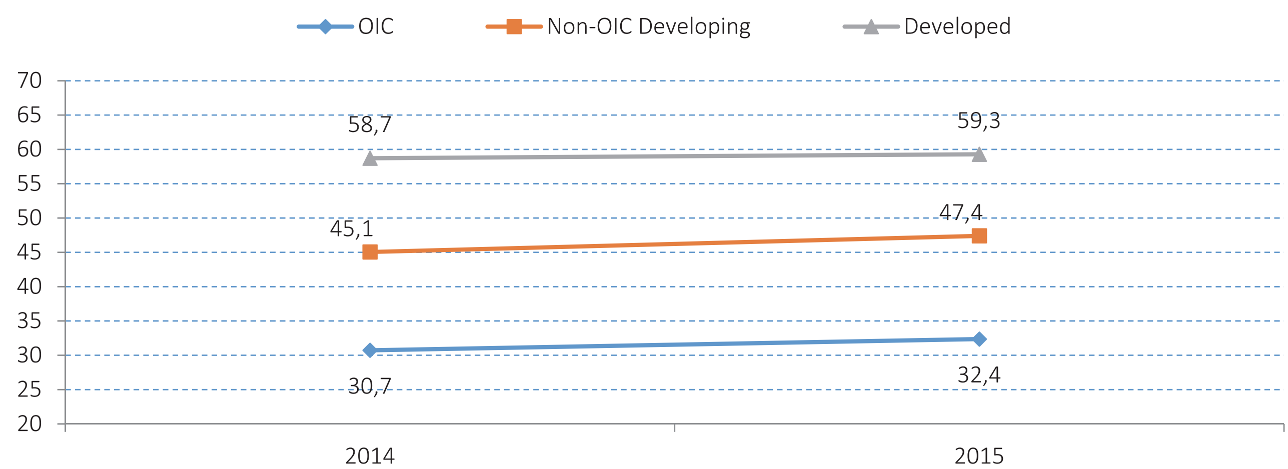
Over the period 2010-2015, some OIC Countries have made good strides in improving their business environment. Sierra Leone has made the largest improvement with a 14.7-point jump from a score of 39.9 in 2010 to a score of 54.6 in 2015. This can be attributed to the reforms undertaken by Sierra Leone that have improved its score in the sub-indicators of getting electricity, registering property, paying taxes and enforcing contracts (World Bank, 2014). Sierra Leone is followed by Uzbekistan, which enjoyed a 13.4-point improvement from a score of 40.8 in 2010 to 54.3 in 2015. In addition to making significant improvements in the areas of starting a business, registering property, paying taxes, and resolving insolvency, Uzbekistan was also able to improve in the area of protecting investors by introducing a requirement for public joint stock companies to disclosure information about related party transactions in their annual report, setting higher standards for disclosure, and establishing the right of shareholders to receive all documents related to such transaction (World Bank, 2014).

Getting Credit – OIC Countries ranking low

The issue of financial inclusion is of great importance in the context of developing countries in general and OIC Countries specifically. As one of the sub-indicators of ease of doing business index, the Getting Credit indicator measures the legal rights of borrowers and lenders with respect to secured transactions through one set of indicators and the sharing of credit information through another. The first set of indicators measures whether certain features that facilitate lending exist within the applicable collateral and bankruptcy laws. The second set measures the coverage, scope and accessibility of credit information available through credit reporting service providers such as credit bureaus or credit registries.

On average, OIC Countries perform poorly on the Getting Credit indicator (Figure 6). The average score for OIC Countries was 32.4 in 2015, which is significantly lower than the average score of 47.4 for non-OIC developing countries and 59.3 for developed countries for the same year.

Figure 6: *Getting Credit Indicator*

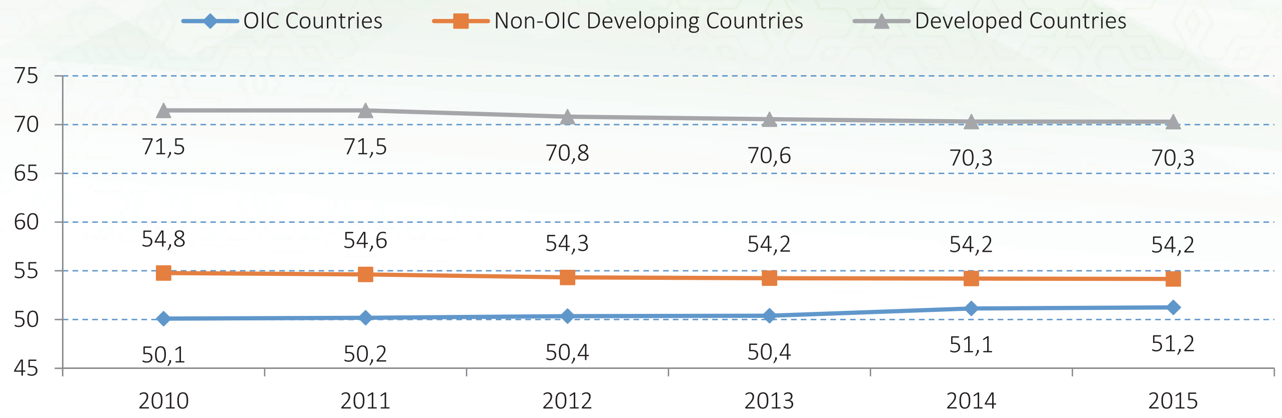


Source: World Bank Doing Business Dataset

Enforcing Contracts – OIC Countries need to do better

The efficiency of the judicial system in resolving a commercial dispute is also highly critical in improving the business and investment climate. On this front, OIC Countries, on average, perform lower than non-OIC developing countries and developed countries as shown in the scores of enforcing contract index (Figure 7). However, the relative performance of OIC Countries compared to the reference groups has improved over the period 2010-2015; not only because OIC Countries have experienced a slight improvement from a score of 50.1 to 51.2, but also because both developed countries and non-OIC developing countries have witnessed a slight deterioration on this index.

Figure 7: *Enforcing Contracts Indicator*



Source: World Bank Doing Business Dataset

2.2. The Country Risk Classification (CRC) Indicator

The country risk classification (CRC) indicator was first developed in 1997 by the participants to the Arrangement on Officially Supported Export Credits with a view to setting minimum premium rates for transactions supported by governments according to the Arrangement. The list of country risk classifications is also made public so that any country that is not an OECD Member or a Participant can make use of the indicator. Over the last two decades, it has become an important indicator used by investors, researchers, multilateral institutions as well as public officials to track and monitor the prevailing risks in countries across the globe (OECD, 2017).

The country risk classifications are meant to reflect country risk that encompasses transfer and convertibility risk (i.e. the risk a government imposes capital or exchange controls that prevent an entity from converting local currency into foreign currency and/or transferring funds to creditors located outside the country) and cases of force majeure (e.g. war, expropriation, revolution, civil disturbance, floods, earthquakes). The indicator takes values between 0 and 7 through the application of a two-step methodology comprising both quantitative and qualitative assessment. A higher value represents the existence of a higher risk exposure for investors.

Although the prevailing country risk has many implications for domestic investors, it influences decisions of foreign investors to a higher extent. In particular, foreign investors tend to make their direct investments in countries with lower country risk classification scores. This can also be observed in the group of OIC Countries. According to Figure 8, OIC Countries with a high country risk classification score attracted on average limited amounts of Foreign Direct Investment (FDI) inflows. In the 2015-2016 period, a 1 unit increase in the country risk classification score led on average to a USD 765 million decrease in FDI inflows in OIC Countries.

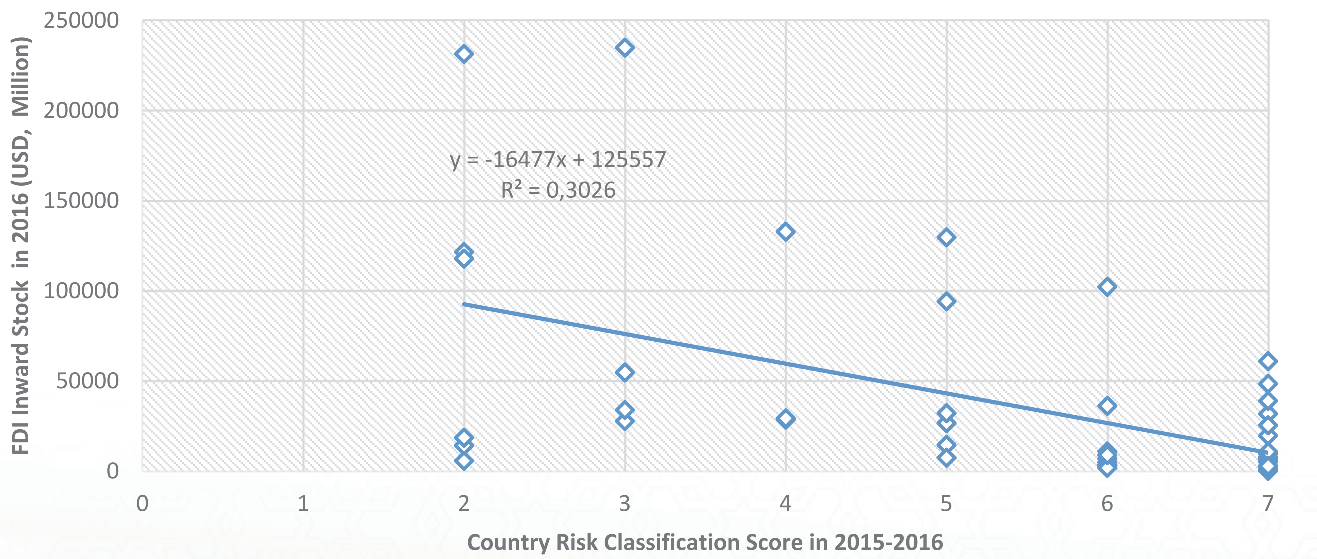
Figure 8: *Country Risk Classification versus Foreign Direct Investment Inflows*

Source: Data are fetched from UNCTAD and OECD.

Note: Sample size 55 OIC Countries. Author's own calculation.

A similar but stronger relationship was also observed for FDI inward stocks. In the period 2015-2016, a 1 unit decrease in the country risk classification score resulted on average in a USD 16.5 billion increase in FDI inward stocks which stemmed from re-investments in existing FDI projects and attraction of new foreign investors from abroad (Figure 9).

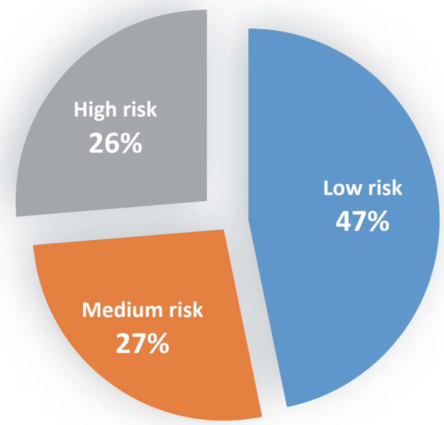
Figure 9: *Country Risk Classification versus Foreign Direct Investment Inward Stock*



Source: Data are fetched from UNCTAD and OECD. Note: Sample size 56 OIC Countries. Author's own calculation.

The importance of the country risk classification score and its impact on FDI can also be seen in Figure 10. Almost half of (47%) of all FDI inward stocks in 2016 were hosted by only 8 OIC Countries with a low risk score (2 or 3), while 39 OIC Countries with high risk scores could together only accommodate 26% of all FDI inward stocks. Major economies (in terms of GDP size) in the OIC group such as Indonesia and Saudi Arabia were listed in the low risk category in 2016 where these two countries together hosted USD 466.5 billion FDI inward stocks. On the other hand, some other major economies such as Turkey were placed in the medium risk category where the amount of its total FDI inward stocks exceeded USD 132 billion in 2016.

Figure 10: *Distribution of FDI Inward Stocks in the OIC Countries based on Country Risk Classification, 2016*



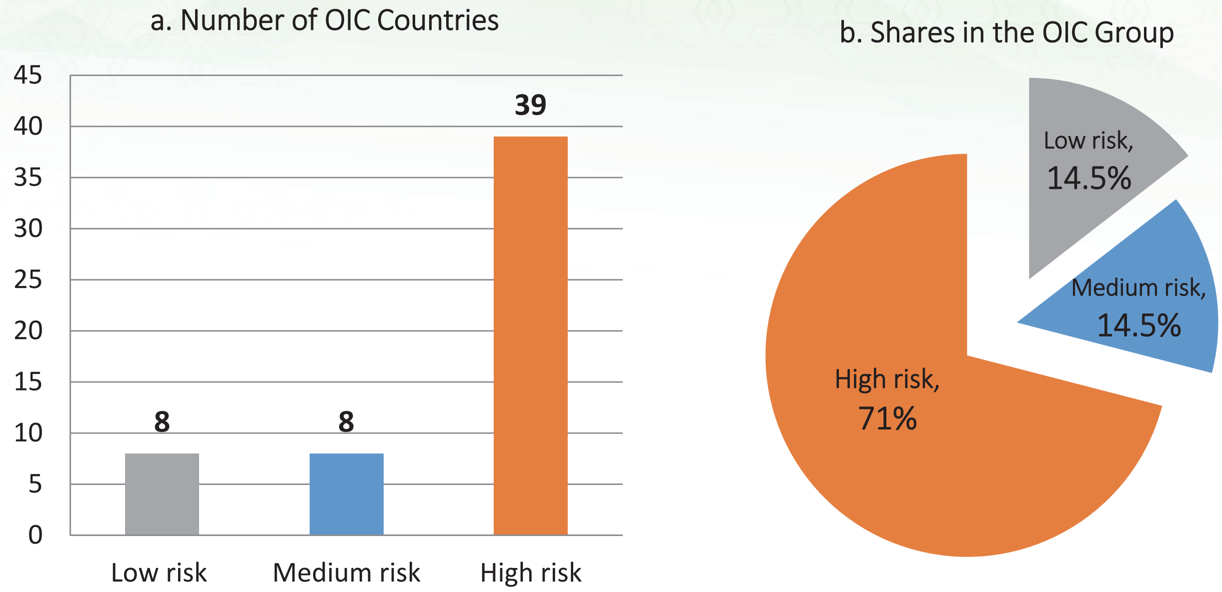
Source: OECD Country Risk Classification dataset and UNCTAD World Investment Report.

Note: Low risk countries obtain a score of 2 or 3; Medium risk countries obtain a score of 4 or 5; High risk countries obtain a score of 6 or 7.

A challenging environment for investors in OIC Countries

The large majority of OIC Countries (39 countries) was classified as high risk (category 6 or 7) according to the 23 June 2017 edition of OECD Country Risk Classification dataset (Figure 11a). 8 OIC Countries were classified as low risk (category 2 or 3), and further 8 OIC Countries got scores of 4 or 5, and therefore ranked as medium risk. In other words, 71% of OIC Countries do not provide a conducive environment for foreign investors and therefore are classified as countries with high risk (Figure 11b). The lack of an enabling environment especially for foreign investors implies the existence of serious challenges and threats for investors that deteriorate the investment climate in these OIC Countries.

Figure 11: *Risk Classification of the OIC Countries, 2017*



Source: OECD Country Risk Classification dataset, 23 June 2017 edition.

Note: Low risk countries obtain a score of 2 or 3; Medium risk countries obtain a score of 4 or 5; High risk countries obtain a score of 6 or 7.

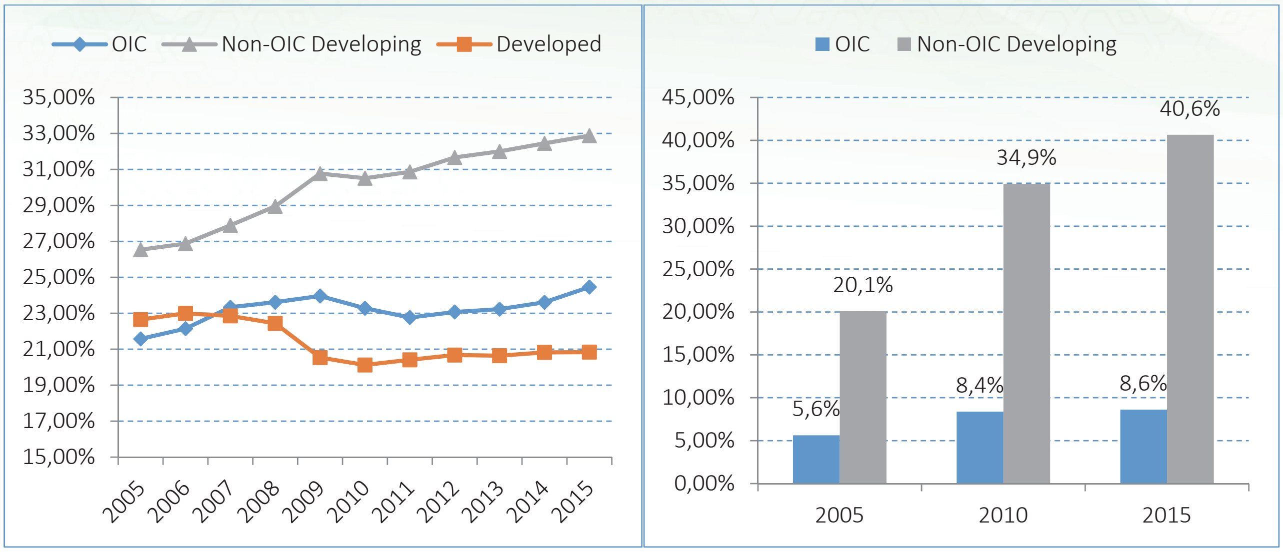
3. Investment Performance in OIC Member Countries

This section looks at the major trends in private, public and Foreign Direct Investment in OIC Countries by reviewing selected indicators. The performance of OIC Countries is compared with other country groups, whenever relevant, to provide a comparative analysis.

Figure 12 demonstrates that the weighted average of total investment as percentage of GDP in OIC Countries is significantly lower than that observed in non-OIC developing countries. In OIC Countries total investment (as % of GDP) stands at 24.4% while in non-OIC developing countries it is recorded at 32.9% in 2015. The prevailing gap between these two country groups continued to stay wide as the average of non-OIC developing countries was largely influenced by major and rapidly growing economies such as China, India and Brazil. On the other hand, investment to GDP ratios in OIC Countries as well as non-OIC developing countries on average are found to be above the average rate observed in developed countries (20.8%). This is not surprising as developing countries on average have to invest more and grow faster to narrow down the existing income gap with developed countries (i.e. catch-up process).

The share of total investment in GDP has followed a positive trend since 2011 both in non-OIC developing and OIC developing countries. According to Figure (12, right), the share of OIC Countries in the world total investment increased from 5.6% in 2005 to 8.6% in 2015. However, in the same period, the share of non-OIC developing countries was more than doubled and exceeded 40%. In this regard, only through providing a favourable investment climate both for domestic and foreign investors, OIC Countries would get a higher share from the global investment which in turn would associate with increased level of income and improved well-being.

