

# IsDB REGIONAL COOPERATION AND INTEGRATION OPERATIONAL STRATEGY





IsDB COUNTRY  
STRATEGY AND  
COOPERATION  
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# ABBREVIATIONS

<b>10YS</b>	10-Year Strategy
<b>CAREC</b>	The Central Asia Regional Economic Cooperation Program
<b>COMCEC</b>	The Standing Committee for Economic and Commercial Cooperation of the Organization of the Islamic Cooperation
<b>CSC</b>	Country Strategy and Cooperation Department
<b>DMF</b>	Design and Monitoring Framework
<b>ETI</b>	Enabling Trade Index
<b>FDI</b>	Foreign Direct Investment
<b>FPI</b>	Foreign Portfolio Investment
<b>GIS</b>	Geographic Information System
<b>GVC</b>	Global Value Chain
<b>ICD</b>	Islamic Corporation for the Development of the Private Sector
<b>ICIEC</b>	Islamic Corporation for the Insurance of Investment and Export Credit
<b>ICT</b>	Information and Communication Technology
<b>IPA</b>	Investment Promotion Agency
<b>IRTI</b>	Islamic Research and Training Institute
<b>ITAP</b>	Investment Promotion Technical Assistance Program
<b>ITFC</b>	International Islamic Trade Finance Corporation
<b>IsDB</b>	Islamic Development Bank
<b>IsDBG</b>	Islamic Development Bank Group
<b>KPI</b>	Key Performance Indicator
<b>LPI</b>	Logistics Performance Index
<b>MC</b>	Member Country
<b>MCPS</b>	Member Country Partnership Strategy
<b>MDB</b>	Multilateral Development Bank
<b>MENA</b>	Middle East and North Africa
<b>OECD</b>	The Organization for Economic Co-operation and Development
<b>OIC</b>	Organization of Islamic Cooperation
<b>P5P</b>	President's Five-Year Program
<b>PPP</b>	Public Private Partnership
<b>RCI</b>	Regional Cooperation and Integration
<b>RCO</b>	Regional Cooperation Organization
<b>REC</b>	Regional Economic Community
<b>RPG</b>	Regional Public Good
<b>RTA</b>	Regional Trade Agreement
<b>RVC</b>	Regional Value Chain
<b>SEZ</b>	Special Economic Zone
<b>SDG</b>	Sustainable Development Goal
<b>SMEs</b>	Small and medium-sized enterprises
<b>UNCTAD</b>	United Nations Conference on Trade and Development
<b>WTO</b>	World Trade Organization

# GLOSSARY OF TERMS

**Connectivity (also known as cross-border or regional infrastructure):** There are two broad types - "Soft" cross-border infrastructure that includes improved coordination between customs and streamlined border procedures, and "Hard" cross-border infrastructure that includes improved physical connectivity (cross-border transportation links, ICT connectivity, connectivity for energy transmission). This infrastructure aims to stimulate significant amounts of regional trade or is designed to connect to the network of a neighboring or third country.

**Cross-border:** A term used to describe specific categories of infrastructure and flows of goods, services, investment, information and people that cross national borders.

**Geographic information systems (GIS):** A geographic information system is a computer-based system designed to capture, store, manipulate, analyze, manage, and present spatial or geographic data in a subnational, national or multi-country context.

**Globalization:** The worldwide movement toward economic, financial, trade, and communications integration. Globalization implies the opening of local economic, trade and investment perspectives to a broader outlook of an interconnected and interdependent world with free transfer of capital, goods, and services across borders.

**Investment climate:** The policy, regulatory, economic and financial conditions in a country or region that affect whether businesses are willing to lend money and acquire a stake in the businesses operating there.

**Logistics infrastructure and systems:** The continuing rise of international *trade* and the desire by many countries to speed up the pace of integration within the global *trading system* depends not only on maintaining an open global economic *system* but improving the quantity and efficiency of the support structures such as the logistics *services*. *Logistics* is the way a firm, industry, sector or supply chain organizes its transportation, warehousing, procurement practices, inventory, customer service and information processing *systems*. *Trade logistics* is comprised of many different fields and may vary from small to large scale.

**One IsDBG:** Under the IsDBG's 10-Year Strategy and the recent P5P (President's Five-Year Program) the IsDBG aims to improve and strengthen planning and operational coordination and cooperation across individual entities. The "One IsDBG" approach should help to consolidate and strengthen IsDBG's engagement with its stakeholders, improve cost-effective use of resources, and achieve better performance and results from certain types of operations in Member Countries (MCs).

**Open Regionalism:** "Open regionalism" represents an effort to resolve one of the central problems of contemporary trade policy: how to achieve compatibility between the growth of



regional trading arrangements around the world and the global trading system as embodied in the World Trade Organization (WTO). In the context of regional trade and investment agreements “Open Regionalism” does not discriminate against non-regional economies or even against other non-participating regional economies. The *concept* seeks to assure that regional agreements will in practice be building blocks for further regional or global liberalization.

**RCOs:** A Regional cooperation organization (RCO) is an inter-country mechanism set up by and with the participation of neighboring countries to help overcome obstacles to regional cooperation among them. An RCO can provide a framework for building trust for dialogue and for negotiations; a platform for establishing credible rules of engagement and for the sharing of benefits and costs; a capacity for technical analysis of regional cooperative strategies and for their implementation; a vehicle for pooling or attracting financial resources to support investments in regional infrastructure or to compensate losers; and an instrument for monitoring the implementation of agreements and settling disputes that may arise.

**Regional Cooperation and Integration:** Regional cooperation and integration (RCI) is a *process* by which countries coordinate, collaborate and invest in order to strengthen integration of their economies, to mitigate shared risks and avoid conflict, to assist their neighbors in fragile situations, and to preserve common resources.

**Regional/global value chain:** A regional/global value chain (RVC)/(GVC) includes all of the people and activities involved in the production of a good or service and its regional/global level supply, distribution and post sales activities (also known as the supply chain). A RVC/GVC is similar to an industry level value chain but encompasses operations at the regional/global level.

**Regional project (single country, multi-country):** A regional project is expected to generate direct cross-border economic, social, or environmental outcomes and associated benefits. RCI projects generally fall into two main categories: single country projects and multi-country projects. A ‘single country’ RCI project is a commitment and set of actions taken by one country but (i) within an established or planned inter-country cooperation framework; and/or (ii) with a direct cross-border effect, such as stimulating regional trade or investment, or completing a crucial link in a regional corridor. A multi-country RCI project includes formal joint commitments, actions, and resource allocations between at least two countries at the project level.

**RTAs:** Regional trade agreements (RTAs) are defined as reciprocal trade agreements between two or more countries. They include free trade agreements and customs unions. This preferential treatment usually takes the form of the removal/reduction of tariffs on imports, thereby creating a free *trade* area.

**Secondary development outcomes (also known as “spillovers”):** spillover outcomes from regional projects can include positive and/or negative effects on economic activities, communities or resources outside the scope of the original investment project including those across borders. These secondary benefits usually result through economic linkages, for example, policy reforms that liberalize foreign direct investment into specific cross-border production networks and value chains generate new demand for goods and services from many small and medium-scale enterprises, which in-turn increases local employment and household incomes.

**Special economic zones:** A *special economic zone* (SEZ) is an area in which business and trade laws are different from rest of the country. SEZs are located within a country's national borders, and their aims include: increased trade, increased investment, job creation and effective administration. Often SEZs are implemented domestically but they may also be planned and designed so they are intentionally located at border areas to open up new opportunities for international trade and investment with the neighboring country and to improve the cross-border investment environment. Such SEZs often explicitly target the development of *cross-border* production techniques and *trade* mechanisms.

**Regional RCI Action Plan:** The Regional RCI Action Plan is a 3 year medium-term strategy for an IsDB-defined region, to achieve preferred and prioritized objectives of regional cooperation. This Action Plan is both a diagnostic and a road map to guide IsDB's regional operations. It is intended to operationalize the RCI Strategy to support regional development. It may contain a medium term regional investment framework and associated pipeline of priority projects.

**Regional:** An IsDB-defined or otherwise accepted grouping of member countries (MCs) for the purpose of planning, formulating and implementing its RCI operations to assist the participating MCs.

**Trade facilitation:** Trade facilitation looks at how procedures and controls governing the movement of goods across national borders can be improved to reduce associated cost burdens and maximize efficiency while safeguarding legitimate regulatory objectives. “Trade facilitation” is largely used by institutions which seek to improve the regulatory interface between government bodies and traders at national borders. The WTO has defined trade facilitation as “the simplification and harmonization of international trade procedures”. Sometimes, the term trade facilitation is extended to address a wider agenda in economic development and trade to include: the improvement of transport infrastructure, the removal of government corruption, the modernization of customs administration, the removal of other non-tariff trade barriers, as well as export marketing and promotion.