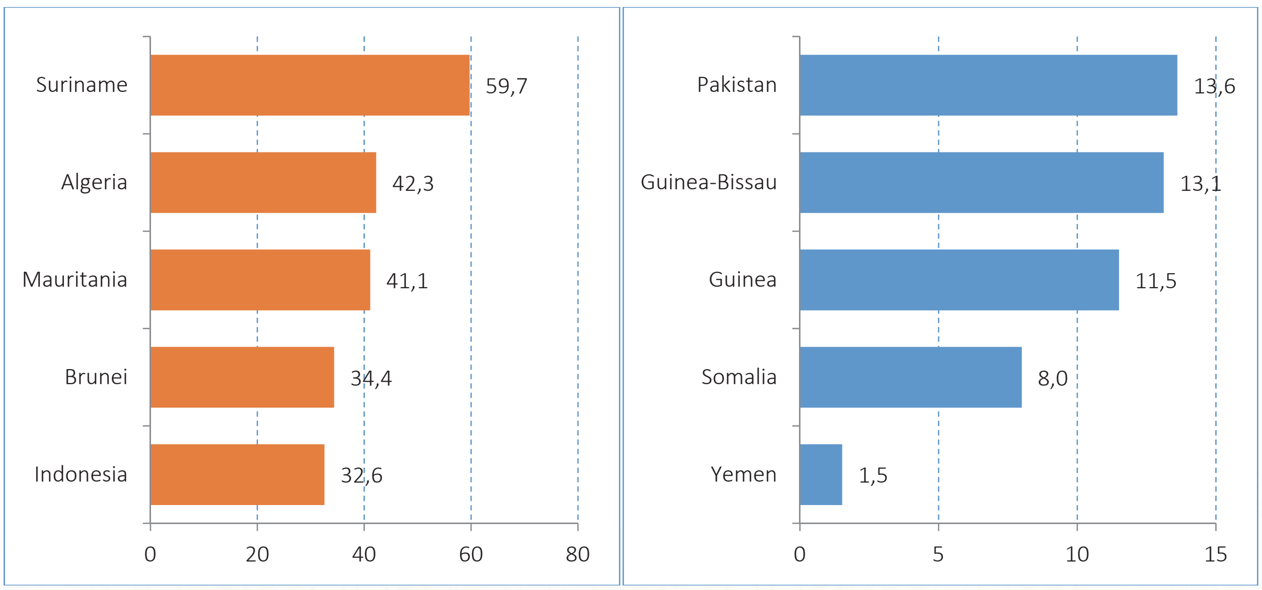
Figure 12: *Share of Total Investment in GDP (%), 2005-2015 (left) and Share of OIC Countries in the World Total Investment (%) (right)*



Source: World Bank, World Development Indicators Database, 2017 edition

At the individual country level, the level of investment differs considerably among OIC Countries (Figure 13). The highest level of total investment as percentage of GDP was observed in Suriname (59.7%), followed by Algeria (42.3%) and Mauritania (41.1%) in 2016. On the other side of the scale, the lowest level of total investment as percentage of GDP was recorded in Yemen (1.5%) followed by Somalia (8.0%) and Guinea (11.5%) in the same year.

Figure 13: *OIC Countries with the Lowest and Highest Total Investment (as a % of GDP), 2016**



*Source: World Bank, World Development Indicators Database, 2017 edition. Note: * Or latest available year*

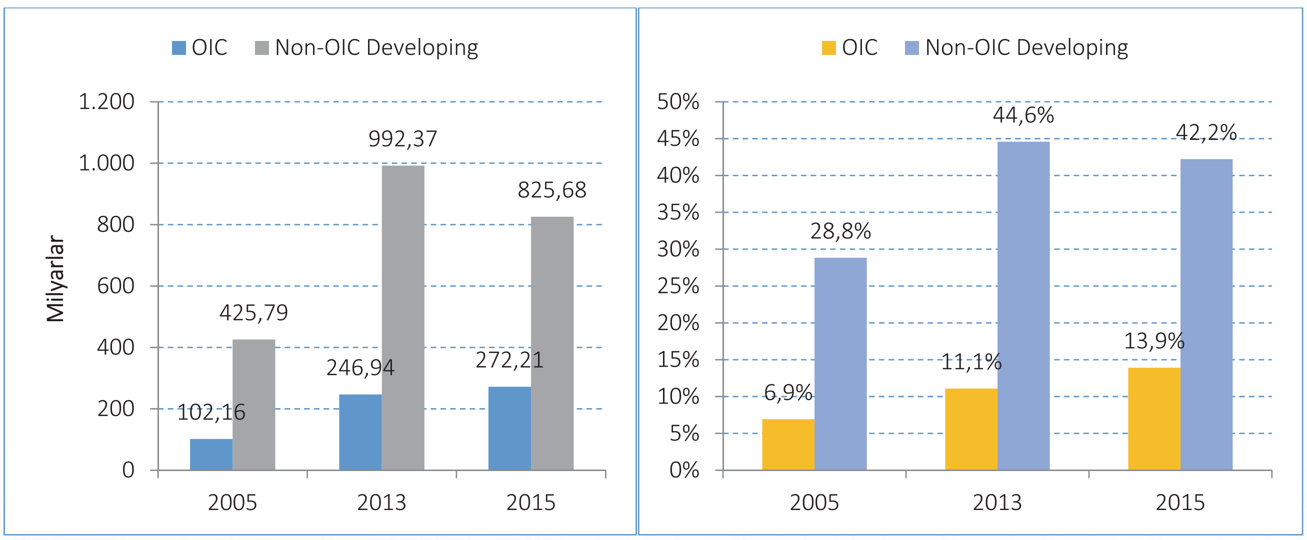
3.1. Private Investment

A dynamic private sector can significantly contribute to development of an economy through investment that helps create new jobs, increase employment, reduce poverty, improve welfare, enhance productivity and competitiveness, and encourage foreign investment by signalling a healthy economic outlook. Given the total investment figures in OIC Countries, the bulk of investments (about two-thirds) on average are being realized by the private sector that confirm the importance of private sector and the power of entrepreneurship (SESRIC, 2015).

According to Figure 14 (left), private sector investments were on the rise both in OIC and non-OIC developing countries over the period 2005-2015. In OIC Countries, the total amount of private investment went up from USD 102 billion in 2005 to USD 272 billion in 2015. In this period, the share of OIC Countries in the world increased from 6.9% to 13.9% where the share of non-OIC developing countries jumped from 28.8% to 42.2% (Figure 14, right). In other words, the positive trend seen in OIC Countries, on average, was stronger than seen in non-OIC developing countries. In fact, this is a clear reflection of entrepreneurial dynamism in OIC Countries where entrepreneurs create a positive externality through bringing new goods and new technology to the market. Nevertheless, as discussed in SESRIC (2014b), entrepreneurial activity in some OIC Countries are far below from its potential due to prevailing institutional, financial and legal constraints which can be better seen especially at the individual country level. The amount of private sector investment in Suriname represented 57.3% of its GDP followed by Mauritania (29.4%) in 2016. On the other side of the spectrum, in Guinea-Bissau and Yemen, this ratio stayed less than 6% (Figure 15, right).

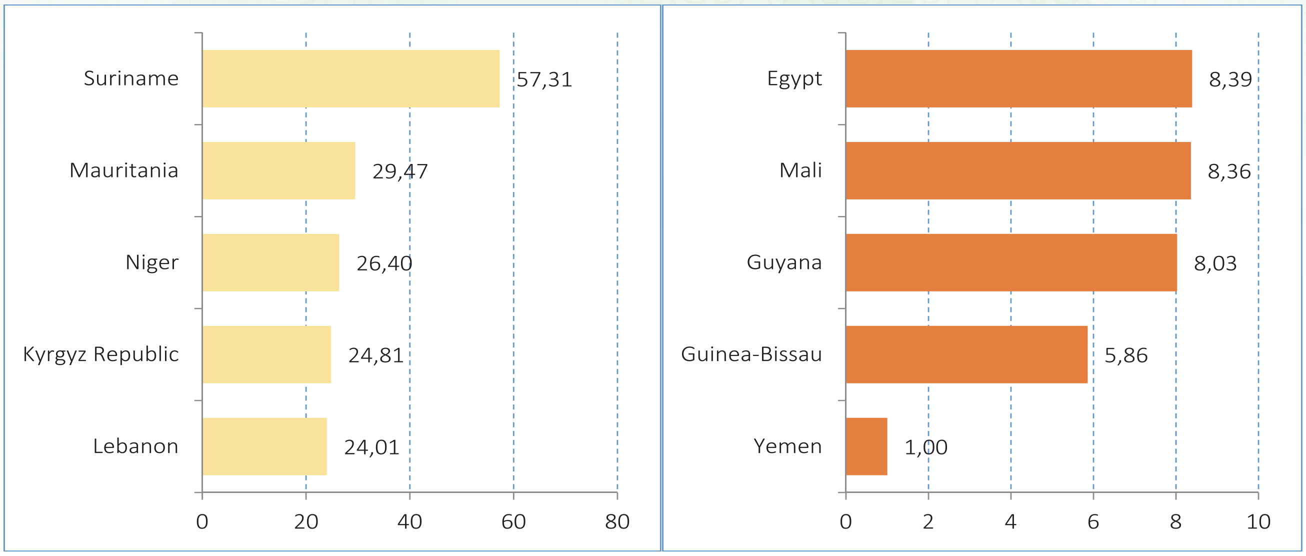
In order to stimulate private investment, entrepreneurs look for an enabling environment to materialize their innovative ideas and take advantage of emerging business opportunities so that to contribute to overall socio-economic well-being. On the other hand, improving the investment climate is not enough if entrepreneurs are not innovative. Besides creating an enabling environment, improvement in innovative and entrepreneurial capacities of private sector actors is important for a dynamic and productivity-enhancing private sector in OIC Countries.

***Figure 14:** Total Private Sector Investment (Billion USD) (left), and Share in the World (as %) (right)*



Source: World Bank, World Development Indicators Database, 2017 edition
Note: Sample size: 26 OIC Countries and 46 Non-OIC Developing countries

Figure 15: *OIC Countries with the Lowest and Highest Private Sector Investment (as a % of GDP), 2016**



Source: World Bank, World Development Indicators Database, 2017 edition
*Note: * Or latest available year*

3.2. Public Investment

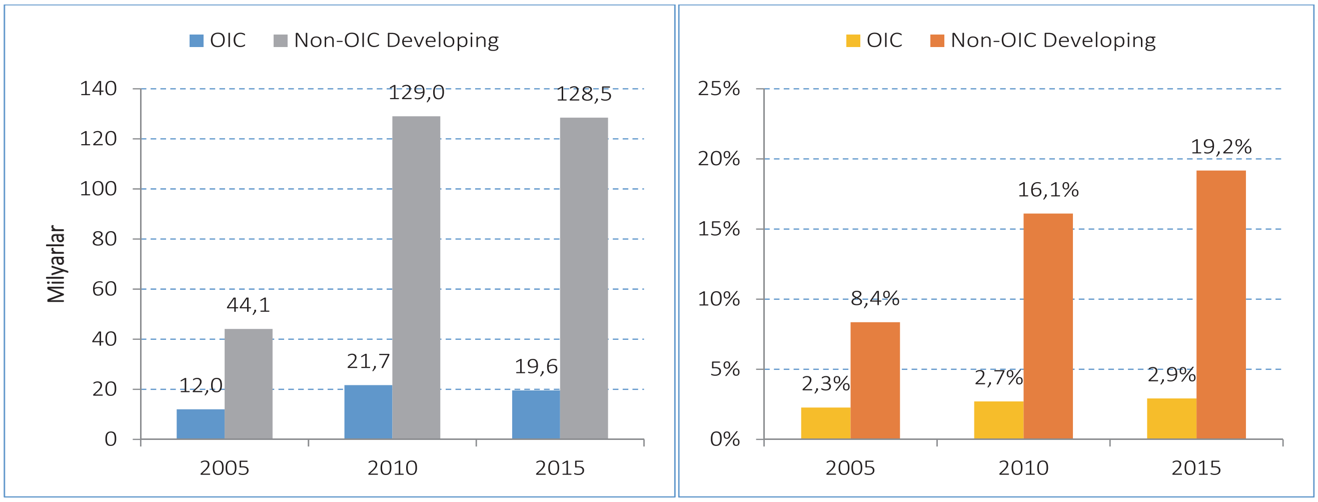
In order to address the challenges of socio-economic development and create an enabling environment for long-term development, governments across the regions pursue diverse policies with a view to raising the standards of living and alleviating poverty. The policy instruments are generally plenty, but when it comes to long-term development, the key instrument is the investment in physical and human capital. The primary objective of private investors is to maximise their profits. In this regard, private sector investments tend to have a limited spectrum for poverty alleviation and overall community welfare, and they narrowly touch on projects with significant externalities. On the other hand, studies have shown that certain public investments, for instance in rural areas, contribute greatly to overall economic growth and poverty reduction (IFPRI, 2007).

Governments invest for many purposes, including education, health, social protection, defence and infrastructure, among others, but not all of them can be characterized as public investment. Depending on the priorities of each country, investment may take the form of infrastructure expenditures with special sectorial focus, such as on transportation or energy, or it may be more oriented towards human capital. Governments must take critical decisions in optimally allocating their limited resources to various spending and investment choices, as the impacts of these choices on separate groups of people and on economic activities in different sectors can substantively evolve over time.

Governments use public spending to achieve both economic growth and equity goals. Such spending often consists of long-term investments in infrastructure, education, health, and research and development, short-term social spending on items such as social security and direct food subsidies to poor households as well as military expenditures for security of its people. It is critical that resources are allocated in accordance with the developmental priorities of the country. The design and implementation of public expenditure priorities require detailed assessment of the benefits and costs of the expenditures.

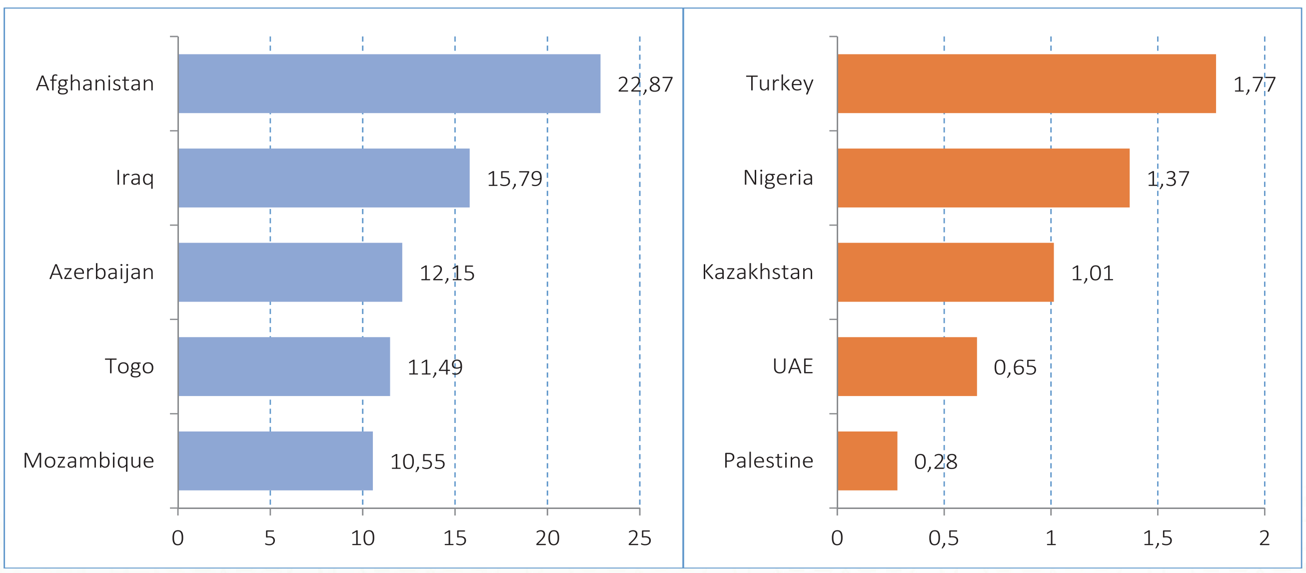
A wide range of indicators can be used to assess the public investment such as investment in infrastructure projects, social sectors or non-financial (physical) assets. According to Figure 16a, net investment in government non-financial assets in 8 OIC Countries where data is available increased from USD 12 billion in 2005 to USD 19.6 billion in 2015. In the same period, in non-OIC developing countries it went up from USD 44 billion to USD 128.5 billion. As a result, the share of these OIC Countries in the world only increased from 2.3% in 2005 to 2.9% in 2015 (Figure 16b). When net investment in government non-financial assets measured as a percentage of GDP, among 29 data available OIC Countries, Afghanistan had the highest net investment ratio in government non-financial assets (22.9%) in 2015 that mainly stemmed from major public investment projects realized during the post-war construction period as well as underdeveloped capital markets. On the other side, in Palestine and the United Arab Emirates, this ratio was found to be less than 1% level in the same year (Figure 17).

Figure 16: *Net investment in government non-financial assets of (Billion USD) (left), and Share in the World (as %) (right)*



Source: World Bank, World Development Indicators Database, 2017 edition
Note: Sample size: 8 OIC Countries and 30 Non-OIC Developing countries

Figure 17: *OIC Countries with the Lowest and Highest Net investment in government non-financial assets (as a % of GDP), 2015**



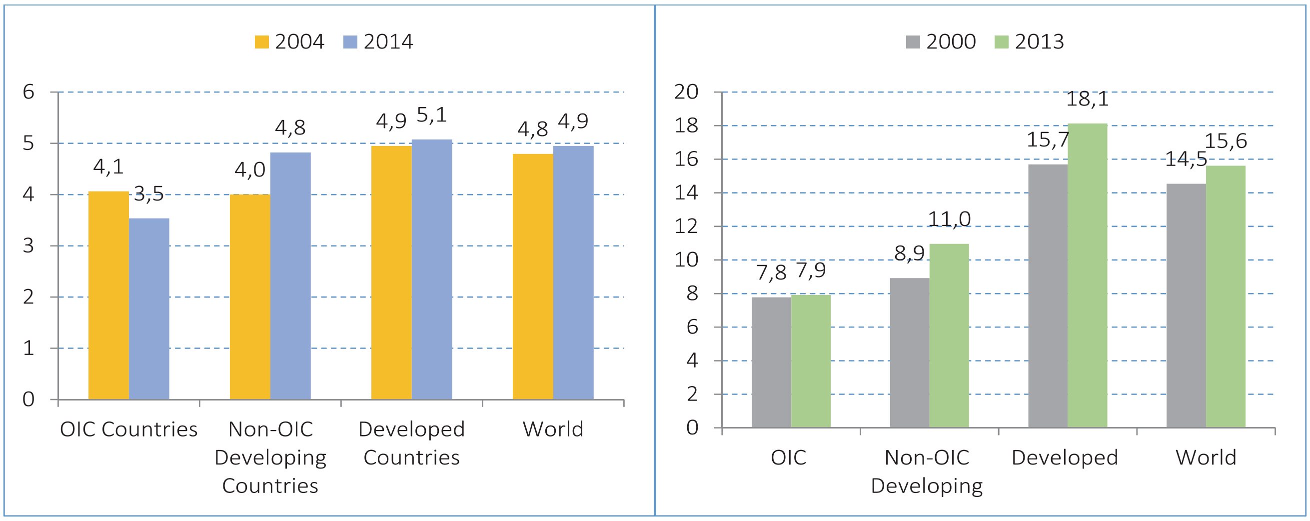
Source: World Bank, World Development Indicators Database, 2017 edition
*Note: * Or latest available year. Sample size 29 OIC Countries*

Governments are responsible for investing in social sectors such as education and health to improve well-being of people and achieve sustainable development. However, public investment usually takes the form of infrastructural expenditures with a productive life of several decades. Government spending on education and health contributes to accumulation of human capital of society with extended benefits. In this context, spending on education and health can be considered as part of public investment. A problematic investment environment also affects such public investments severely through increasing the cost of investment and risk premiums.