# EXECUTIVE SUMMARY

The importance of regional cooperation and integration (RCI) to international development is well recognized by the development community. Indeed, most MDBs have explicitly embraced an RCI agenda. For example, the Asian Development Bank adopted an RCI strategy document in 2006, the African Development Bank in 2009 and later in 2014, and the Inter-American Development Bank in 2011. The Islamic Development Bank Group (IsDBG) has made significant contributions to RCI since inception; for example, within the last three years (2015-2017) alone, IsDB sector operations approvals with an RCI component accounted for 29 percent of total approvals, or US\$ 4.44 billion. Nevertheless, much room for improvement remains, as IsDBG's Member Countries (MCs) continue to lag behind the global average in many RCI indicators. Faced with this reality, IsDBG has drawn upon its own experiences and that of other MDBs to develop a clear and coherent RCI Policy and Strategy. As the only multilateral development institution specialized in the development of countries of the Organization of Islamic Cooperation (OIC), spanning diverse regions, the IsDB has a special role and responsibility to keep country and regional development dimensions in balance.

**The IsDB's RCI Operational Strategy (Strategy) is a natural result of institutional development (internal) as well as recent developments in the regional and global context (external).** The RCI Strategy is in line with the Board of Executive Directors approved RCI Policy, Global Sustainable Development Goals (SDGs), the OIC Ten-Year Program of Action "OIC-2025", the Islamic Development Bank (IsDB) Articles of Agreement, the IsDBG 10-Year Strategy (10YS), and the President's 5-Year Program (P5P). This Strategy will enable IsDBG to become a primary connecting platform for MCs, regional cooperation organizations (RCOs) and relevant communities to cooperate with each other. The Strategy is supportive of "open regionalism," strengthening economic cooperation among MCs and enabling greater trade and investment with the global economy. The Strategy is motivated by the aspiration to enable all member countries to achieve a quality of life reflected by the OIC Charter.

**The RCI Operational Strategy document includes both the general strategy framework and specific policy implications.** The IsDB RCI Operational Strategy provides guidance on programming, planning, implementing, and supporting sector and other thematic-based operations as regional activities, and sets out responsibilities for RCI Operational Strategy implementation across the IsDB and provides guidance to its Group members IRTI, ICD ITFC and ICIEC. The RCI Operational Strategy aims to improve effectiveness and efficiency of IsDBG interventions. The Strategy supports the implementation of RCI policies, plans, programs and projects of MCs and RCOs but does not replace them. The Strategy is a 'living document' that will be updated from time-to-time, to incorporate progress on RCI made by the MCs as well as to assist their evolving needs.

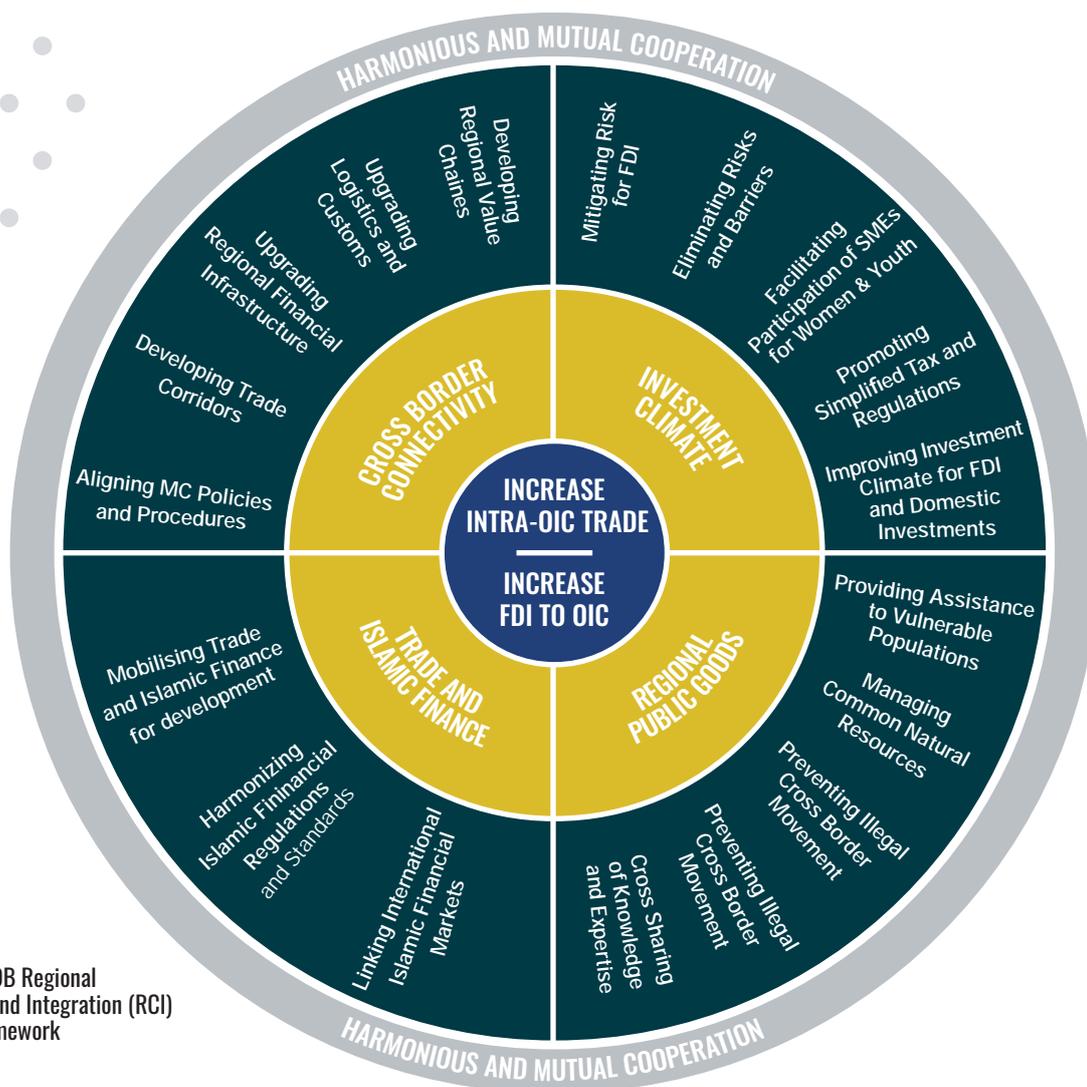
**The Strategy identifies IsDB's RCI Vision, Mission and guiding principles.** IsDB's RCI Vision is: *"IsDBG MCs coexist harmoniously and achieve sustainable and interdependent growth through mutual cooperation."* The RCI Mission is: *"Working as 'One IsDBG' in cooperation with public and private sector partners to bring together member countries, regional cooperation organizations and communities to achieve inclusive growth through joint actions."* More specifically, the Strategy is founded on the following principles: (i) Operationalize "One IsDBG"; (ii) support the SDGs; (iii) facilitate cooperation among MCs, RCOs and developers; (iv) support regional and global connectivity and economic integration; (v) promote RCI knowledge sharing; (vi) support regional and global value chain integration.

**Specifically, the Strategy will focus RCI interventions supported by the IsDB Group on four Pillars:** (i) enhancing cross-border connectivity; (ii) improving investment climate and trade competitiveness; (iii) mainstreaming trade and Islamic finance; and (iv) facilitating cooperation to provide Regional Public Goods (RPGs). These Pillars collectively cover the hard and soft components necessary for regional cooperation and integration; they also highlight the IsDB Group's comparative advantage as a trusted partner and facilitator of cooperation and Islamic finance mobilization. Each pillar stems from an underlying need and entails specific focus areas of intervention.

**Taken together, IsDBG's four RCI Pillars will have a synergistic effect;** they will (i) help to expand the tradable sector of MC economies and increase the quantity and value of competitive trade in goods among MCs; (ii) deepen economic integration (beyond trade in goods) to include more trade in services and cross-border investment, including greater and wider mobilization and allocation of Islamic finance; (iii) help build common policy and regulatory frameworks and related institutional capacity supportive of private-sector-led RCI, but also more inclusive RCI connecting MCs at different levels of development; and (iv) promote and support expanded and more effective collective actions among MCs that bring about larger common goods with shared and more inclusive economic and human development benefits.

**The central impact of the RCI Operational Strategy will be accelerated progress towards the related goals and results of the 10-YS and implementation of the P5P.** The main outcome of the RCI Strategy will be an expanded focus on RCI at IsDBG and higher institutional capacity to play a leading RCI role. A major focus of this role will be to connect and support developers to boost regional cooperation among MCs and RCOs.

**Implementation of the RCI Operational Strategy will be closely aligned with the P5P;** it will focus on IsDB's catalytic and convening role as a "Developer-Focused Institution,"



**FIGURE 1: IsDB Regional Cooperation and Integration (RCI) Strategic Framework**

anchoring its implementation in Global Value Chain analysis. More specifically, drawing upon its institutional capabilities and resources, IsDBG will undertake four RCI-related roles: (i) advisor; (ii) financier; (iii) capacity builder and knowledge broker; and (iv) partner.