Public investment in OIC Countries declining

In OIC Countries, the average level of social investments is also far from the global averages. In the domain of education, the average investment of government (as % GDP) went down from 4.1% in 2004 to 3.5% in 2014. In the same period, non-OIC developing countries, on average, achieved to increase this ratio from 4.0% to 4.8% where the global average reached 4.9% (Figure 18, left). A similar picture can also be seen in the field of health. Government spending on health in OIC Countries was only 7.9% of total government expenditures in 2013, compared to 18.1% in developed countries, 15.6% in the world and 11.0% in non-OIC developing countries. Over time, it did not improve well enough to reach the global average of 15.6% (Figure 18, right).

Figure 18: *Social Investment: Government Expenditures on Education (as % of GDP) (left) and Government Expenditures on Health (as % of GDP) (right)*



Source: World Bank, World Development Indicators Database

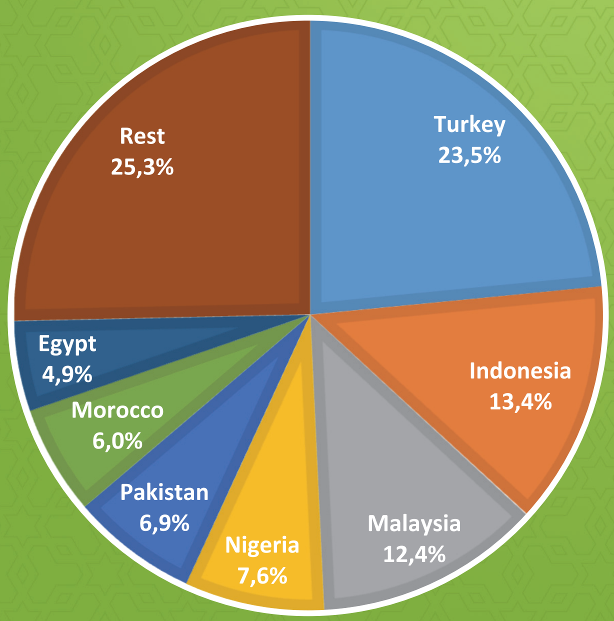
According to SESRIC (2015), the total value of public investment increased from USD 71.5 billion in 2005 to USD 173 billion in 2013, corresponding to an increase over 140% for 31 OIC Countries where data is available. Accordingly, the share of public investment in total investment increased in these OIC Countries from 26.2% in 2005 to 28.1% in 2013. Nevertheless, an increase in public investment does not always translate into development. There is some evidence of wasteful public investment, including for "white elephant" projects that are characterized by large cost overruns, time delays, and inadequate maintenance. According to IMF (2015), about 30% of the potential value of public investment, on average, is lost to inefficiencies in the investment process. The study finds that increasing public investment efficiency could double the impact of that investment on growth. It predicts significant "efficiency gaps" in public investment spending and shows that strengthening public investment management institutions could eliminate up to two-thirds of the efficiency gaps. In this context, it should be a consideration for OIC Countries to increase the efficiency and impacts of public investment by equipping the public investment management institutions with necessary tools and well-trained human capital.

Box: Public-Private Partnerships (PPPs) in Infrastructure

Public Private Partnership (PPP) involves collaboration between public and private sector to fulfil a long-term goal, usually for a social and economic infrastructure project that will lead to the development of an area or region. PPPs ore often an attractive structure for both the government and the private sector. For the government, private financing can support increased infrastructure investment without immediately adding to government borrowing and debt, and can be a source of government revenue. At the same time, better management in the private sector and its capacity to innovate can lead to increased efficiency and bring better quality and lower cost services. For the private sector, PPP's present business opportunities in areas from which it was in many cases previously excluded as well as expansion of products and services beyond their current capability. PPPs therefore enable the public sector to benefit from entrepreneurial dynamism, extended financing opportunities in an environment of budgetary constraints, innovative and efficient management styles of the private sector who contributes their own capital, skills and experience.

The World Bank Private Participation in Infrastructure (PPI) Database provides information on the private sector participation in infrastructure investment in addition to public sector. According to the database, there are four major areas for infrastructure investment that are energy, transport, telecom, and water and sewage. Among 49 OIC Countries with available data, Turkey, Indonesia and Malaysia have been the leading OIC Countries through conducting 390 infrastructure projects, with a total value of PPP investment reaching USD 238 billion and accounted for %49 of total OIC PPPs over the period 1990-2014 (Figure 19).

***Figure 19:** Public-Private Partnerships (PPPs) in Infrastructure (1990-2014), (% of total OIC PPPs)*



Source: World Bank Private Participation in Infrastructure (PPI) Database

3.3. Foreign Direct Investment (FDI)

One type of investment in the focus of considerable attention is foreign direct investment (FDI). According to the International Monetary Fund (IMF), foreign direct investment refers to an investment made to acquire lasting interest in enterprises operating outside of the economy of the investor. Further, in cases of FDI, the investor´s purpose is to gain an effective voice in the management of the enterprise. As SESRIC (2015) found out, the correlation between FDI and economic growth in OIC Countries is positive but weak. This implies that the impact of FDI on economic growth in OIC Countries, on average, is limited. The reason that FDI has some limited impact on economic growth in OIC Countries can be attributed to three main reasons: crowding out of local investments, quality of FDI and absorptive capacity of OIC Countries.

In some cases, FDI crowds out local investment because local firms cannot compete with foreign firms due to limitations in size, financing and marketing power. In addition, expatriation of profits by foreign investors may lead to stagnant growth in the host country and transfers demand to the international market rather than the domestic market (Reis, 2002).

The quality of FDI is crucial for inducing growth in the economy. Alfaro and Charlton (2007) emphasize the critical role of sectorial composition of FDI inflows on the potential spillover advantages derived from FDI, as those advantages differ markedly across primary, manufacturing and services sectors. For example, FDI in the extractive sector may have limited beneficial spillovers for growth as it often involves mega projects that rarely employ domestically-produced intermediate goods or labour (Lim, 2001). The policy implication for OIC Countries is that the policies are needed to direct FDI inflows to the dynamic sector of the economy and the emphasis should be on the quality of FDI and not the quantity.

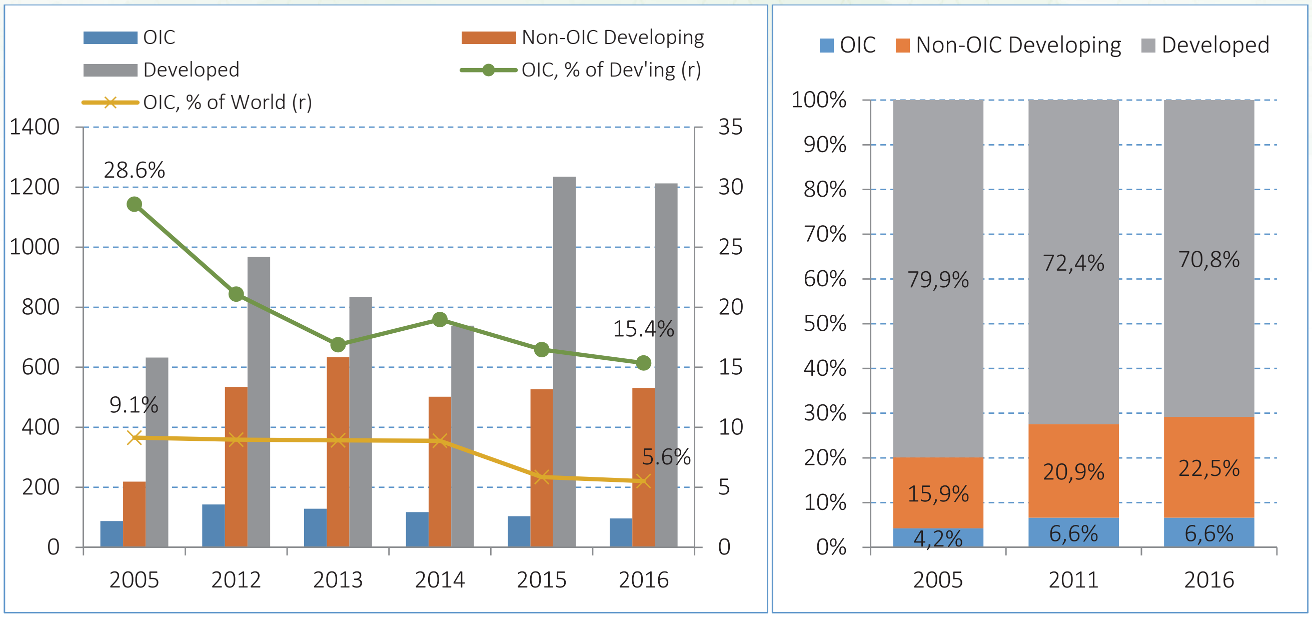
Finally, for economies to reap benefits from FDI, they need to possess the necessary absorptive capacities in terms of institutional quality (Antras, 2003), human capacity, economic development, and financial development (Hermes and Lensink, 2004; Makki and Somwaru, 2004).

According to the UNCTAD (2017), the global total foreign direct investment (FDI) inflows amounted to USD 1.75 trillion in 2016, marking a slight decrease of USD 27.6 billion over previous year's value of USD 1.77 trillion. As of 2006, 71% of global FDI inflows, which was then worth of USD 1 trillion, were destined for developed countries, while the rest for developing economies. In 2013, developing countries reached a peak share value of 52.8% of the global FDI inflows. Since then, their share gradually decreased in the global FDI inflows. As a result, in 2016, the share of developed countries recorded at 64.1% thanks to the economic recovery in these countries and growing imbalances in some major developing economies.

FDI in OIC Countries remains under potential

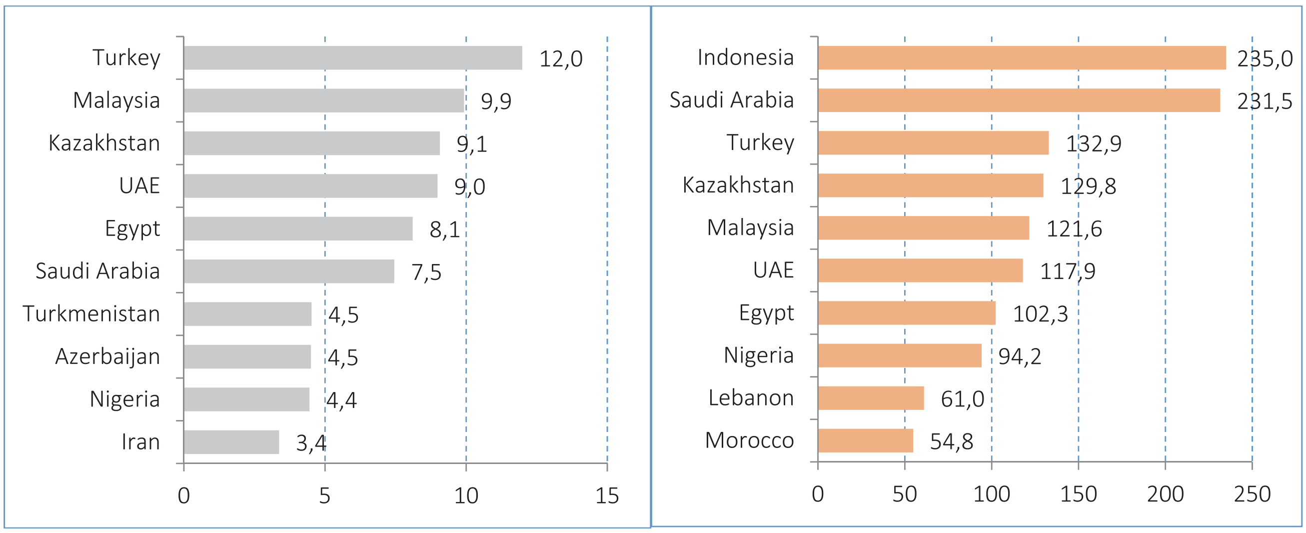
According to Figure 20 (left), FDI flows to OIC Countries generally remained sub-potential. The total USD value of FDI inflows to OIC Countries was recorded at as low as USD 87.5 billion in 2005. After the global economic crisis, it stayed in the USD 142-104 billion range over the period 2012-2015. In 2016, the total value of FDI flows to OIC Countries was measured at USD 96.3 billion, registering a decrease for four consecutive years from its 2012 value of USD 142.9 billion. The share of OIC Countries in total flows to developing countries, on the other hand, has generally been on the decline since 2012. The share of the OIC group in developing countries amounted 15.4% in 2016. The share of the OIC group in global FDI flows showed rather a fluctuating trend that ranged between 9.1% and 5.6% over the period 2005-2016.

Figure 20: *Inward FDI Flow (left) and Stock (right) (USD Billion)*



Source: UNCTAD STAT

Figure 21: *Top 10 Hosts of Inward FDI Flows (left) and Stock (right) (2016, USD Billion)*



Source: UNCTAD STAT

Global inward FDI stock reached USD 26.7 trillion in 2016. OIC Countries, on the other hand, collectively hosted 6.6% of the global FDI stock, which marked a 2.4 percentage point improvement given the value in 2005 (Figure 20, right). Furthermore, the bulk of the inward FDI stock in developing countries is hosted by non-OIC developing countries, which collectively recorded a 22.5% share in global inward FDI stock in 2016. Overall, developing countries increased their share in the world from 20.1% in 2005 to 29.1% in 2016, which was offset by a decrease in the share of developed countries.

FDI flows to the OIC Region concentrated on a few countries

FDI flows to OIC Countries exhibited a high level of concentration, with the bulk of it persistently being directed to a few of them. The top 5 OIC Countries with largest inward FDI flows together accounted for 49.9% of total FDI flows to OIC Countries, whereas the top 10 countries accounted for 75.1% (Figure 21, left). In 2016, Turkey took the lead in FDI inflows with USD 12 billion of inward FDI flow, and a 12.4% share in total FDI flows to OIC Countries. Turkey was followed by Malaysia (USD 9.9 billion, 10.3%), Kazakhstan (USD 9.1 billion, 9.4%), United Arab Emirates (USD 9.0 billion, 9.3%) and Egypt (USD 8.1 billion, 8.4%).

A similar picture is observed in the case of inward FDI stock as well: top 5 countries hosted 46.2% of total OIC inward FDI stocks whereas the top 10 countries 69.6%. With USD 235 billion of inward FDI stocks (12.8% of the OIC total), Indonesia ranked first among the list of OIC Countries with largest inward FDI stock in 2016 (Figure 21, right). Indonesia was followed by Saudi Arabia (USD 231.5 billion, 12.6%), Turkey (USD 132.9 billion, 7.2%), Kazakhstan (USD 129.8 billion, 7.0%) and Malaysia (USD 121.6 billion, 6.6%).

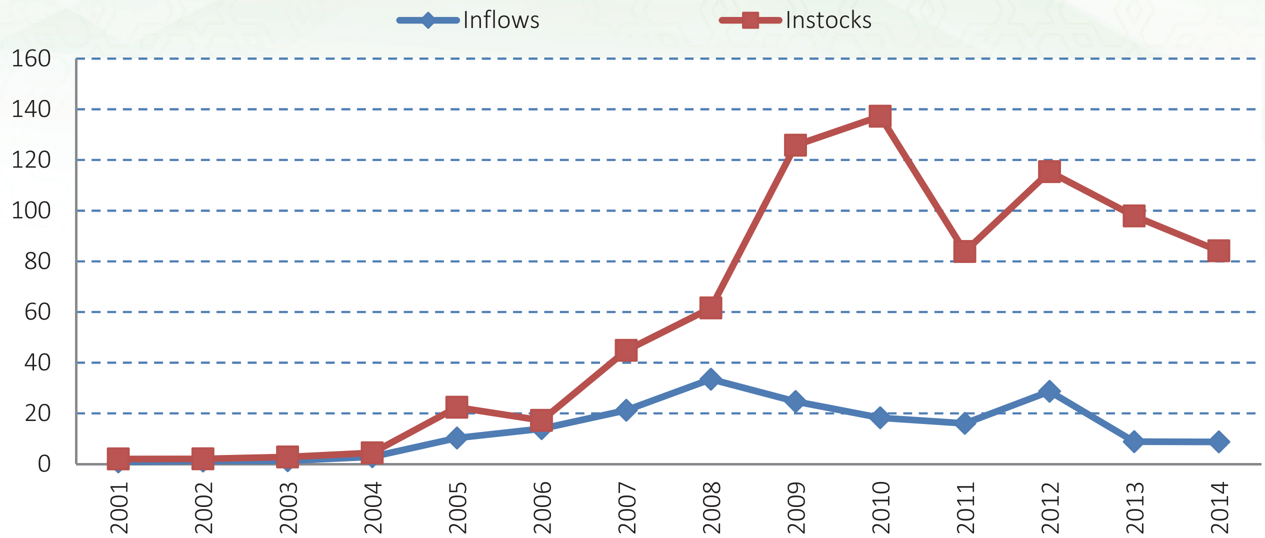
Overall, this suggests that a majority of OIC Countries are still not able to set up favourable economic frameworks and to provide the foreign businesses with adequate regulatory as well as physical infrastructure to attract more FDI flows. Consequently, OIC Countries, in general, need to take swift measures to foster an environment conducive to attracting more foreign investments. To achieve this goal, reforms are needed to improve the business climate and to introduce investment incentives tailored to the needs of both domestic and foreign investors. This, in turn, requires building adequate infrastructure as well as investing in modern technologies to enhance their productive capacities, which is still a significant challenge to majority of them.

Untapped Potential in terms of Intra-OIC FDI

Intra-OIC FDI inflows and instocks (i.e. inward stocks) reflect the directed investment from one source OIC country to another host OIC member country. As in other dimensions of the economic integration among OIC Countries (e.g. intra-OIC trade and tourism), intra-OIC FDI trends can be a good indicator to assess the level of economic integration among OIC Countries. A higher volume of intra-OIC FDI inflows implies the existence of stronger economic ties among OIC Countries. In a similar fashion, an increased volume of intra-OIC FDI inward stocks indicates improvement among intra-OIC economic cooperation stemming from FDI originating from OIC Countries.

Figure 22 presents the trends on the intra-OIC FDI inflows and instocks between 2001 and 2014. Between 2001 and 2004 both intra-OIC FDI inflows and instocks followed a stable pattern. Only after 2004 both inflows and instocks started to climb up until the global economic crisis. The outbreak of the global economic crisis in 2008 raised concerns regarding major developed economies that were perceived by investors and financial markets as having quickly become much riskier. This motivated a portion of investors in OIC Countries to shift their investments from developed countries to other OIC Countries. As a result, intra-OIC FDI instocks reached its peak value in 2010 by hitting USD 137.2 billion. By 2014, it had gone down to USD 84.1 billion. Intra-OIC FDI inflows peaked up in 2008 with USD 33.4 billion. Intra-OIC FDI inflows slightly decreased from US$ 8.8 billion in 2013 to USD 8.7 billion in 2014. As of 2014, both intra-OIC FDI inflows and instocks were lower than their peak values in 2008 and 2010, respectively.