**Operationally, following the Strategy, the IsDBG will conduct an assessment of its RCI operations and partners and prepare detailed Regional RCI Action Plans.** After producing an RCI Baseline Report and Regional Cooperation Organizations (RCO) Report. As part of the baselining exercise, IsDB will review its existing RCI projects' portfolio, using standard assessment criteria to determine where action is needed for ongoing RCI projects. Next, IsDBG will prepare several three-year "Regional RCI Action Plans" that will be updated regularly – a draft version of the Regional Action Plan is attached as Appendix-8 to the RCI Strategy; taken together, the set of final validated Regional RCI Action Plans will encompass all Regional Hubs and MCs. These Regional RCI Action Plans will use a standard protocol based on best practices to construct a pipeline of RCI projects and to prioritize them for programming purposes. Regional RCI Action Plans will also consider and complement individual Member County Partnership Strategies (MCPSSs), which themselves will be informed by RCI considerations. The Regional RCI Action Plans will also include a Design and Monitoring Framework (DMF) to track implementation and result delivery.

**Additionally, IsDBG will provide technical and financial support for RCI programs and projects as well as disseminate knowledge;** it will draw on the resources of its entities, establish new RCI financing facilities with resources sourced externally and internally, and leverage co-financing from partners. IsDBG will share and apply knowledge of successful RCI programs and projects among RCOs and MCs, to develop more innovative RCI operations and to design capacity and institution-building operations. IsDBG will establish RCI-focused knowledge portals using latest ICT technology and make them accessible by all stakeholders.

**Internally, IsDBG will strive to develop the capacity and institutional arrangements necessary to ensure the timely and effective implementation of the RCI Operational Strategy.** It should assess, tap, and develop the in-house RCI competencies of its staff, complementing these with external expertise where necessary. Institutionally, the Country Strategy and Cooperation (CSC) Department can become IsDBG's institutional focal point for RCI. The IsDB Consultative Forum of RCOs (RCO Forum), regional forums, as well as a regular RCI report are communication channels the IsDB will utilize to ensure alignment of efforts to implement the RCI strategy. It will also monitor and assess their implementation of the strategy using an RCI Results Framework.

# INTRODUCTION

## CHAPTER 1

**Regional cooperation and integration (RCI)** is defined as the *process* by which countries coordinate, collaborate and invest in order to strengthen integration of their economies, to mitigate shared risks and avoid conflict, to assist their neighbors in fragile situations, and to preserve common resources. By freeing the movement of goods, services, information, technologies and people across borders, countries can create integrated economic spaces, reaching larger markets and generating production efficiencies that would have been impossible if they had remained fenced inside their own economies. Additionally, economically integrated regions are more attractive to foreign investors who are more inclined to open a production or distribution facility if it serves a bigger regional market. As a result, RCI plays a critical role in accelerating economic growth, diversifying national and regional economies, raising productivity and employment, building common interests and shared resilience, and strengthening regional institutions.

**In this regard, an RCI or “regional” project** is expected to generate direct cross-border economic, social, or environmental outcomes and associated benefits. RCI projects generally fall into two main categories: single country projects and multi-country projects. A ‘single country’ RCI project is a commitment and set of actions taken by one country but (i) within an established or planned inter-country cooperation framework; and/or (ii) with a direct cross-border effect, such as stimulating regional trade or investment, or completing



# THE RCI OPERATIONAL STRATEGY AIMS TO HARNESS THE POTENTIAL OF THE BANK’S COMBINED KNOWLEDGE, EXPERIENCE AND RESOURCES – IN PARTNERSHIP WITH OTHERS – TO FOSTER AND SUPPORT COOPERATION AMONG MCs AND REGIONAL ACTORS FOR THEIR MUTUAL BENEFIT

a crucial link in a regional corridor. (e.g., a Member Country [MC] invests in a logistics center at a border area linked to a regional transport network, enabling more goods and services to flow faster between cross-border markets). A multi-country RCI project includes formal joint commitments, actions, and resource allocations between at least two countries at the project level (e.g., two or more MCs simultaneously invest in a single, integrated power grid for cross-border electricity trade). Both single-country and multi-country regional projects have a similar overall development objective and underlying purpose, namely: contributing to closer regional economic integration and sustained development cooperation among stakeholders in neighboring countries. An important example is the provision of regional public goods (RPGs), a form of regional projects that could be performed on a single- or multi-country basis.

The sustainable development goals (SDGs) have been adopted by the international community in 2015 as part of the comprehensive transformational agenda focused on (i) eradicating poverty, deprivation and hunger in all of their forms by promoting inclusive development and prosperity; and (ii) protecting the planet from degradation through sustainable consumption and production and sustainable management of natural resources. The SDGs and their associated targets include, among other things: the promotion of regional economic integration and interconnectivity; regional and trans-border infrastructure to support economic development; increasing the exports of developing countries, in particular with a view to doubling the least developed countries' share of global exports by 2020; and South-South and regional cooperation on access to science, technology and innovation and to enhance knowledge sharing.<sup>1</sup>

IsDBG has contributed significantly to RCI since inception, including many infrastructure projects directly impacting cross-border connectivity. For example, within the last three years (2015-2017) alone, IsDB sector operations approvals with an RCI component accounted for 29 percent of total approvals, or US\$ 4.44 billion. Additionally, IsDBG acts as a trusted partner that facilitates intra-OIC trade and investment. In this regard, IsDB, ICD, ICIEC and ITFC have important mandates for supporting trade and investment and the central focus is on trade and investment as development engines. Appendix 3 includes examples of IsDBG programs relevant to RCI.

“Connectivity” and “Cooperation among MCs” are strategic objectives of the current 10-Year Strategy (10YS) of the Bank and key elements of the associated key performance indicators (KPIs).<sup>2</sup> With this new strategic shift, IsDB is aiming at being the primary connecting platform for MCs by channeling more resources (trade and investments) and expertise (knowledge and best practices) as well as supporting regional infrastructure.

With the President’s 5-Year Program (P5P), IsDB embarked on an organization transformation to improve IsDB’s development role and to strengthen its development impact in MCs using a bank of developer’s concept. A central element of this transformation is the introduction of a new development model focusing on building strategic partnerships and networks to leverage greater and more diverse stakeholder participation in IsDB-assisted programs and projects throughout IsDG’s financial and operational cycle. In line with this transformation, IsDB’s RCI activities will focus more on promoting and supporting public and private sector cross-border cooperation and economic integration.

Other MDBs have recognized the importance of RCI, explicitly embracing RCI agendas including clear strategy documents. For example, the Asian Development Bank adopted an RCI strategy document in 2006, the African Development Bank in 2009 and later in 2014, and the Inter-American Development Bank in 2011. Whereas each MDB’s focus is somewhat unique to its own region and experience, many common themes exist (e.g. some combination of the hard and soft financing for regional cooperation and integration, etc.).

In line with its 10YS, P5P, other MDBs’ best practice, and the global SDGs, IsDB has put in place a comprehensive RCI Strategy presented here. The RCI Strategy aims to harness the potential of the Bank’s combined knowledge, experience and resources—in partnership with others—to foster and support cooperation among MCs and regional actors for their mutual benefit. Preparation of this RCI Strategy has drawn upon the IsDB’s own experience supporting RCI, lessons-learned by other MDBs, and close consultation with the “IsDB Consultative Forum with Regional Cooperation Organizations in the OIC Region” and other relevant stakeholders in MCs.

## SUSTAINABLE DEVELOPMENT GOALS



<sup>1</sup> On September 25th 2015, countries adopted a set of goals to end poverty, protect the planet, and ensure prosperity for all as part of a new sustainable development agenda ([www.un.org/sustainabledevelopment/sustainable-development-goals/](http://www.un.org/sustainabledevelopment/sustainable-development-goals/))

<sup>2</sup> 10 Year Strategy Managing for Development Results: Strategy Map and Results Framework, Shawwal 1436 H (July 2015), Group Strategic Planning Department. The 10 Year Strategy was approved in 2014.