Figure 22: *Intra-OIC FDI Inflows and Instocks (USD Billion)*



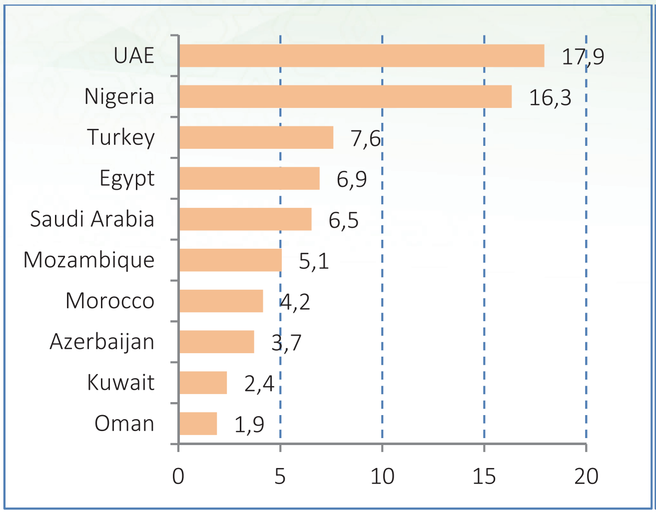
Source: UNCTAD STAT

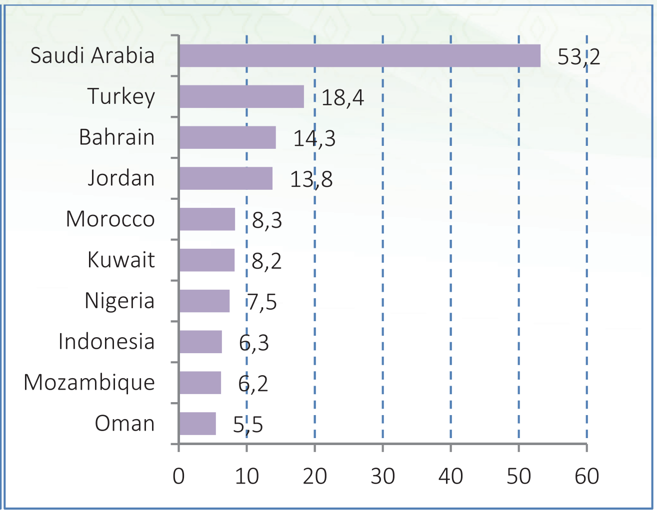
Nevertheless, the amount of intra-OIC FDI inflows in 2014 was 10.6 times higher than its recoded value in 2001. Similarly, the amount of accumulated intra-OIC FDI inward stocks in 2014 was 42 times higher when compared with its value in 2001 (Figure 22). In this context, these figures reflect an improved economic integration among OIC Countries. It is fair to claim that these figures are being far from their potential where they were stagnating lower than their peak values. Therefore, more policy-interventions are needed to reduce intra-OIC investment barriers and improve overall investment climate in OIC Countries. These interventions should not be only limited with the free movement of capital across the borders of OIC Countries.

OIC Countries also need to address the restrictive visa regimes applied to citizens of OIC Countries since foreign investors usually look for eased movement of human capital across borders (i.e. limited or no restriction on transfer of labour). OIC Countries need to get a common understanding that there is a great potential in terms of intra-OIC FDI flows, which can boost economic growth and trigger development in OIC Countries. However, existing barriers in OIC Countries ahead of investors in terms of institutional quality, visa regimes, restrictions on profit and capital transfers etc., limits the level of economic cooperation among them.

At the individual country level, the UAE and Nigeria were the two leading OIC Countries in terms of the amount of cumulative intra-OIC FDI inflows over the period 2010-2014 (Figure 23). In this period, the UAE alone attracted USD 17.9 billion FDI from other OIC Countries. In terms of intra-OIC FDI inward stocks, Saudi Arabia took the lead and the inward FDI stocks reached USD 53.2 billion during the period under consideration. Saudi Arabia was followed by Turkey with intra-OIC FDI inward stock amounting USD 18.4 billion.

Figure 23: *Top OIC Countries in terms of Intra-OIC FDI Inflows (left) and Instocks (right) (USD Billion), 2010-2014*

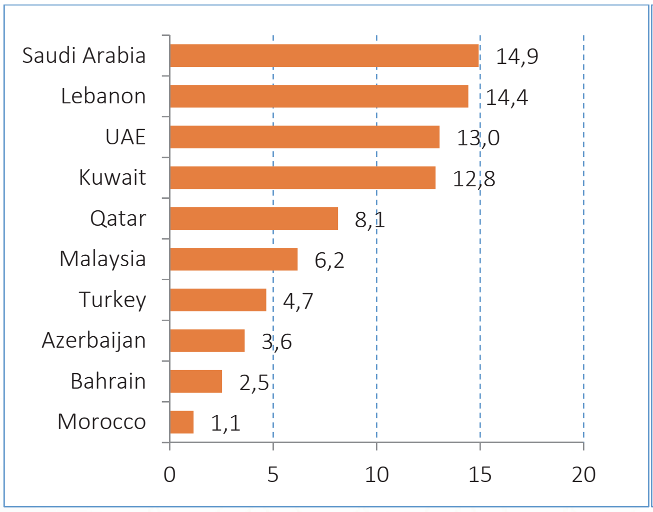


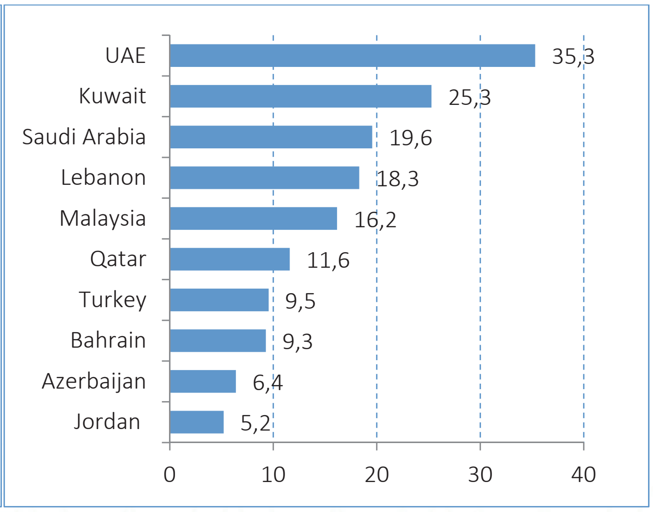


Source: UNCTAD STAT

Intra-OIC outflows and outstocks figures can be used to monitor trends in major intra-OIC investor countries. According to Figure 24, Saudi Arabia and Lebanon were the two leading OIC Countries who invested the most in other OIC Countries between 2010 and 2014. Both OIC Countries invested individually invested more than USD 14 billion into other OIC Countries over the period 2010-2014. In the same period, United Arab Emirates, Kuwait and Saudi Arabia were listed as the top three OIC Countries possessing the highest amount of FDI stock in other OIC Countries. The existing total outward FDI stock of United Arab Emirates, Kuwait and Saudi Arabia in OIC Countries exceeded USD 80 billion in this period.

Figure 24: *Top OIC Countries in terms of Intra-OIC FDI Outflows (left) and Outstocks (right) (USD Billion), 2010-2014*





Source: UNCTAD STAT

The intra-OIC FDI figures provide some clues on the unequal distribution of intra-OIC FDI flows and stocks. A group of few OIC Countries benefited relatively more than other member countries from intra-OIC FDI. For instance, the volume of intra-OIC FDI inflows recorded by the top four performer OIC Countries (United Arab Emirates, Nigeria, Turkey and Egypt) between 2010 and 2014 represented 60.6% of all intra-OIC FDI inflows seen in the same period. The share of the top ten performer OIC Countries in total intra-OIC FDI inflows exceeded 90%. However, the positive trends seen in intra-OIC FDI figures have not stemmed from an overall improvement in intra-OIC cooperation rather it is a result of increased economic integration among some OIC Countries. In other words, favourable investment climate and relatively low country risks in some OIC Countries enabled them to attract and host a significant amount of FDI from other OIC Countries.

These figures indicate that OIC Countries have not yet reach a desirable level of intra-OIC FDI flows. In other words, the existing levels seen in intra-OIC FDI figures are still far below its potential (SESRIC, 2014c; UNCTAD, 2013). The success on reaching the potential in intra-OIC FDI are closely linked to the determination of policy-makers to adopt some concrete policy measures for reducing trade and investment barriers, minimising country risks, abolishing/easing visa regimes, and facilitating capital transfers among OIC Countries.

4. Policy Implications for Improving Investment Climate and Performance in OIC Member Countries

Country risk, economic and political stability, quality of institutions and infrastructure, human and technological development, and competition policies are major factors that influence the overall investment climate. The volume of investments is important, but more important is the quality of investments and payoffs for the country. Payoffs can be in terms of increased competitiveness, sustained growth and productive jobs. For investment to be of high quality, a favourable investment climate is needed where investors could be better nourished and smoothly integrated into the value-chains.

Given the critical role of investments in promoting growth and development, the following set of policy implications can be proposed both at the national and the OIC cooperation level to serve as policy guidelines to which the attention of the member countries needs to be drawn.

4.1. Private Investment

There are important drivers of private investment, which include, among others, a solid consumer base or market potential, profitable investment opportunities, economic stability, protection of property rights, good governance and predictability of future economic conditions. While market potential for goods and services is the most critical driver for any investment decision, uncertainties in economic outlook and lack of regulation and coordination may impose greater setbacks for firms contemplating investment with long term expected returns. In order to stimulate large-scale long-term private investments, significant improvements in investment climate should be undertaken. This may include removing regulatory barriers and financial constraints, or replenish lacking resources, such as skilled labour and technology.

As previously noted, overall investment climate in OIC Countries is not favourable and there are significant barriers to private investment. In improving investment conditions, the most important phase is the identification of barriers to investment. While barriers can exist at any possible level where private sector is engaged, identification of barriers at sector level would be a viable approach to start with.

Identifying sectoral investment problems and making a priority list for the sectors with significant potential of productivity gains and growth impacts for the economy would likely lead to improve investment climate in a more effective way. Developing a strategy to stimulate investment in specific sectors by taking into the country-specific conditions is necessary in OIC Countries.

Moreover, investment in one sector usually has positive consequences on other sectors. Promoting water and energy infrastructure accelerates efficiency in agricultural and manufacture production, while improving telecom and transport infrastructure also strengthens economic integration of poor and landlocked areas. Having a bigger industrial sector and higher income levels, on the other hand, promote the density of private infrastructure projects in emerging countries as they increase growth and develop operational performance.

Different economic sectors may face different obstacles. Investment in manufacturing can be constrained by a lack of high-skilled labour and technology. In construction and trade, investment can be negatively affected by planning regulations and absence of harmonisation of standards. In tourism, a lack of coordination among different service providers (airports, hotels, conference centres etc.) may hinder investment and growth. In transport and communication, government permissions at national and local level may not be easier to obtain. In this regard, devising a sectoral approach to improve investment climate for private investment is very important.

In addition to sector specific measures to improve investment conditions, firm specific actions should also be taken to encourage private investment. Special incentives should be provided for SMEs, particularly for innovative ones, to support their entry to market and access credit. Moreover, special measures should be taken to strengthen key enablers of investment, such as developing new approaches for the development of necessary skills, access to finance and adequate infrastructure.

Given the three layers of improving investment conditions (economy level, sector level and firm level), a targeted approach for OIC Countries can be proposed to optimise their actions in stimulating private investment. Creating a suitable investment climate for private enterprises and then waiting for them to invest in profitable business opportunities is an approach, but for a direct strategy to foster development and competitiveness, the policy interventions depicted in Figure 25 are suggested as a targeted approach.

Figure 25: *Key Steps of Promoting Effective Private Investment*

1. **Identify sectors with significant growth impact:** Based on a solid assessment of all sectors after considering their size, level of international competitiveness, expected productivity gains for the economy, time and resources required to invest, and potential for further investment, policy makers should identify the critical sectors to focus on. The potential for gaining comparative advantage, capacity to utilize any emerging trends and time required to realize the returns to investments are some of the other important issues that need to be taken into consideration in prioritizing the sectors. The existing size and the amount of investment required in the sector are in principle among the most important factors. It should also be noted that investments in some sectors, such as transport and energy, can provide economic benefits in other sectors (i.e. spillover effects) and this should be considered in the decision-making process.

2. **Detect the barriers to investment in these sectors:** Once the priority sectors are identified, the sector specific barriers should be detected at sufficiently detailed level to foster private investment in that sector. These typically include regulatory gaps, weak enablers, lack of coordination and communication. Based on the constraints and challenges faced in the promotion of investment in a specific sector and cost-benefit analysis, policy makers should decide whether or not to prioritize that sector.

3. **Understand the needs of the firms:** While common barriers to investment may be a concern for each firm operating in a sector, these firms may have other requirements to engage in productive investment. The barriers should be identified both for incumbents and potential entrants. Moreover, special needs of firms at different sizes or locations should be well assessed in close cooperation with relevant parties and necessary actions should accordingly be taken. Some firms may require protection from foreign competition to grow. However, it should be recognized that efforts to protect a domestic sector from competition coupled with high subsidies to promote investment can be counterproductive.

4. **Strengthen key enablers of investment:** As financial capital, human capital, infrastructure and technology are among the most important enablers of productive investment. Special strategies should be developed to strengthen these key enablers in order to attract more investment in targeted sectors. Depending on the country-specific contexts, necessary short-term and long-term measures should be taken to facilitate investment.

5. **Ensure the effectiveness of investment:** Policy makers should regularly assess policy interventions and perform cost-benefit analyses to make sure that these interventions provide expected outcomes. Moreover, a clear coordination mechanism across the relevant levels of government agencies should be established for effective implementation and follow-up of the policy interventions. Criteria for initiating, continuing and completing the interventions should be explicitly articulated and agencies must have flexibility and resources to respond the changing needs of the market and firms during the implementation. Capabilities of these agencies should be developed by recruiting people with right skills and experience.

While promoting private investment, special attention should be paid to the degree of economic diversification. Heavy concentration of economic activities in few sectors makes the economy vulnerable to external shocks. Diversification of production base in industry, services and agriculture sectors will allow further investment by both domestic and international investors and strengthen the sustainability of the economy. Therefore, apart from government-led investment promotion policies, the private sector should be given opportunity to invest and grow in any growth-inducing and employment-generating economic activity. This requires once again an investment friendly environment with facilitating regulations, deep financial market, labour force with required skills and capabilities, solid infrastructure, access to technology and knowledge, and effective coordination channels between public authorities and private sector representatives.

Last but not the least, improving coordination among the government and private enterprises and institutions is the main principle for having higher returns from existing infrastructure and developing infrastructure in a country. Efficient infrastructure investments should be prioritized for the high returns they bring. Some OIC Countries are less-equipped to develop infrastructure on their own. Therefore, integrating energy, water and transport infrastructure to urban regions with the assistance of more developed countries and through deepening intra-OIC cooperation stands as a good policy option. In turn, this would reduce the cost of doing business and enable enterprises to have access to large markets.

4.2. Public Investment

Productivity gains are vital to long-term growth, which translate into higher incomes and boost demand. While this can take time, increased investments of good quality can provide the stimulus to productivity and growth. Yet, debt-fuelled investment can be dangerous if it does not stimulate productivity growth. Properly targeted public investment can help to boost economic activities, stimulate aggregate demand, and raise productivity growth by improving human capital, encouraging innovation, and leveraging private sector investment by increasing returns. Therefore, in times of economic downturn, public investment can play an important countercyclical role (Spence, 2015).

Enhance effective public investment: Governments may have different justifications in their decisions to be involved in the economy, but the nature of involvement affects the people in many aspects. Therefore, public investment choices should be made based on careful evaluation of expected costs and returns of the alternative options, and should be effectively managed once the decision is made. Effectively managed public investment can boost the growth and provide stimulus for private sector to leverage their investment. However, poor project selection and mismanagement of investment projects may cause significant waste of resources and limit the prospects for growth.

Strike a balance between physical and human capital investment: Many countries in the world are facing major challenges in terms of allocating adequate resources and implementing public investment projects in physical infrastructure as well as human capital development. Due to trade-offs between physical and human capital development as well as conflicts between the interests of present and future generations, prioritization of public investment decisions is never easy. Theoretical and empirical researches also give few insights for optimal public resource allocation across different sectors and across different public investment projects. In principle, the relative allocations within and across programs should focus on increasing productivity and competitiveness, and identify the areas where social returns are the highest and externalities and spillover effects are significant.

Optimise project selection: The most important concern when it comes to infrastructure investment is the project selection. Selecting projects with the greatest productivity gains and little or no distortions is critical. Therefore, it is vital that countries set up institutions capable of doing adequate planning, cost-benefit analysis and ongoing monitoring and evaluation. If, instead, the focus in on quantity, then it is more likely that higher levels of public investment have undesirable effects such as crowding out private investment with little productivity gains for the economy. In this context, it is important to have strategic objectives for public investment at central and local governance levels, and there must be an established process for preliminary screening of project proposals for compliance to these strategic objectives. Then, there is a need for a formal appraisal process for more detailed evaluation of project proposal. If projects are large scale projects, an evaluation by an external agency would be beneficial.

Reduce ineffective public spending: Setting overall macroeconomic priorities for public spending can be used to increase the effectiveness of public spending in general and to guide public investment decisions. Education, human capital and knowledge, technological investment, innovation, and infrastructure are some of the areas where policy makers generally focus, but priorities within development policy often involve certain sectoral biases (e.g. towards infrastructure or social sector), or contain a wide spectrum of issues. It is not easy for policy makers to optimally allocate public resources across different sectors and across different public investment projects. Having strategic objectives and periodically reviewing the progress towards these goals can be effective instruments to evaluate the effectiveness of different public investment programmes.

Generate fiscal space for public investment: The realization of public investment projects requires fiscal space, i.e. the ability of governments to finance public investment without threatening the sustainability of their financial position. In principle, the returns on public investment are a crucial indicator for debt sustainability. However, it is not easy to calculate returns on public investment as they generate 'public goods' where the profitability is not always the major concern. In this regard, there is a risk that additional borrowing worsens debt sustainability. While many countries face fiscal space constraints to finance required investment, some others have plenty of windfall gains waiting for productive investment opportunities. If countries with limited resources improve their business environment and ensure macroeconomic and political stability, the resources in wealthier countries can flow to these countries to finance such investment projects. Moreover, when governments engage in public investments under strict budgetary constraints, projects should be carefully evaluated for their economic and social returns.

Improve governance: In order to ensure an effective public investment, institutional mechanisms must be reinforced to ensure proper implementation of public investment projects and to develop enough flexibility to adapt to unforeseen circumstances. This also requires developing the standards of good governance and transparency at every stage of project management from selection to procurement and financing. Realizing productive investment projects after their completion requires a good capacity of managing operations and maintenance, and to enforce regulatory measures.

4.3. Foreign Direct Investment (FDI)

An overview on FDI inflows and inward stocks data revealed that compared with the performance of non-OIC developing countries and developed countries, the OIC group increased FDI inflows and stocks the most since the 1990s. However, the positive trends seen in FDI inflows in OIC Countries are far from being sufficient given the high potential of OIC Countries to host even larger amount of FDI. In this context, OIC Countries need to implement effective FDI attraction strategies to reach their potential in FDI flows. These strategies are usually being implemented by national FDI promotion agencies worldwide that serve as a one-stop-shop for foreign investors. To this end, forming national FDI promotion agencies may help OIC Countries for those without such a national agency to host more FDI. It is also important for OIC Countries with existing FDI promotion agencies to check their quality and effectiveness in order to improve their performance.