# CHAPTER 2

# BACKGROUND AND CONTEXT

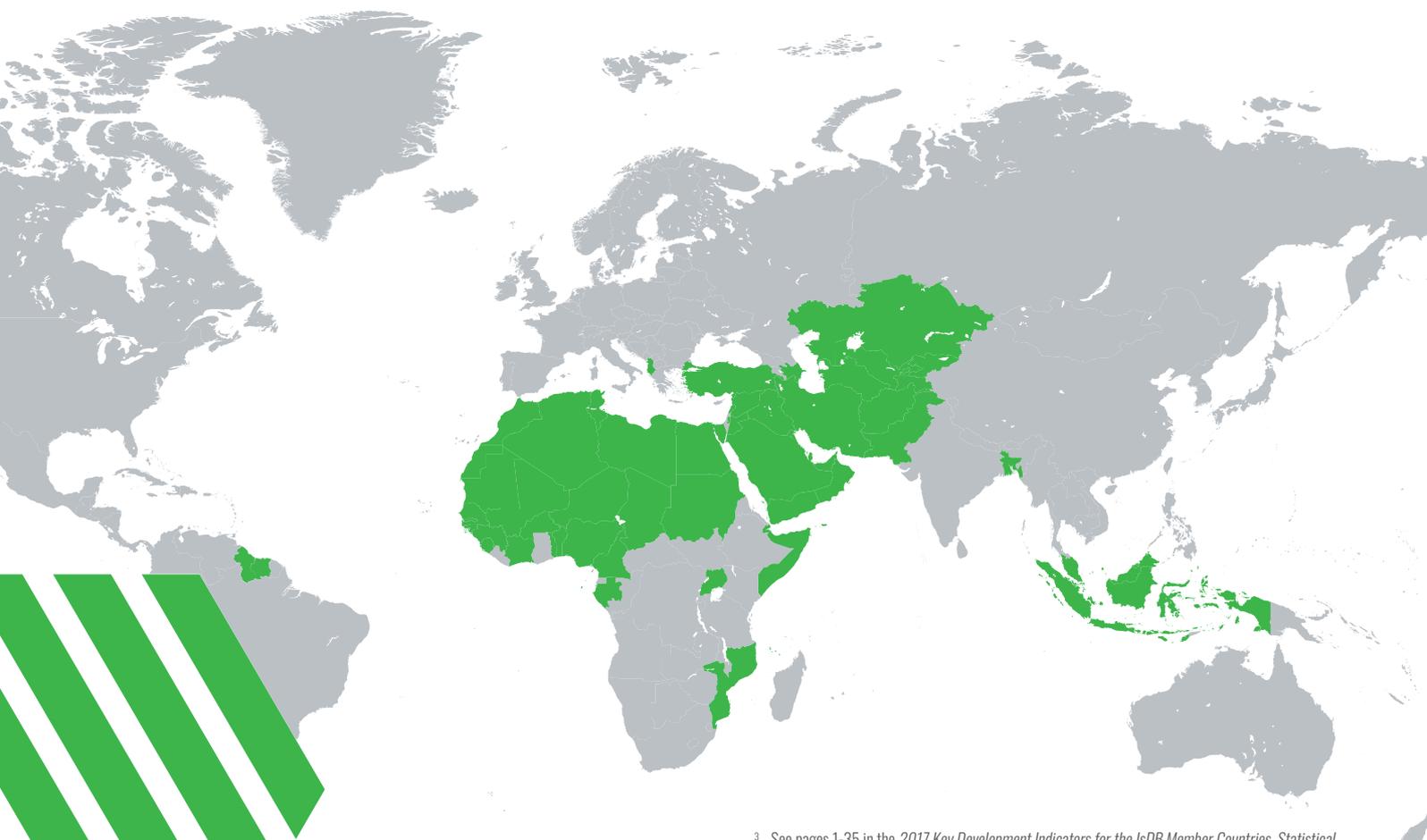
## 2.1 REGIONAL COOPERATION AND INTEGRATION IN ISDB MCs

IsDB's 57 MCs are located in three regions, including the following (as categorized by IsDB): Middle East and North Africa (MENA), Africa and Latin America, and Asia (see [Appendix 1](#) for a list of MCs). Looking across the MCs and regional groupings, there is considerable diversity in terms of location (see Figure 2), per-capita income, size and nature of the national economy. This diversity also extends to the varying role of trade and investment in supporting growth, the scale and quality of connectivity and the degree of access to inter-regional and global markets. Many of these differences are borne out of the different level of technology employed and development of skills to support productivity and competitiveness as well as the quality of life.<sup>3</sup> As also pointed out in the new IsDB Group approach towards its Member Country Partnership Strategy (MCPS), these differences amongst MCs provide opportunities for applying

RCI to further develop and use the comparative advantages of individual and groups of MCs for mutual benefit. They also point to the necessity of planning and implementing RCI in ways that produce a balanced distribution of benefits across participating MCs and regions.