The share of OIC Countries in the world greenfield FDI projects increased from 18.8% in 2002 to 20.1% in 2014 (SESRIC, 2014a; SESRIC, 2014b). However, OIC Countries not only attracted FDI below their potential but also experienced difficulties in hosting greenfield type of FDI projects that are expected to have a higher impact on employment creation and economic growth compared with mergers and acquisitions. In this regard, OIC Countries need to design FDI policies to host more FDI greenfield projects through, inter alia, allocating land for investors, giving incentives or applying tax exemptions for this kind of FDI projects. However, incentives for attracting FDI could turn into a wasteful policy option if not applied properly. In this context, the OECD checklist for FDI incentive policies could provide a road-map for policy-makers in OIC Countries (OECD, 2003). The major policy implications to improve investment climate in OIC Countries with a view to hosting more FDI can be summarized as follows:

Enhance trade openness: Foreign investors pay great attention to the international trade openness of a country before investing. To this end, OIC Countries need to intensify their efforts to ease international trade through, among others, reducing tariff rates, easing and standardization of trade rules and regulations, and taking measures against nontariff barriers. Another dimension of the trade reforms should target the bureaucrats and professionals who engage into international trade. Training programs should be designed in order to change the mind-sets of bureaucrats and professionals towards having a more pro-trade understanding.

Invest into human capital: Foreign investors naturally prefer working in countries with a pool of skilled labour. Therefore, targeted policies to upgrade skills of workers would enhance FDI flows to OIC Countries. To this end, vocational education and training programmes needs to be promoted. Policies towards promoting foreign language education would also increase the number of workers with a foreign language, and therefore would induce more FDI flows.

Foreign investors not only bring capital or technology to host countries but also transfer some of their workers from their home countries. To this end, regulations for expatriates need to be revisited in several OIC Countries. Measures that aim to facilitate professional and social life of expatriate workers would enhance FDI flows to member countries. Restrictive policies against expatriates such as difficulties on opening bank accounts and getting working permits need to be revisited. Moreover, many investors attach a special importance to the working standards of labour in host countries. In this context, labour market reforms that aim to increase the standards of workers with a view to reaching the International Labour Organization (ILO) standards would make a positive impact on FDI flows to member states.

Improve the quality of institutions and infrastructure: Overall quality of institutions and infrastructure are important factors that affect the decision of foreign investors (Tintin, 2013). Due to the existence of cross-country differences in terms of quality of institutions and infrastructure within the OIC group, each member country should make a detailed assessment on the quality of their institutions and infrastructure in order to find out priority areas for reforms with a view to attracting more foreign investors.

Improve the macroeconomic environment: Many OIC Countries experience problems related with overall macroeconomic environment and stability at varying degrees that affect the risk premium for investors. In this regard, improving macroeconomic environment and stability would stimulate FDI inflows to OIC Countries and help them reach their full potential.

Reduce and mitigate country risks: OIC Countries need to devise policies with a view to reducing country risks as higher exposure to risks associate with reduced FDI inflows. The success of OIC Countries in this field is closely linked to the willingness and determination of policy-makers in designing, implementing and following up comprehensive FDI attraction strategies as well as risk mitigating interventions. It is also important maintain attracting investments while OIC Countries exerting efforts to reduce country risks. In particular, national Export Credit Agencies (ECAs) in OIC Countries and multilateral agencies such as the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) can play an instrumental role in mitigating risk through providing insurance for investors and traders against certain types of risks. Policy-makers in OIC Countries can also benefit from international documents and practises in designing FDI promotion and attraction policies. For instance, a key document called the Investment Policy Framework for Sustainable Development (IPFSD), which was launched by the UNCTAD in 2015 in Addis Ababa, can provide some guidance to national policy-makers in OIC Countries on this issue. Overall, IPFSD aims to help policy-makers to design guidelines or action menus in three domains: guidelines for national investment policies, guidance for the design and use of international investment agreements (IIAs), and an action menu for the promotion of investment in sectors related to the sustainable development goals.

Figure 26: *Policy Interventions to Boost Foreign Direct Investment*

Some of the global developments, security concerns in some member countries and significant growth recorded in some emerging markets (Brazil, China and India) worked against OIC Countries that diverted some investors into non-OIC developing countries. Increased fragility in some OIC Countries in recent years and on-going conflicts create an unfavourable environment for foreign investors. Therefore, OIC Countries in fragile regions/conflicts zones need to follow more specific FDI policies in order to continue attracting FDI. Investment Climate (2014) Report of the World Bank provides some clues on how to promote FDI in fragile and conflict-affected countries. The report presents three sets of recommendations to policy-makers:

1. Being focused: Try to attract FDI on competitive subsectors or projects rather than into all sub-sectors.
2. Understand foreign investors: Approach the investment process from the investor's perspective.
3. Being vigilant against negative environmental and social effects of incoming investments: Such an approach would improve the overall operational performance of FDI projects, increase social acceptance, and boost the long-term development impact of FDI on host country.

Overall, given the FDI potential of OIC Countries with their young and dynamic population, OIC Countries are expected to host more FDI inflows in near future. However, the success of OIC Countries on hosting more foreign investors is closely linked to the factors listed in Figure 26. As discussed above in details, if OIC Countries invest more into human capital and infrastructure, and complete reforms to improve macroeconomic environment, trade openness, and the quality of institutions by reducing risk factors (i.e. country risks), foreign investors are more likely to boost their investments in OIC Countries that would contribute to the development of OIC Countries in several ways from employment creation to technology diffusion.

Intra-OIC Cooperation as a way to enhance FDI flows

Finally, a very effective way to increase overall FDI flows to OIC Countries is to enhance intra-OIC cooperation (UNCTAD, 2013). A higher volume of intra-OIC FDI inflows also means a higher degree of integration and deeper connection among Muslims living in different countries. Therefore, it is crucial for policy-makers in OIC Countries to take the necessary actions in order to give a boost to intra-OIC FDI flows through, inter alia, building-up an online and up-to-date OIC investment database, organising regular OIC investment forums and exhibitions, relaxing trade barriers, easing visa rules for investors, and reducing transport costs and taxes levied on it. Part of the responsibility belongs to businessmen and companies in OIC Countries. They need to be more pro-active in finding and utilizing the potential investment opportunities in other OIC Countries. However, policy-makers in the OIC Countries need to level the field for investors who are willing to invest in other OIC Countries by reducing legal and trade barriers ahead of investors, especially originating from other OIC Countries. Establishing a formal mechanism at the OIC level to facilitate coordination among the national investment promotion agencies/bodies of the OIC Countries would also be helpful to enhance intra-OIC investment. This mechanism could be used to list and promote investment opportunities available in OIC Countries. Moreover, such a platform could be an important tool to exchange the best practices among OIC Countries on FDI projects and policies.

5. Conclusions

This chapter reviewed the overall state of investment in OIC Countries with a view to identifying existing challenges and bottlenecks that constitute hindrance for public, private and foreign investors – hindrance that is exemplified through increasing risk premiums, hampering entrepreneurship, fostering inefficiencies, and in turn limiting the economic growth and development. As described in the economic growth literature, investment promotes economic growth and development. In the case of OIC Countries, there is also evidence that a higher total investment resulted in an increase in the annual growth rate of GDP, as shown in Section 1 of this Chapter. Although there is a positive linkage between investment and growth, OIC Countries as a group have not reached their full potential in terms of the volume of investment, stemming from various factors that negatively affect their overall investment climate.

The analysis of the Ease of Doing Business Index of the World Bank and the Country Risk Classification (CRC) Indicator of the OECD in Section 2 provided some clues about the significance of these factors. In 2015, the average Ease of Doing Business Index score of OIC Countries (55.5) was found to be the lowest when compared with the averages of non-OIC developing countries (60.2) and developed countries (76.2). Relatively speaking, this implies the existence of serious problems faced by investors in OIC Countries from starting business and getting credit to enforcing contracts and resolving insolvencies.

On the other hand, the analysis of the OECD Country Risk Classification Indicator revealed that OIC Countries with a high risk score tend to attract limited amounts of Foreign Direct Investment. Indeed, 47% of FDI inward stocks were hosted by only 8 OIC Countries with a low risk score (score of 2 or 3). The 39 OIC Countries classified in the high risk category (score of 6 or 7) totalled only 26% of all FDI inward stocks in 2016. Again, this reflects the existence of high risk exposure in a good number of OIC Countries stemming from risk factors for investors such as exchange controls, capital transfer limitations, and expropriation. In this context, without eliminating such risk factors in their economies through well-designed policy-interventions and programmes, it is less likely for OIC Countries to upscale the level of investments and reach a higher level of prosperity.

In fact, the detailed analysis in Section 3 supports the argument that the investment performance of OIC Countries is far from its potential, whether it is measured in terms of private, public or foreign investment. For instance, the share of OIC Countries in the world private investment increased from 6.9% in 2005 to 13.9% in 2015. However, in the same period, the global share of non-OIC developing countries jumped from 28.8% to 42.2%. In this regard, it appears that the investment environment in OIC Countries on average is relatively less favourable for entrepreneurs and private investors. A similar picture can also be seen in the case of foreign investors where they preferred to a higher extent investing into non-OIC developing countries over the period 2011-2016. The share of FDI inward stocks of OIC Countries in the world remained stable at the level of 6.6% in this period whereas the share of non-OIC developing countries climbed up from 20.9% to 22.5%.

Overall, a wide range of indicators used in this Chapter revealed that the investment volumes of OIC Countries stay under their potential stemming from challenges that affect the investment environment. It is possible to limit the impacts of these challenges in the short-run and eliminate them totally in the medium and long-run with the right policy-mix. For instance, it is not easy for many OIC Countries in the high risk category to move to a lower risk category as the perceptions of investors tend to deteriorate quickly but improve rather slowly. In this picture, the national Export Credit Agencies (ECAs) in OIC Countries and multilateral agencies such as the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) can play a critical role by providing insurance for investors and traders against various types of risks to contribute to the smooth and continuous flow of investments into OIC Countries.

On the other hand, in terms of medium and long-term policies, OIC Countries need to focus on the reform agenda with a view to providing a more conducive investment environment for investors through ensuring macroeconomic stability, removing trade barriers, improving the quality of institutions and infrastructure, and investing into human capital. As OIC Countries move forward in this direction, it is very likely that the perceived risks in OIC Countries will start going down. As a result, this would lead to a more favourable investment climate in which investors would boost their investments.

While designing and implementing reforms with the objective of improving the investment climate in OIC Countries, there is a unique window of opportunity that is intra-OIC cooperation. Some OIC Countries in various geographical regions significantly improved their investment climate in a relatively short period of time and achieved to attract and host more investors in their economies. The experiences of such OIC Countries could be indicative for other OIC Countries that are willing to record a progress in this direction. Within the OIC there are already some existing mechanisms and institutions to enhance and facilitate such a cooperation among OIC Countries. For instance, Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC) provides training programmes in different domains and organizes workshops to exchange of national experiences and views in the domain of investment promotion. The ITAP programme of the Islamic Development Bank Group (IDB) also provides technical support to OIC Countries in the fields of investment facilitation and promotion. The ICIEC of Islamic Development Bank Group (IDB) exerts significant efforts to upscale the volume of provided insurance to foster investments and exports in OIC Countries. In this regard, it is essential for OIC Countries to deepen their cooperation with the existing OIC institutions and benefit from existing mechanisms and modalities.

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CHAPTER 2

REVIEW OF EXPORT CREDIT AGENCIES SUPPORTING INVESTMENT AND TRADE

By Hussein Jama, ICIEC

1. The Mandate of ECAs

1.1. National ECAs

Export Credit Agencies (ECA) have existed since the early 20th century with varying definitions and purposes. Although agencies of this type have started with the promotion of national exports, many of them today also facilitate Foreign Direct Investments (FDI) from their home country to foreign markets. They might thus also be called Investment Guarantee Agencies.

The mandate of ECAs is to support national exporters and investors venturing abroad, with the ultimate objective to foster the development of their national economy. They do this by providing insurance against commercial and political risks that arise in international trade and investment transactions (see below).

Besides insurance to mitigate risks, some ECAs also provide direct financing in the form of working capital loans to national exporters or loans to foreign buyers of capital goods that are produced and exported by national companies. Frequently, ECAs are specifically tasked to support Small and Medium-sized Enterprises (SMEs) venturing abroad. Indeed, due to the small size of SME transactions, these are usually not attractive to private banks and insurers who prefer to finance and insure larger deals.

It is worth noting that ECA support is also beneficial for the national economies of the recipient or host countries, as many international trade or investment transactions would not take place without risk mitigation by ECAs. ECAs have therefore quietly oiled the wheels of international trade for decades (Morel 2011), and provide significant support for the global economy.

Export promotion is a key element for reaching and sustaining high economic growth. The experience of the South East Asian countries is case in point. The same argument goes for the inflow of FDI. Strong FDI inflow stimulates economic growth by raising factor productivity, and increasing the efficiency of resource use among others. (OECD 2002). Further advantages of emphasis on exports and FDI inflow include diversification of the economy and the technological improvements associated with these policies.

1.2. Multilateral ECAs

Multilateral ECAs play a particular role to support of FDI as they have been specifically created with developmental mandates.

Two examples are the Multilateral Investment Guarantee Agency (MIGA), part of the World Bank Group, and The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), part of the Islamic Development Bank Group (IDB).

MIGA (1988): MIGA's mission is to promote foreign direct investment (FDI) into developing countries to help support economic growth, reduce poverty, and improve people's lives (www.miga.org).

ICIEC (1994): ICIEC's mission is to facilitate trade and investment between member countries and the world through Sharia compliant risk mitigation tools (www.iciec.com).

The role of multilateral ECAs is therefore more complex and more ambitious than the one of their national counterparts, which is also reflected in their ownership structure. Beyond their developmental mandate, multilateral ECAs have the challenge of serving the needs of a multitude of member countries with various needs, economic situations and political positions.

2. The Structure of ECAs

2.1. National ECAs

National ECAs can have various structures but always have some kind of government backing. An ECA can take the form of:

- A public institution
- A private company owned by the State or the Government
- A private company that is given a mandate from the Government

The form of an agency depends on the national legal system and traditions, and on how much influence a government wishes to exert on its national agency. While some agencies are run with tight control by the government and have limited decision authority, other institutions are largely autonomous and have the powers to run their business in the way they deem best to fulfill their mandate. In this latter case, the government voluntarily confines itself to a strategic supervisory role with limited or no intervention in the day-to-day operations.

In OECD countries, ECAs have existed for many decades and have matured over this period of time. in about less than a century ago. On the other hand, the ECAs of developing countries, particularly those of the OIC Countries are relatively recent. Therefore, the governance structures of ECAs in these latter countries are not yet at the same standard as in the developed world. Out of the 57 OIC Countries, 23 have ECAs (Smallridge 2015), and improving the institutional strength and capacity of their ECAs is a major challenge that these countries face.

2.2. Multilateral ECAs

As the name "multilateral" implies, these agencies are not owned by only one national government, but by a number of governments and possibly other stakeholders as may be the case, in line with their mandate and geographical region of operation.

ICIEC, for example, is owned by the IDB which holds 52% of the share capital and 44 Islamic countries, members of the Organization for Islamic Cooperation (OIC). Multilateral ECAs might also benefit from shareholders that are external to their region, as is the case for the African Trade Insurance (ATI), a multilateral insurer based in Nairobi, which counts development finance institutions from Europe among its shareholders.

3. The Funding of ECAs

3.1. National ECAs

The funding of ECAs is as diverse as is the variety of legal structures.

ECAs can be fully funded from the government budget. In that case, the ECA acts as an agent of the government with all revenues and expenses (and therefore also the year-end result, gain or loss) being directly attributed to the government budget.

In other cases, where the government is the shareholder of the ECA, the institution receives an initial amount of capital and is then expected to operate as a prudent commercial insurer would do. If the ECA makes a profit, the government as the shareholder could ask it to pay out a dividend while, in turn, it would cover the ECAs losses at year-end, if any.

A similar form of support is the reinsurance of an ECA by its government. In that case, losses of the ECA above a certain threshold would be covered by the government as a substitution for share capital.

A common feature of all types of government support is that the national ECA typically benefits from the national sovereign credit rating of its country. This is an important element of financial soundness that national exporters and investors evaluate when considering taking insurance with an ECA.

3.2. Multilateral ECAs

Multilateral ECAs are funded by the capital subscriptions of their shareholding governments – or Member Countries – and other stakeholders. Next to the quality of their book of business, of their strategy, their risk management, and of their operational organization, the financial strength of multilateral ECAs is therefore largely determined by the financial strength of their shareholders.

Through their unique structure and the backing of their shareholders, multilateral ECAs benefit from high credit ratings, as exemplified by ICIEC with a rating of Aa3 by Moody's – higher than any of its Member Countries.

4. The History of ECAs and the development of multilateral ECAs

4.1. National ECAs

Most of the ECAs were founded as national agencies with the mandate to promote the export and investment interest of their respective countries, although multilateral ECAs were created later and will be discussed below. A few decades ago, ECAs insured both short term and medium to long-term transactions. Although some of them still do, the major ECAs have privatized short term business and keep supporting medium and long-term business only, which are usually large projects supported by their respective national governments.

The first national ECA was established by the United Kingdom in 1919. Interestingly, the rational for the UK's establishment of the ECA was, "to aid unemployment and to re-establish export trade disrupted by the condition of war". The major force behind the formation of these entities was due to the need of kick-starting exports after the first world war (R. Kraus 2011).

The second spate of ECA was after the economic depression of 1929: Japan (1930), Czechoslovakia, Latvia and Poland (1931), Sweden (1933), United States (1934, and Ireland (1935). In 1937, the first ECA outside the developed world was established in Mexico. Then at the end of the second world war, other ECAs were established such as Canada (1944) and France (1946).

In recent decades, many OIC member countries have managed to establish their ECAs or similar programs. These include, Saudi Arabia, UAE, Kazakhstan, Sudan, Qatar, Oman, Lebanon, Jordan and Algeria. Also, two multilateral agencies in the region (DHAMAN), and (ICIEC) came into being in 1974 and 1994 respectively.

4.2. Multilateral ECAs

Compared to national ECAs, the development of multilateral ECAs has been relatively new. The first being the Inter-Arab Investment Guarantee Agency, also known as DHAMAN. Founded in 1974, it qualifies itself as the first multilateral investment guarantee provider in the world. (DHAMAN web). The Kuwait-based DHAMAN is owned by the governments of the Arab countries and four Arab financial institutions. In 1986, DHAMAN started providing cover for trade between its member countries. DHAMAN is rated AA by Standard and Poors.

Multilateral Investment Guarantee Agency (MIGA) of the World Bank Group was established in 1988. The goal of MIGA is to promote investment in developing countries. The organization offers a variety of services to encourage foreign direct investment, including risk insurance against foreign exchange restrictions, war and civil disturbance, transfer restrictions, non-honoring of sovereign guarantees and breach of contract. Many UN countries are members of MIGA. Therefore, the Agency has a strong influence and power in its member countries.

The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) is the second multilateral ECA founded in 1994 with the objective of insuring trade and investment between its member countries. This mandate was later adjusted, and now ICIEC covers exports from member countries to any destination worldwide, and investments from all over the world into member countries. ICIEC has 44 member countries who are all members of the Organization of Islamic Cooperation (OIC), and the Islamic Development Bank which is the biggest shareholder.

The African Trade Insurance (ATI) is another regional multilateral entity founded in 2001, initially with the financial and technical support of the World Bank. The African Development Bank later helped some member countries join ATI. The mission of ATI is to turn Africa's risk into opportunity by providing insurance and financial products to companies, investors, and lenders interested in doing business in Africa. ATI partners with the private and the public sectors. (ATI web). ATI is rated A by Standard and Poors.

5. The role of ECAs in facilitating International Trade and Foreign Direct Investment

Beside fostering trade and investment, ECAs fill the market gap left by financial institutions that may not have an appetite to undertake certain deals that either are too risky or are outside their fields of interest. (Smallridge, 2015).

In other words, ECAs primarily underwrite so-called non-marketable risk; sectors and transactions that commercial banks or insurers would not venture into, because of low return, high risk, and/or excessively long tenors. Also, ECAs underwrite small, SME-type transactions that generate lower premiums and are therefore unattractive to private market players. In order to encourage exports or investments, ECA can afford to venture into higher risk deals at relatively low rates because they are not for profit entities.

However, the fact remains that ECAs need to be financially sustainable. They therefore need to adequately risk-manage their portfolios and pay attention to balancing the risks they assume.

5.1. Risks faced by Exporters

Exporters typically face two types of risks related to the non-payment by the buyer for goods that they have delivered – commercial and political risks. The commercial risk is associated with a buyer's potential lack of creditworthiness (inability to pay) or his unwillingness to pay. The common situations where commercial risk materializes are protracted default, insolvency or bankruptcy. Instead of selling goods against cash or prepayment, or the use of a more complicated and sometimes expensive letter of credit, the use of credit insurance is a safe and efficient alternative. It has the advantage of giving support to exporters to commit more international sales by limiting the impact of potential losses.

In addition to commercial risk, non-payment risk can also arise due to events beyond the control of the buyer – the so-called political risks. These are situations where an overseas buyer who is willing and able to pay might be prevented to do so due to a political act. For example, situations of currency inconvertibility; inability to transfer payments; war and civil disturbance; or confiscation.

The importance of credit insurance is summed up as follows: "the essential value of trade credit insurance is that it provides not only peace of mind to the supplier, who can be assured that their trade is protected, but also valuable market intelligence on the financial viability of the supplier's customers, and in the case of buyers in foreign countries, on any trading risks peculiar to those countries (Jones, 2010).

5.2. Risks faced by Investors

The risks that investors face in a foreign country are multifaceted but not all of them come into the domain of political risk insurance. Risks like project risk, transaction related risk, fraud, non-performance of business, theft, fire on properties etc. for example are not necessarily attributable to a political act or act of a host government.

Foreign investment insurance, or Political Risk Insurance, however, covers the risks associated with government acts or other politically motivated acts that can lead to losses for investors.

These include:

- Expropriation/nationalization,
- War and civil disturbance,
- Inability to transfer or convert currency,
- Breach of contract
- Non-honoring of a sovereign payment guarantee.

The stability of a host country is a critical factor in determining whether an investor may or may not obtain political risk insurance coverage from an ECA. In some countries, the situation might be so unstable, and the risks so imminent, that ECAs may reject to provide investment insurance and they may classify the country as "off-cover". On the other hand, there might be sanctions imposed against a country by the ECAs' own governments that may prevent them from covering business in that destination.

The location of an investment is also determinant in terms of riskiness. It is possible that a country is generally unstable, and the insurance adage of a "house-on-fire which cannot be insured anymore" is applicable, but a specific niche might still be insurable. For example, some ECAs covered off-shore oil rigs in Angola a few decades ago while the country was in full civil war. It was rightly assessed that the civil disturbance could hardly reach these offshore facilities.

6. Risk mitigation offered by ECAs

6.1. Transaction stages

ECAs can support their clients in all stages of their international business undertakings. As a rule, ECA coverage is not only a vital risk management tool, but ECAs also have the role to mobilize private financing. Indeed, it is the ECAs' insurance coverage that encourages private banks or other financiers to participate in an export or investment transaction.

Early stages

At the initial pre-production or during early production stage, exporters may have import needs, particularly for raw materials and technology (Smallridge, 2015). To acquire these, they need foreign currency which might be scarce locally. These are the first needs that ECAs can take care of, either by direct financing or providing insurance coverage to induce private financiers to participate in the deal.

Pre-shipment stage

Once the production has started but products have not yet been shipped, commercial or political risks beyond the control of the exporter may already cause the overseas buyer to go bankrupt, or the export contract to be cancelled. In these cases, ECAs can provide pre-shipment insurance to indemnify the exporter for the goods already produced and that cannot be sold to alternative buyers.

Credit stage

Finally, once the goods are produced, shipped and have reached the buyer, the credit risk starts. There are several reasons why the buyer might not be pay the exporter for goods delivered. Political risks take the form of import/ export license cancellation, war and civil disturbance, transfer restrictions, or difficulties in converting currencies. Commercial risks are the ones pertaining more strictly to the buyer like insolvency, protracted default or repudiation of the contract (when the buyer renounces his obligations).

6.2. ECA products to mitigate risks related to export and investment

Depending on their mandate, ECAs provide either all or some of the following: Financing facilities, Guarantee Facilities, Credit Insurance Facilities, Investment Insurance Facilities, Bonding Facilities, and Advisory Services (Smallridge, 2015).

- **Financing Facilities** are loans that are provided by an ECA to one of the parties in an export transaction. Usually, they take the form of loans to overseas buyers, allowing the purchase of goods from a national company. However, loans might also be extended to a national company for the import of production equipment (in the early stages of a transaction) or to cover working capital needs.

- **Guarantee Facilities** are an essential element of the business of ECAs. Without an ECA guarantee, private financing institutions may not accept the risk of a local client or entity. Guarantees are provided to financiers to encourage them to provide loans to overseas importers or working capital to national exporters. Guarantees can be applied in both export and foreign investment transactions.

- **Credit Insurance Facilities** are a solution to the above-mentioned risks of non-payment faced by exporters due to commercial or political risks. These facilities may be done on a short term basis (whole turnover concept) or medium and long-term basis (specific transaction insurance).

In a Whole Turnover Policy, exporters and insurers normally agree on policy terms on a yearly basis. In terms of implementation, the insurer sets a credit limit on each buyer, after a close assessment of their respective creditworthiness. A credit limit is the maximum exposure on a specific buyer (value of goods shipped) that the insurer agrees to insure. If the exporter were to ship any higher amount to a buyer than the agreed credit limit, the additional amount would not be covered – and therefore not indemnified in the case of non-payment. Fortunately, the credit limit concept is dynamic in the sense that when a shipment has been paid for, the limit is freed up, and the exporter can send a new shipment to the buyer.

The cover percentage is normally 90% of the turnover. Both exporters and banks that are financing exports can be the beneficiary of this type of insurance. In the event of a default, the insurer indemnifies the agreed percentage, after a waiting period. During this period, risk mitigation negotiations, in the form of loss minimization take place, and the insurer get subrogation documents from the insured exporter. After having indemnified the exporter for his loss, the insurer steps into the shoes of the exporter and tries to recover the monies from the defaulted buyer.

- **Investment Insurance Facilities** are critical to the development of all countries as they facilitate the inflow of FDI which is crucial for the continuous growth of the fundamental sectors of each country. These investments can be in the form of loans or equity. Investment insurance is a risk mitigation product that helps investors to obtain confidence to invest in countries where there is a perceived political risk. This is applicable to the majority of OIC member countries. The coverage is limited to specific risks of political nature such as risks of war, civil disturbance, transfer of money, breach of contract and non-honoring of a sovereign obligation. This type of insurance is normally for the long terms and goes up to 15 years and above. Not only investors but also banks financing projects can also be the beneficiaries of this product. A default due to a foreign investment insurance transaction is less frequent than in export credit insurance, but the severity is usually immense to say the least. Hence the argument that Foreign Investment Insurance is less risky than export credit is a misconception.
- **Bonding facilities –** These services take a number of forms such as coverage of bid bonds or performance bonds which are necessary for contractors and commercial banks who issue these bonds. It is an area that is not well developed among the ECAs of OIC member countries but is all the more very necessary.
- **Advisory services:** Most of the ECAs nowadays offer ancillary services in the form of advisory or intelligence (information) services. Especially the more mature ECAs have developed capacity in data gathering and analysis. These include but are not limited to credit information, which is crucial for decision making, and can help exporters and investors in their business ventures.

7. ECAs' Operations

7.1. ECAs' Risk Management

ECAs have no obligation to insure all transaction that are presented to them. First, underwriters review requests and vet if projects are eligible for cover. The eligibility conditions vary from country to country, but mostly national ECAs demand that a certain part of the exports to be covered are effectively national content – goods that have been produced in the country (as opposed to foreign content which are goods that are imported and then re-exported). National content ratios vary between 30% and 50%.

The risk assessment system is made of several levels. ECAs mitigate their risks by conducting thorough assessments of buyers as well as of the situation of the country in which they operate. Buyers are normally evaluated with their financial strength, business model and credit history. The latter is very fundamental in the assessment. The buyer's payment record shows the behavior of the company in terms of obligations. A company might be financially strong but has a past track record of not paying its obligations on time. This may reduce an ECA's willingness to cover sales to this buyer. On the other hand, a financially weaker buyer might have a good historic payment track record and would therefore be covered despite its less favorable financials.

Country risk is assessed in line with the economic strength of the economy, especially balance of payments, external debt and diversification. The level of political stability is also critical. In that respect, the OECD risk rating is considered an international standard although each ECA might adjust OECD ratings to reflect its own assessment of a country's risk. The OECD classification comprises seven grades from the best creditworthiness to the worst position and is available online. (OECD web).

7.2. The OECD Consensus Agreement

The ECAs of OIC Countries may learn from what has transpired in the industry for the past forty years or so. As far back as 1976, OECD countries began coordinating their policies on export credits. Two years later, the Arrangement on Guidelines for Officially Supported Export Credits came into being; this Arrangement was accepted directly by the Participants and developed in the framework of the OECD. Today, this Arrangement still ensures the operation of an orderly credit market and seeks to prevent countries from competing against each other to offer the most favorable financing terms for exports". (OECD.org web). The key items that OECD harmonizes include: calculation of minimum premium rates; the introduction of a uniform country classification of seven categories; sector understandings, project finance, and percentage of insurance cover; fixed interest rates for project financing and concessional financing.

7.3. The role of ECAs in times of economic and political uncertainty

Despite various mandates and structures of ECAs, their importance Is evident, especially in times of global uncertainty. During the financial crisis of 2008-2010, private banks and private credit insurers reduced their exposures, in the area of trade finance. Due to the heightened risk environment, they were less willing to finance and insure sales transactions to buyers in risky markets. It was observed that ECAs stepped in to keep companies going as reflected by the overall higher business exposure reported by ECAs during the recent post-crises. As shown above in the history section, ECAs role becomes very prominent as countries face economic and/or financial difficulties. (Kraus, R.2011).

In 2016, Berne Union members covered exports and investments to the tune of 1.9 trillion USD, or 11% of the world trade, dwarfing all official sources of development finance combined (such as the World Bank, Regional Development Banks, bilateral and multilateral aid, etc.). (Berneunion web). As a result, Berne Union members paid claims and indemnified exporters and investors for losses in international transactions to the tune of 40 billion USD since 2008. As a result of losses sustained in developing countries which they try to recover, ECAs today hold a significant portion of developing countries debt.

8. International exchange and cooperation among ECAs

Cooperation is crucial for institutions with similar functions and similar mandates. In the case of ECAs, it is done through trade associations among the key players in the industry. The ECAs have long established the Berne Union in 1934 which was later followed by similar outfits such as the Prague Club and the Aman Union. Also, there are further regional bodies not discussed here such as Dakar club for West African ECAs.

In these associations, members meet several times a year and discuss matters important to the industry. Membership is restricted for some associations, as prospective members are required to meet certain criteria in terms of business volumes and number of years in business; while other associations have more flexible criteria. The meetings are focused on information exchange, peer-to-peer learning, and benchmarking to foster the development and adoption of international best practice in the industry. Delegates exchange recent developments in the industry, discuss the results of member surveys and conduct seminars in specific areas such as business development, new emerging risks and tools for mitigation, underwriting and risk assessment (commercial and country), claims and recoveries, corporate and social responsibility, etc.

8.1. The Berne Union

The Berne Union (BU) was founded in 1934 as an international not-for-profit trade association a few years after the economic depression when the second batch of ECAs came into existence (see above). Credit insurance institutions from four countries: France, Italy, Spain and the UK held an initial meeting in Berne, Switzerland, which is where the name came from. The mission of the Berne Union is to actively facilitate cross-border trade by supporting international acceptance of sound principles in export credit and foreign investment. This is achieved by providing a forum for professional exchange, sharing of expertise and networking amongst members, as well as through engagement in collaborative projects with other stakeholders from across the wider trade finance industry (Berne Union web).

While the Berne Union was viewed as a body for official ECAs for many decades, its membership today also includes all major private insurers of credit and investment. Currently, the Berne Union has 84 members from 73 countries, which include government supported entities, private credit and political risk reinsurers, and multilateral agencies (for the full list of members, see appendix A). In addition to the members, the BU has partners in business, which may occasionally be invited to the meetings of the BU. These include the leading international financial institutions as show in Appendix B.

The BU is led by a President, Vice President and Management Committee, with each elected position having a tenure of two years. The Management Committee is supported by a permanent secretariat led by a Secretary General based in London, UK. The BU leaders meet twice annually, in the so-called Annual General Meeting, whereby seniors of the BU tackle important issues and exchange issues of mutual interest.

8.2. The Prague Club (PC)

The Prague Club is an information exchange network for new and maturing insurers of export credit and investment. It was founded in Prague in 1993 by a group of newly founded Eastern European ECAs that, at the time, were not eligible for Berne Union membership because they had only been in existence for a few years and also did not meet the BU requirements in terms of business volumes. For more than 20 years, the Prague Club was supported by the BU in so far as the permanent secretariat served both associations, organizing meetings, workshops and seminars. Over time, the BU and PC grew closer and closer until they merged in 2016 to create a new global association for export credit and investment insurers.

8.3. The AMAN UNION (AU)

AMAN UNION (AU) is a professional forum assembling Commercial and Non-commercial Risks Insurers & Reinsurers in Member Countries of the Organization of the Islamic Conference and of the Arab Investment & Export Credit Guarantee Corporation (DHAMANAU was launched on 28th October 2009, following an agreement between DHAMAN and ICIEC), in the spirit of advancing the cooperation of the ECAs of the OIC member countries. Since its creation, the Secretariat and the Chairmanship of the AU has rotated between ICIEC and DHAMAN, but will be handed in 2017 for the first time to Turkeximbank, the biggest ECAs in OIC member countries.

Like similar associations, the AU leaders meet regularly, and members discuss issues of mutual importance. In addition, professional seminars and training are held in line with the activities of similar networks. In 2013, at its annual meeting in Qatar, the AU officially launched a database in which members exchange credit information. The list of AMAN Union members is shown in Appendix C. (AMAN union web).

9. ECAs and the OIC Member Countries

9.1. Challenges faced by OIC Member Countries

The business of ECAs was primarily implemented in the developed world, where cross-border risks are low or moderate and where countries have diversified economies that produce a wide range of tradeable products. The level of experience and knowledge of the staff of these ECAs has matured over the decades. Also, these ECAs are normally supported with substantial capital and/or government backing.

In contrast, the ECAs of the OIC member countries operate in an environment that poses constraints which are specific to the region and which impacts their operations.

Country risk environment

Most of the OIC Countries fall into high-risk categories, namely Asia and Africa, and, more specifically, the Middle East and Sub-Saharan Africa. With an emphasis on intra-OIC trade, this poses challenges to ECAs. in terms of underwriting. Indeed, while underwriting substantial amounts of risk in OIC Countries' would be in line with their mandates, in terms of risk management OIC ECAs have to be cautious and avoid building books of business that are heavily skewed to high risk countries. The necessity of having a diversified portfolio, where good and bad risks are balanced is of crucial importance and a particular challenge.

Commodity-based economies

Most of the economies of the OIC member countries are based on commodities whose prices fluctuate, and are vulnerable to high fluctuations of boom and bust cycles. In addition, since several of these countries produce similar products in agriculture and minerals; opportunities for intra OIC trade is limited.

Complacent approach to risk

The business of credit and investment insurance is not sufficiently understood in OIC Countries, and even advanced countries face challenges in convincing their business community to protect themselves against trade and political risks. It is quite common that business people underestimate the risks that they face in cross-border transactions, especially when dealing with neighboring countries in their vicinity. The effect of "I know my customer after having dealt with him for decades" seems to be a common mistake. In high-risk countries, unforeseen developments often happen and result in buyers defaulting on their obligations in spite of their best intention to pay.

The service of credit and political risk insurance is new to the region. As it is common for insurance in general, the advantage of insurance cover is not obvious from the outset, but materializes when things go wrong. Often, exporters start to consider insurance coverage after they have suffered from a client default that led to a loss. On the contrary, exporting companies ought to develop the concept of securing export proceeds as a standard risk management tool. This will not only shelter them from unforeseen losses, but will also give them a substantial leverage to obtain financing from their banks.

Weak Market Penetration

Exporters in OIC Countries have difficulties to penetrate markets in the region because of information asymmetry, market barriers and red tape, the small scale of their business (SMEs), and a lack of financing means. This makes most of the exporters end up with a small export volume. In fact, this is a major hurdle since the business of credit and investment insurance works on the concept of critical mass. This has proven to be a weakness for OIC member countries.

Dearth of skilled staff and technological challenges

The staff who conduct the business of export and investment operations is generally limited in number as extensive experience is needed to conduct this complex business. Both exporters and importers in the OIC Countries need to invest in human capital for dealing with international counterparts. Providing training and improving the human capital is a role that can be played by development agencies like the Islamic Development Bank with its affiliates such as ICIEC, ITFC , ICD and IRTI.

Automation and computerization are a key element for success in international trade. Although progress has been made in this regard, the level is still low in some OIC Countries where ways of information processing and decision making must be modernized.

9.2. Specific challenges faced by OIC ECAs

ECAs in OIC Countries face the challenges pertaining to the region as noted above. In addition, they also face challenges which are more directly linked to their industry.

Competition from external players

In recent years, the ECAs of the region have faced strong competition from the large internationally operating private credit insurers, the so-called big three – Atradius, Coface, and Euler Hermes. These entities and others have opened offices in the key economies of the region over the past years or they use local companies to front for them.

While the service provided by private credit insurers is a welcome offering for the exporters in OIC Countries, the competition makes it difficult for national ECAs to develop a substantial client base. Indeed, large and technologically advanced insurers can offer coverage at a lower cost than ECA, which makes it difficult for the latter to retain existing clients or acquire new clients. Naturally, the private credit insurers prefer to insure risks in less risky market, say buyers in Europe or in the US, and they might not be willing to offer coverage for exports to high-risk OIC countries. So, the high-risk business would therefore be left to the ECAs and the risk for them is to be stuck with an unbalanced portfolio which would not be sustainable in the long term.

Lack of credit and investment insurance industry skills

It takes more than a year to train a professional staff and make him or her become productive in underwriting or assessing risk, be it company risk or sovereign risk. In addition to the limited pool of qualified people, the necessary salary required to retain them makes up a significant portion of the cost structure of ECAs and affects negatively their bottom-lines. This is aggravated by the weak technological level that makes quick turnaround almost impossible.

Weak or non-existent credit information

There is a widespread weakness in the area of credit information in the ECAs of the OIC member countries. There are few countries that have solid credit information bureaus, and the data does not cover widely the business entities of these countries. Most of these countries have high informal economies that are estimated at over 30% in South Asia and 45% in Sub-Saharan Africa. (The Economist, May 13, 2017). Without reliable information, the business of export and investment insurance will remain significantly hampered to say the least.

Lean capitalization – many national ECAs of the OIC member countries are small in terms of capital as well as other operational indicators, with the marked exception of Turkeximbank. This weakness significantly restrains their ability to fulfill their mandate which is to support economic operators. The pressure to underwrite large transactions on a shoe-string capital base is a dilemma faced in a number of institutions.

10. The way forward

In light of the challenges that prevail in OIC Countries and in light of the specific challenges faced by their ECAs, this section provides recommendations for the structure and operations of existing and future ECAs (in line with the Smallridge 2015 analysis). Finally, it will be shown how ICIEC can support these ECAs and thus contribute to the development of the credit and investment insurance industry in the region.

10.1. Existing ECAs

For current ECAs, it is advised that they have a clear and tangible vision based on the nature of their economies and the needs of their exporters and other local beneficiaries. It is observed that in many instances, the business volume of ECAs remained stagnant, possibly because the product offering was not in line with the economies of their countries.

It is therefore necessary to engage with the private sector, meaning both manufacturing companies and financial institutions. First, it is always good to consult with your customers, not least because they know the basic needs of their business. In addition, the private sector financial institutions are key to the industry, without downplaying the role of government banks in some cases. Moreover, it is believed that the engagement of the private sector will add to the strength of the ECAs in the area of governance, risk management, business development, etc.

Traditional ways of doing things are no recipe for success in today's world of dynamic and evolving environment. National ECAs especially need to strengthen governance, customer outreach and service, and risk management. The latter is critical to the decision making of these entities, and its approach has changed significantly to information technology driven era. In other words, automation has become the name of the game in today's business of credit and investment insurance. Gathering critical mass data and use of robust models for risk analysis is a must for the current ECAs' performance.

Last but not least, current ECAs need to balance two seemingly contradicting demands from their shareholders – the pressure to serve the needs of their clients in high-risk environment in many instances, and to maintain satisfactory results as far as financial performance is concerned. It needs to be underlined that paying claims is the business of ECAs. If an ECA does not pay a valid claim, it may close its doors. "The ability to make a valid claim and to be indemnified for a loss suffered is the fundamental reason why exporters buy export credit insurance". (Morel,F. 2011). ECAs need to take calculated risks that balance the two opposing forces noted above.

10.2. Future ECAs

The decision to set up an ECA must be carefully reflected upon, and it necessary that local authorities conduct extensive consultation with stakeholders in their countries. Ultimately, the objective must be to find the market gap that prevails in a terms of risk mitigation for export and FDI promotion in a country. This means firstly to identify the needs of exporters, the needs of companies that would like to invest abroad, and the needs of FDI providers from abroad. Secondly, the market gap will be apparent, if no private market player (insurance company), be it local or foreign offers the needed risk mitigation services. As a result of the analysis, the decision might be not to go ahead with creation of an ECA. However, if the decision ultimately is in favor of an ECA creation, the questions that have been described in previous sections have to be considered for setting up the institution: mandate, governance, management, operations, product suite, etc. have to be adapted to the specific situation of the country and the relevant economic stakeholders. Needless to say, the government setting up an ECA must be conscious that this is a very long-term commitment that may continue to operate for decades.

10.3. The support of ICIEC to foster export and investment in OIC Countries

As a multilateral ECA, ICIEC can provide support to the 44 OIC Countries (as of 2017) that have also completed the membership requirements of the Corporation.

For its member countries, as noted above, ICIEC can offer a number of products that suit their needs. The key beneficiaries of these services are exporters, financial institutions that support exporters and companies that want to attract foreign investment for new projects or the expansion of old projects., among others.

ICIEC's Shariah compliant risk mitigation products

ICIEC addresses the needs of exporters and investors to shelter them from a wide range of non-payment risks related to cross-border transactions. It is not easy to predict where risks will come from. Insurance coverage therefore gives companies peace of mind, allowing them to maximize their export business volumes and to invest into unknown markets. In addition, the coverage is crucial for the access to financing.

ICIEC has a full product suite, including short term whole-turnover insurance (up to one year), and specific risk insurance. This is done through ICIEC Comprehensive Short-term Policy (CSTP) and Specific Transaction Policy (STP). The latter can also be used for the medium term. ICIEC can also provide a medium-term insurance facility (2-7 years) for its clients involved in projects. Being the only multilateral ECAs that provides Shariah compatible export credit insurance, ICIEC can join forces with Islamic financial institutions to serve the Ummah. The Corporation has specific policies coined to address these needs such as the Bank Master Policy, which is designed for Islamic Banks involved in financing export operations. Also, ICIEC has Documentary Credit Insurance Policy (DCIP) where banks of exporting countries are covered against the risk of non-payment by host country banks due to commercial or political reasons.

Foreign Investment Insurance is key to the economy of ICIEC member countries. Whether it is by perception or reality, overseas investors have a lot of concerns when it comes to going to ICIEC member countries. To address these fundamental issues, ICIEC has the necessary tools to insure standard political risks, and non-honoring of sovereign guarantee and breach of contract in these markets. Here, it is not only ICIEC's insurance capacity that is benefits the client, but the implicit support of its parent bank, Islamic Development Bank Group, as well as the support of first class global reinsurers in Europe.

Cooperation and leveraging other institutions' capacity

In addition to the above products and services, it is also relevant to note that ICIEC co-insures or re-insures with other multilaterals such as MIGA, ATI and DHAMAN. Joining forces with other multilateral institutions can be done in strategic projects, where there is an overlap in terms of common members countries.

In the same vein, ICIEC can provide reinsurance to national ECAs of its member countries through an inward quota share treaty, thus leveraging the insurance capacity of the national institution.

Lastly, as a founding member of the Aman Union, ICIEC fosters international cooperation among OIC ECAs which is vital given their relatively brief history. Further strengthening of Aman Union is necessary as this trade association can pool services mutually needed by the national ECAs, namely: technical training for staff, pooling and sharing credit information, cooperation on transactions and business opportunities, development of automated tools for management and processing of credit and investment insurance.

With over 20 years of experience in the business and a successful track record, ICIEC will continue to foster trade and investment in OIC Countries as well as to support national ECAs.

Appendix A: BU and PC members

ABGF (Brazil)	AIG (United States of America)	Altum (Latvia)
AOFI (Serbia)	ASEI (Indonesia)	ASHRA (Israel)
ATI (African Trade Insurance Agency)		Atradius (The Netherlands)
BAEZ (Bulgaria)	Bancomext (Mexico)	BECI (Botswana)
Bpifrance Assurance Export (France)	CESCE (Spain)	
Chubb (United Kingdom)	Coface (France)	COSEC (Portugal)
Credendo Group (Belgium)	DHAMAN (Arab Investment & Export Credit Guarantee Corp)	
ECGA O (Oman)	ECGC (India)	ECGE (Egypt)
ECIC SA (South Africa)	ECICS (Singapore)	ECIE (UAE)
ECIO (Greece)	EDC (Canada)	EFIC (Australia)
EGAP (Czech Republic)	EGFI (Iran)	Euler Hermes (Germany)
EIAA (Armenia)	EKF (Denmark)	EKN (Sweden)
EXIAR (Russia)	EXIM Hungary (Hungary)	EXIM J (Jamaica)
EXIM R (Romania)	Eximbanka SR (Slovakia	Eximgarant (Belarus)
FCIA (USA)	Finnvera (Finland)	GIEK (Norway)
HBOR (Croatia)	Hiscox (Bermuda)	HKEC (Hong Kong)
ICIEC (Multilateral)	IGA (Bosnia & Herzegovina)	JLGC (Jordan)
KazexportGarant (Kazakhstan)	KREDEX (Estonia)	KSURE (South Korea)
KUKE (Poland)	LCI (Lebanon)	Liberty (UK)
LPEI (Indonesia)	MBDP (Macedonia)	MEXIM (Malaysia)
MIGA (World Bank)	NAIFE (Sudan)	NEXI (Japan)
NZECO (New Zealand)	ODL (Luxembourg)	OeKB (Austria)
OPIC (USA)	PICC (China)	PwC (Germany)
SACE (Italy)	SEP (Saudi Arabia)	SERV (Switzerland)
SID (Slovenia)	SINOSURE (China)	SLECIC (Sri Lanka)
SONAC (Senegal)	Sovereign] (Bermuda)	TASDEER (Qatar)
TEBC (Chinese Taipei)	Thai Eximbank (Thailand)	Turkeximbank (Turkey)
UK Export Finance (UK)	Ukreximbank (Ukraine)	US Eximbank (USA)
Uzbekinvest (Uzbekistan)	XL Insurance (UK)	Zurich (USA)

Appendix B: BU Partners

ADB – Asian Development Bank

AfDB – African Development Bank

ALASECE – Latin American Association of Export Credit Insurance Organizations

BIS – Bank for International Settlements

BSTDB – Black Sea Trade & Development Bank

EBRD – European Bank for Reconstruction and Development

EU – European Union

IADB – Inter-American Development Bank

ICC – International Chamber of Commerce

ICISA – International Credit Insurance & Surety Association

IDB – Islamic Development Bank

IMF – International Monetary Fund

ITFA – International Trade & Forfaiting Association

JEDH – Joint External Debt Hub (BIS, IMF, OECD, World Bank & Berne Union)

OECD – Organization for Economic Co-operation and Development

Paris Club

UNCTAD – United Nations Conference on Trade & Development

World Bank

WTO – World Trade Organization

Appendix C: AMAN UNION members

ICIEC	KSA
TURKEXIM	Turkey
DHAMAN	Kuwait
ECIE	UAE
CAGEX	Algeria
NAIFE	Sudan
ECGE	Egypt
KazExportGarant	Kazakhstan
Asuransi-ASEI	Indonesia
EXIMBANK	Malaysia
EGFI	Iran
ECGA	Oman
JLGC	Jordan
TASDEER	Qatar
LCI	Lebanon
SEP	KSA
SHEIKAN	Sudan

Appendix D: ATI members

Benin	Malawi
Burundi	Rwanda
Democratic Rep. of Congo	Tanzania
Ethiopia	Uganda
Madagascar	Zambia
Kenya	Zimbabwe

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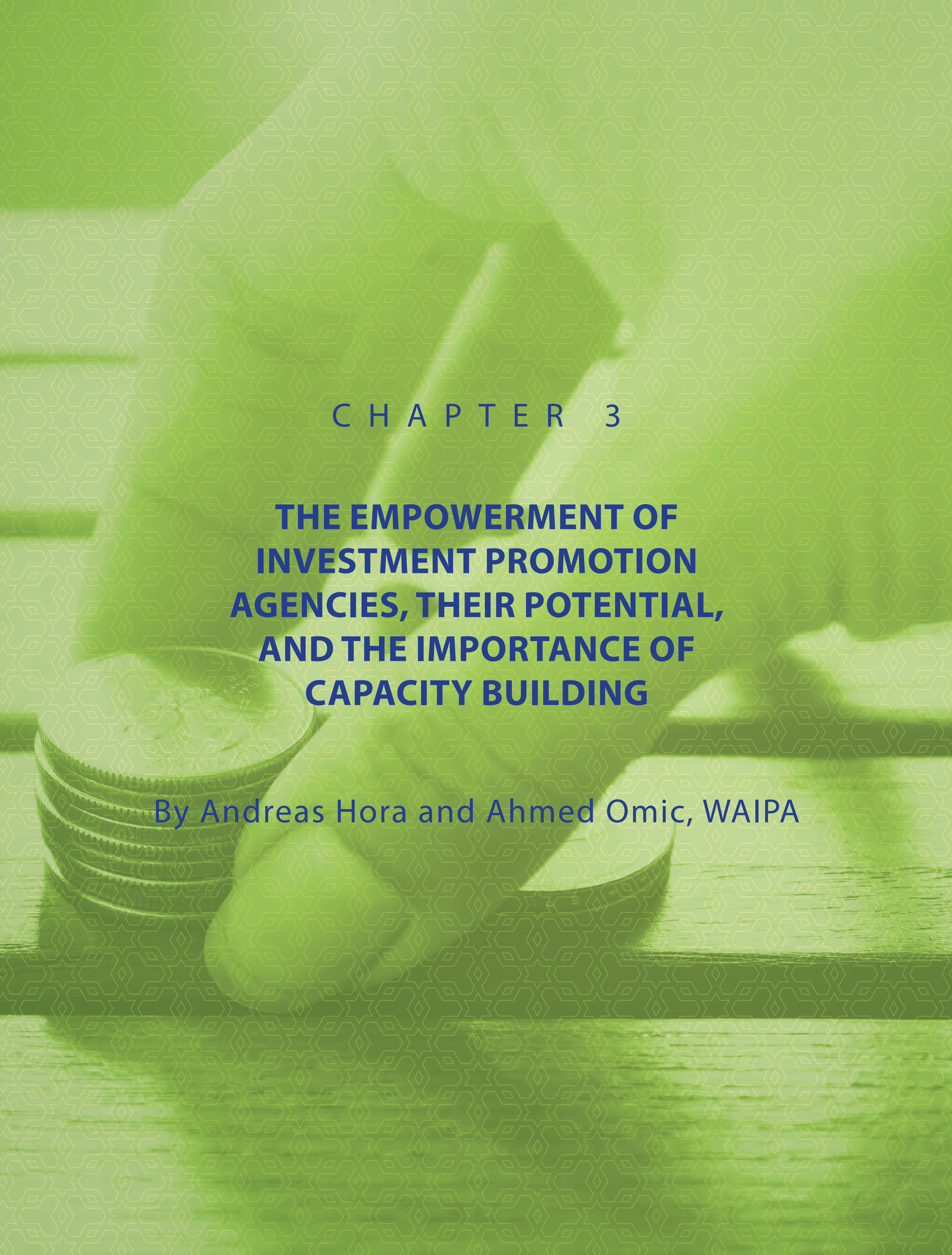

CHAPTER 3

THE EMPOWERMENT OF INVESTMENT PROMOTION AGENCIES, THEIR POTENTIAL, AND THE IMPORTANCE OF CAPACITY BUILDING

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Investments crossing international state borders are essential for the advancement of economic and social integration all over the world. Investment Promotion Agencies (IPAs) play an important role in attracting these investments as they are often the public face of governments seeking to promote economic and social development. IPAs are generally instrumental in negotiating investment treaties and concluding investment contracts. Consequently, they also manage investment relationships through after care services. In recent years, WAIPA has witnessed an ever-growing flow of Foreign Direct Investment (FDI) from developed into developing countries, although slightly declining in the last year (UNCTAD, 2017). In addition, FDI from developing economies to other developing economies, the so-called South-South investments, also gained in importance, creating beneficial spillovers globally, thus contributing directly to welfare and prosperity.

While global FDI is still below the level of the Global Financial Crisis of 2008/2009, it is expected to grow in the coming years (UNCTAD, 2017). Yet, the huge investment gap that prevails creates an enormous chance to mobilize resources for the United Nation's Sustainable Development Goals (SDGs), in short to invest into the future. This also puts the spotlight on IPAs and the role of investment promotion in general to contribute decisively to achieving these goals.

This chapter will look at the role of IPAs and their potential, and will give examples how some countries overcame investment barriers. Furthermore, the chapter will emphasize the importance of empowerment of IPAs, and will give examples of a successful IPA structure and strategy and of the successful transition of an IPA from an old to a new structure. Finally, the chapter will underline the importance of regular capacity building for IPAs to stay up to date in a dynamic and highly competitive environment.

1. The potential of IPAs

Given the importance of IPAs as the first point of contact for investors who consider venturing into a new country, IPAs are often underused in respect of their full capabilities.

From WAIPA's experience, most of the IPAs are steadily improving their performance readiness, yet there are often obstacles which prevent an IPA to deploy its full potential. A recurring issue is that the legal framework and institutional anchoring for IPAs is often inadequate. A streamlined, clearly structured, transparent investment environment, in which an IPA can operate efficiently will inevitably lead to more investments; in terms of new investors coming into a country, in terms of expansion of existing investments, and in terms of further investments by investors that are already present.

Sub-optimal institutional anchoring, insufficient funding resulting in a lack of staff, and, in some parts of the world, a low level of computerization are issues that IPAs frequently face. WAIPA as an umbrella institution advocates to equip agencies with the necessary resources, and at the same time to create a positive and transparent framework for both the agencies and the investors.

Once the framework is sound, one of the most important tasks IPAs should fulfill is to develop a sound promotion strategy. Indeed, there a is strong positive correlation between the quality of investment promotion, which stems from the quality of the stated strategy, and FDI inflows (Harding and Javorcik, 2012).

A well-defined strategy builds a framework for appropriate activities that can be grouped in four categories (UNIDO, 2003).

The first category includes activities aimed at **building or changing the image of a country**. Generally, these are public relation activities and advertising campaigns.

The second category embraces everything that is targeted at **identifying and removing administrative barriers** to FDI. Further below, we will examine in detail how these techniques can radically change investment inflow.

The third category that contributes to a successful strategy is comprised of activities for investment generation by **targeting specific investors**. Since different investments generate different jobs, targets are based on economic plans of a country and its overall strategy and goals.

The fourth and last category comprises **investor servicing techniques,** also known as aftercare. These are aimed at servicing existing investors for ongoing investments to be successfully implemented. Making "happy investors" is a marketing tool that helps attracting new investments as well as retaining current ones. Unfortunately, despite their importance and effectiveness, IPAs often neglect these investor servicing techniques. According to the World Bank only 10% of all IPAs resources are generally allocated to aftercare activities (Heilbron, 2017). A successful IPA strategy includes all four categories of activities. However, the degree and intensity of each is varying by country and needs to be adapted to changing circumstances and preferences.

Let us assume an IPA has the necessary resources, an adequate anchoring in the governmental structure, a well-defined promotion strategy, and the country has a sound legal framework; we would then argue that the IPA is in all likelihood able to function in its full capacity to serve investors. If these conditions are fulfilled, the resulting sound investment environment with clear and transparent rules will enable the IPA to be a reliable partner because it can concentrate on its work, servicing the investor, before as well as after an investment is made.

2. Investment entry barriers, reform examples, and a strategic regional outlook

There are several types of investment entry barriers, ranging from legal and regulatory barriers, to procedural barriers and de facto barriers.

Legal and regulatory barriers include the prohibition of foreign investment in certain sectors, restrictions on top management personnel or discriminatory licensing requirements. Procedural barriers include obtaining investment approval, registration, or notification of investment, obtaining a work permit or visa, opening a bank account in a foreign currency and having documents recognized – all these factors cause increased time and costs. Lastly, there are the de facto barriers, arguably the most difficult ones to overcome, e.g. lack of transparency and excessive discretion and lack of certainty.

The positive effect of lifting legal and regulatory barriers is exemplified in the cases of Turkey and Liberia.

Before the reform of FDI regulation in Turkey, FDI was subject to minimum investment requirements and to screening in addition to any licensing requirements applicable to domestic investor. The World Bank thus suggested to terminate the two specific FDI restrictions. In 2003, the minimum investment requirement for FDI were removed and the ex-ante screening that all investors had to go through was replaced by a simple system of registration. This resulted in in plus of 1.47 billion USD 3 years after the reform.

In the case of Liberia, the pre-reform situation meant that a screening of all foreign investment projects was mandatory, and FDI was prohibited in 26 sectors. The World Bank's recommendation was the establishment of national treatment[1] - which stipulates equality between foreign and national investors - as a cornerstone for investment, and to eliminate sectorial restrictions to ensure compliance with WTO rules. These recommendations were adopted in 2010 by reducing the number of Liberian-reserved activities from 26 to 16. The reforms resulted in a plus of 213 million USD in the two years after the reform.

These two examples perfectly illustrate how investment barriers can be overcome by implementing easements on FDI regulation (Kotschwar, 2017).

For an IPA to function in its full capacity, it needs to be aware of the regional economic outlook; otherwise it would not be able to adjust its strategy and activities. According to the UNCTAD Investment Report 2017, FDI inflows to developing countries are expected to increase by 10 percent, while flows in developed countries will remain steady.

[1] a host country extends to foreign investors treatment that is at least as favorable as the treatment that it accords to national investors in like circumstances (see UNCTAD, 1999)

In Africa, flows are expected to increase due to the rise in oil prices and potential increase in non-oil FDI. Also, expected investment from China and United Arab Emirates may increase non-commodity FDI (UNCTAD, 2017). Following FDI flows predictions, several countries in this region enacted new investment laws and policy measures for FDI facilitation. Egypt revised the investment law and established the Supreme Council for Investment, which aim is to supervise effectiveness of investment policies. In a similar manner, Tunisia and Algeria enacted new investment laws, offering diversified incentives for the prospective investors (UNCTAD, 2017).

Major Asian economies such as China, India and Indonesia restructured their policy measures for FDI attractions, which can positively affect FDI inflow. For example, Indonesia turned the status of the city Batam from a free trade zone to a Special Economic Zone (SEZ) where investors can reap additional benefits such as tax holidays or accelerated amortizations (UNCTAD, 2017). For the developing Asia region, inflow of investment is expected to grow up to 15%. Bangladesh, Nepal, and the Philippines should expect inflow of FDI in aviation, renewable energy, and the shipbuilding sectors, mainly from major Asian economies such as China and Indonesia. Recent political turmoil and oil prices changes in West Asia will considerably affect FDI inflows as many economies of this region are oil dependent and weak oil prices will drag away FDI. Nevertheless, conflicts in Iraq and the Syrian Arab Republic have increased uncertainty dragging down FDI flows in all West Asian economies (UNCTAD, 2017).

The main challenge for the countries affected by these trends is to appropriately adjust their policies to diversify their economies. For example, in 2010, the United Arab Emirates launched "United Arab Emirates' Vision 2021", with the goal is to diversify the economy and become less vulnerable to the variations of the oil price (UNCTAD, 2017). They are planning to achieve this by targeting FDI that will develop their "Knowledge Economy". Another example is "Vision 2030" launched by Saudi Arabia that has similar role to restructure the economy and reduce the dependency on oil (UNCTAD, 2017). These changes will likely affect their FDI inflows and outflows as they will diversify their economies and reduce the dependency on oil. Nevertheless, to be an efficient agency, attracting FDI and serving investors' needs, we argue that an IPA should be clearly structured and coordinated.

3. The empowerment of IPAs in OIC countries

In this section, we will have a closer look at examples of IPAs from OIC countries. On the one hand, we will look at an IPA that changed both structure and name after the initial IPA was not efficient enough. We will examine why the structural change was initiated, what lessons were learned, and how the new approach looks like. In the second example, we will describe the strategy and methodology of a fully functioning IPA, including a case study of a successful investment with the agency's involvement.

In WAIPAs most recent survey, 53% of IPAs worldwide claim that they have limited authority in terms of issuing incentives for investments and say that decisions on grant incentives have to be pre-authorized or subsequently approved. 21% claim to have none authority whatsoever regarding incentives. On the other hand, a mere 15% of all IPAs surveyed have significant authority and can grant incentives without seeking approval from other government entities or officials. In fact, IPAs often face internal challenges with their respective governmental institutions. In the same survey, 44% of the IPAs are lacking support from other government departments and a staggering 50% of IPAs claim that there is a lack of understanding the business cases of Investment Promotion within their own governments (WAIPA, 2017). Thus, WAIPA advocates the empowerment of IPAs to make them flexible in their decision making and powerful to uphold these decisions.

3.1. A successful transformation - The case of KAZAKH INVEST

The case of KAZAKH INVEST, formerly known as Kaznex Invest, is noteworthy for several reasons. Kaznex Invest was the IPA under the Ministry of Investment and

Development (MID). Its mission was to actively engage in ensuring the effective functioning of the national system for development and FDI attraction in the priority sectors of the economy, as well as assisting Kazakhstani enterprises to develop and promote export and developing Special Economic Zones.

However, although being a young agency, Kaznex Invest did not function efficiently; mostly due to an apparent lack of coordination. After the establishment in 2008 as an export promotion agency, it became the sole IPA of Kazakhstan in 2010, and ultimately also became responsible for the coordination of Special Economic Zones. The agency itself was set up as a joint stock company, with the MID owning 51% and the National Chamber of Entrepreneur of the Republic of Kazakhstan owning the remaining 49%.

In an effort to boost its effectiveness, a review of Kaznex Invest's operations by the Eurasia Competitiveness Programme was commissioned. The review concluded that Kaznex Invest's performance was significantly below the one of comparable IPAs. For example, a mere 5% of FDI inflow in 2013 were estimated to be directly facilitated by Kaznex Invest, while it was 11% for the IPA of Nicaragua and an impressive 33% for the IPA of the Czech Republic (OECD, 2017).

The two main reasons for Kaznex Invest's underperformance were identified as a lack of coordination and a lack of strategy. On the one hand, OECD reported that the agency worked primarily to satisfy the needs of its majority owner, the MID, rather than investors' needs. On the other hand, Kaznex Invest was as an institution overwhelmed with its mandate and various missions, resulting in an unclear and inefficient focus. Therefore, following the suggestion of the OECD, a plan was established to create a clear strategy and coordination: First, the development of a national strategy for investment attraction; second an upgrading of the status of the IPA to the national company for investments "KAZAKH INVEST"; third the preparation of investments projects in accordance with international standards; and fourth the development of industrial infrastructure that included special economic zones and industrial zones.

The first point, i.e. the development of a national strategy for investment promotion, focused on the following key questions:

- Where? i.e. priorities;
- From where? i.e. targeted sources; and
- How? i.e. mechanisms.

Moreover, three key objectives were identified in terms of seeing a growth in high-value added investment:

a) greater economic diversification and upgrading;

b) technology transfer and linkages to the local economy; and

c) high quality jobs.

To achieve this, the strategy focused on sectors that most effectively contribute to the overarching objectives and development priorities of Kazakhstan. The strategy clearly articulated Kazakhstan's value proposition for investments outside the hydrocarbon and mineral sectors. The aim was not to duplicate other national development strategies and programs, including PPP and privatization. Furthermore, the strategy had to be aligned with the existing framework and plans and programs. The careful consideration of all factors resulted in assigning a powerful mandate to KAZAKH INVEST which became the single negotiator with high rank decision authority to provide services and coordinate projects in the field of national investment promotion.

KAZAKH INVEST also underwent restructuring in terms its reporting line and was place under the direct authority of the Prime Ministry. This had various advantages. On the one hand, it gave higher legitimacy to KAZAKH INVEST as it showed the importance of the restructuring process to third parties on a national and international level; on the other hand, it also helped in terms of improved management allowing the IPA to react more efficiently and quickly through a new chain of decision. Thus, the intention of having a direct link to the Prime Ministry, was to obtain more autonomy and more decision power.

One of the key amendments in the organization was the distribution of responsibilities between Project Directors by sectoral as well as by regional (i.e. country) principle in order to use the skills of the Project Directors in the most effective way. In the mid-term, the following key activities were performed: determination the priority countries of investment sourcing and the prioritization of sectors, e.g. agriculture connected, mining connected, innovation and technologies, etc.; as well as a revision and organization of international representatives; and the establishment of working groups; i.e. on the one hand thematic working groups (privatization, VAT refund, SEZ and infrastructure, etc.) and industry-specific working groups (agriculture; PPP; innovation; science and know-how transfer; etc.). [2] This type of restructuring provided KAZAKH INVEST with vital empowerment, for its successful performance as an IPA.

3.2. An efficient structure - The case of ISPAT

An example of how a well-functioning and efficient IPA should be structured is the Investment Support and Promotion Agency of Turkey (ISPAT). ISPAT mainly built its strategy on three pillars: a) assessing Turkey's investments needs, b) targeting sectors that will meet Turkey's investment needs and c) promotion strategy.

While the first two target the questions of the who and where, i.e. who they want to focus their promotional activities on and where these activities should take place, the last point focuses on the how, i.e. the implementation of the strategy.

3.2.1. Assessing Turkey's investment needs

Turkey assessed its investment needs in a three-stage approach: First, identifying the country's economic challenges, second analyzing FDI characteristics and their contribution to the country's economic development, and third developing the agency's strategy within the national development goals.

The mission was and is to further transform Turkey through high quality FDI into a regional high-tech production, exports, research and development hub, and a management, trade and financial headquarter in the EMEA region. The vision is to be a first-class IPA as a knowledge-center on all stages of investment, a bridge between the private sector and the Turkish government, and a solution partner to investors and the leading business advisory body of Turkey. Additionally, medium and long-term strategic objectives were defined, e.g. building a positive image; becoming a reliable partner; proactive promotion of strategic priorities; proactive engagement with business expansions and retention of foreign investors in Turkey and lastly adopting an aggressive stance of policy advocacy to improve investment climate and promote FDI in Turkey.

ISPAT assessed Turkey's investment needs taking into account factors such as low savings, current account deficit, unemployment, import dependency in high tech produces etc. and analyzed and assessed the economic and other benefits of FDI, i.e. capital inflow, technology transfer, etc. while also specifying the type of FDI they intended to receive, for example greenfield and expansion, while also supporting M&A activities. Furthermore, the factors that investors look at when choosing a country to invest in were analyzed and Turkey's country value proposition war developed accordingly. Thus, after the identification of the economic challenges and how FDI could contribute to overcome them, the mission and vision was created.

3.2.2. Targeting the sectors

After having analyzed the investments needs, ISPAT looked at target sectors by industry prioritization, e.g. FDI potential of each industry for Turkey and the strategic rationale for Turkey to attract FDI in a given industry. Industries were filtered based on Turkey's competitiveness in respect of the key factors used by companies to evaluate an investment location, such as market characteristics, various types of costs including labor, inputs, transportation, taxation, etc, infrastructure framework, policy framework, and business promotion

[2] See: Kazakh Invest presentation, 2017

and support. By identifying the geographic sources of investment based on FDI potential, target countries were selected for each industry.

Subsequently, ISPAT also analyzed the sectors according to key parameters such as frequency of FDI activity, job creation potential, capital inflow potential, technology intensity, etc. and accordingly ranked target industries, with ICT; Automotive; Chemicals, Plastics & Rubber, Life Sciences; Aerospace, Space & Defense; Machinery and Alternative/Renewable energy scoring high, and industries such as Coal, Oil and Gas; Textiles and Wood Products scoring the lowest.

Further to this, another filtering was done on the high-ranking industries based on Turkey's competitiveness, i.e. attractive demand or regional potential; presence of industry cluster etc. which resulted in a list of priority sectors with proactive promotion, e.g. energy/renewable energy, ICT, Automotive and non-priority sectors with re-active promotion that takes more "wait and see" approach, e.g. tourism, mining and metal processing etc.

3.2.3. Implementation of the strategy

After the priority sectors were defined, an action plan for each sector to promote and generate new investments was prepared. Key promotion techniques included advertising and PR (image building and agency institutional strengthening); attending exhibitions; investment mission to/from host/home; business seminars on investment opportunities; website optimization etc.

At ISPAT, the sectoral approach focus on lead generation is managed by country teams. Investors' development / business retention and expansion is managed by sectoral experts. This means that ISPAT's country teams, both in Turkey and in the relevant targeted countries, proactively promote the priority sectors, while sectoral experts within the agency act as key account managers for existing investors. [3]

Case study: Sumitomo Rubber Industries

In late 2008 a first contact had been established between Sumitomo Rubber Industries and ISPAT at one of their investment seminars in Japan, which was followed-up in the beginning of the next year by the exchange of information and incentives. Throughout 2009, ISPAT coordinated the visit of the Sumitomo officials (for an investment of 150 million USD) and then organized site visits in seven alternative cities. This was followed in December of the same year by an official letter from ISPAT to the President of Sumitomo. After consultations in 2010, joint venture negotiations were conducted between Sumitomo and the Turkish company Abdulkadir Özcan Otomotiv Lastik (AKO) in 2011 and the investment amount was revised upwards to $516 million. ISPAT followed up with customized information on incentives, work permits, etc. and, in May 2012, a land option was introduced by AKO in Cankiri, roughly 100 kilometers from Turkey's capital Ankara. In September 2012, the investment decision was announced by the joint venture, official established in February 2013, with partnership structure, i.e. Sumitomo Rubber Industries 80 percent and AKO 20 percent. Simultaneously, ISPAT facilitated the establishment of a new Organized Industrial Zone (OIZ) for the investment which was created in December 2012 in Cankiri. ISPAT assisted in obtaining the environmental impact assessment in July 2013 and the construction commenced in October of the same year. In 2014, ISPAT assisted the OIZ to complete in terms of infrastructure, and the production of radial tires for passenger cars started in June 2015. Total CAPEX is 516 million USD and 2000 jobs have been created.

4. The importance of capacity building

Next to clear coordination and a sound institutional framework, capacity building is of critical importance for an agency to be able to attract the "right" investment. First, it is crucial for an agency to specialize, to focus on their strengths, and to have a unique selling point as was shown in both the case of KAZAKH INVEST and ISPAT. In these agencies, strategies were developed according to

[3] See: ISPAT presentation, 2017

the investment needs of the countries and legal structures adjusted to provide more autonomy and close links with the executive levels of power.

Secondly, IPA officials need to know how to attract and retain investments and should be up to date with current best practices and be in contact with their colleagues. For both they require constant capacity building. As shown in the results of WAIPA's survey, there is an enormous demand from IPAs for capacity building. As a result of the survey conducted in 2016, two-thirds of the respondents indicated that receiving training is a vital assistance WAIPA can provide to IPAs regarding building their capabilities.

The reasons that lead to this demand are, on the one hand, that IPAs need to be able to execute on the ground, and also the necessity to explain to their stakeholders what they are doing and why their work is of importance.

WAIPA promotes good practices to achieve quality IPA services according to international standards and moreover works as a platform for exchange of information in the region. As with constant capacity building and advocating for technical and financial assistance, WAIPA works towards even more empowered, efficient, and successful IPAs. WAIPA's aim is to help IPAs filling the information gap that often leads to inaccurate risk assessment by potential investors lacking information, and to hand them the capacity to consider all existing opportunities in the region.

4.1. The Correlation between capacity building and highly empowered IPAs

In fact, WAIPA found from its survey result 2016 that the positive relationship between the business impact of FDI rules and the net FDI inflows exists only for the highly empowered IPAs. 80% of the more empowered IPAs have attended one or more capacity building activities (in the range of 1 up to 5) (WAIPA, 2016). On the other hand, some countries did not take part in any investment promotion training in 2015 and, in the same time, are among the low empowered group of IPAs. Consequently, we could argue, these countries have attracted lower levels of FDI (relative to their economies), while naturally bearing in mind that the impact of an IPA in terms of FDI inflow is subject to numerous factors that are not always in the IPA's control. Moreover, capacity building helps IPAs to improve their competencies and consequently to contribute to their economies by facilitating and promoting the positive effect of foreign productive capital.

4.2. Capacity building for LDCs

A further focus of WAIPA, together with other international organizations, lies in the development of capacity building for Least Developed Country (LDC) IPAs,as a great proportion of FDI is an important form of development finance. Through their IPAs, LDCs can improve their capacity to market themselves by efficiently providing essential information to foreign companies and potential investors. Furthermore, they need to be able to assist policy makers to improve the business climate and investment conditions in LDCs, attract sustainable investment and ultimately enhance the sustainable development of the LDCs.

Beyond that, more elaborate investment promotion programs aimed at increasing the benefits of FDI can also be established. These would encompass a larger set of services and activities, including targeting investors, undertaking after-investment services, promoting backward and forward linkages and embark on policy advocacy. IPAs can thus become focal points for broader regulatory reforms and investment facilitation activities.

Investment promotion thus needs to be given attention in domestic policy-making and budget decisions in the LDCs. At the same time development partners of the LDCs and their IPAs can very usefully provide specific support to their counterparts in LDCs. Such increased focus on investment promotion and attraction in the LDCs was called for in the 2011 Istanbul Program of Action for the LDCs (UN, 2011) and has been confirmed in the 2015 Addis Ababa Action Agenda (UN, 2015). More broadly the instrumental role of investment for the realization of the SDG's is recognized.

The overall objective is to improve the business climate and investment conditions in LDCs, attract sustainable investment and ultimately enhance the sustainable development of the LDCs.

5. Linkages

An essential focus of the work of an IPA should lie on the linkages between the IPA and the private sector. As paragraph 35 of the Addis Ababa outcome document states, "Private international capital flows, particularly foreign direct investment (FDI), along with a stable international financial system, are vital complements to national development effort." Better linkages to the private sector enhance the role of IPAs. In order to support the effectiveness and efficiency of their work, we recommend to IPAs to always be on the ground and implement private sector mindset in their work and eliminate a traditional bureaucratic mindset often engraved in their institutions.

With its extensive ties and with its Consultative Committee Members: UNCTAD, UNIDO, ICC, IEDC, World Bank, OECD and ILO, and partners such as the IDB, WAIPA acts as an active voice for IPAs around the world, bringing together government officials, and representatives from the private sector and academia to contribute collectively and continuously towards a common FDI attraction policy and strategy. Closely working together with international organizations enables WAIPA to create additional linkages and to advocate for investment promotion with a focus on sustainable development by sharing best practices. Thus, beneficial spillovers are generated from leading IPAs to less advanced institutions. WAIPA bridges international organizations with IPAs that are working on the ground to implement investment promotion initiatives and with the IPA end clients, i.e. investors. Therefore, WAIPA is well positioned to further explore these existing linkages, with a view to integrate investment promotion within the framework of the UN SDG's.

6. Conclusion

Investment is without doubt the most powerful development tool in today's world. This assigns significant role to IPAs since their main task is attraction of investments by targeting prospective investors and servicing current ones. However, even though they have a very important role, they are not always given the opportunity to deploy their full potential. Inappropriate roles in the government structures, weak legal frameworks and poorly designed strategies are some of the main reasons why they might be prevented from working efficiently. Investment barriers are also huge obstacles for FDI and the duty of IPAs is to influence the government to facilitate the entrance of investments. Reforms that Turkey and Liberia conducted in this field are a good example of how these barriers can be overcome.

WAIPA believes that more empowered IPAs will lead to more growth and development. The two presented cases, KAZAKH INVEST and ISPAT are showing how properly empowered IPAs with a well-defined legal status and strategy can be beneficial for their countries.

Beside a proper legal status and a sound strategy, an essential focus in the work of an IPA should lie on linkages with the private sectors, as well as constant capacity building. They will thus be able to position themselves, to focus on their strengths, and to be up-to-date with best practices.

WAIPA can play an important role in this respect as it closely works with international organizations enabling the creation of these additional linkages as well as steering and assisting IPAs to reach their full capacity and be the global reference point for FDI.

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