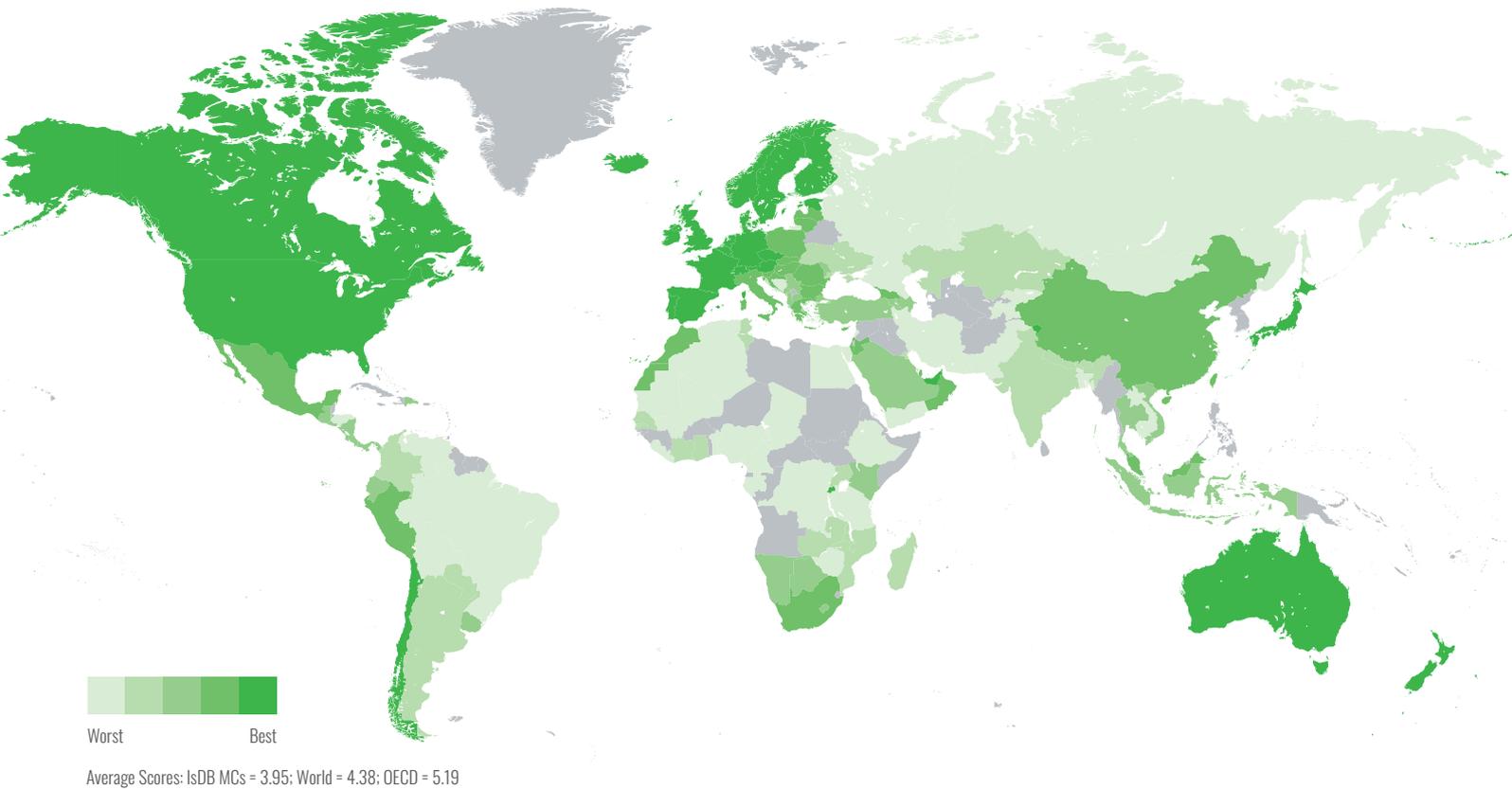
**International assessments of country and regional trade and investment performance point to the challenges facing the MCs.** The MCs' average score on both the global Enabling Trade Index (ETI) and the Logistics Performance Index (LPI) tracked by the World Bank fall below the world average score (see Figures 2 and 3 for ETI and LPI, respectively). The Middle East/North Africa region (MENA), Sub-Saharan Africa, Central Asia, and South Asia are among the lower performing regions in terms of connectivity and associated logistics infrastructure and systems essential for modern trade and competitiveness (See also [Appendix 2](#), Table A2.1 and Figures A2.1-A2.3). As a result, the majority of IsDB MCs are performing poorly in terms of intraregional trade, intraregional foreign direct investment (FDI) flows, and cross-border energy and power trade.

**FIGURE 2: ISDB MEMBER COUNTRIES (MCs) MAP**



<sup>3</sup> See pages 1-35 in the *2017 Key Development Indicators for the IsDB Member Countries, Statistical Yearbook No.37*, Islamic Development Bank.

**FIGURE 2:** World Economic Forum Global Enabling Trade Index (ETI) 2016 Map<sup>4</sup>



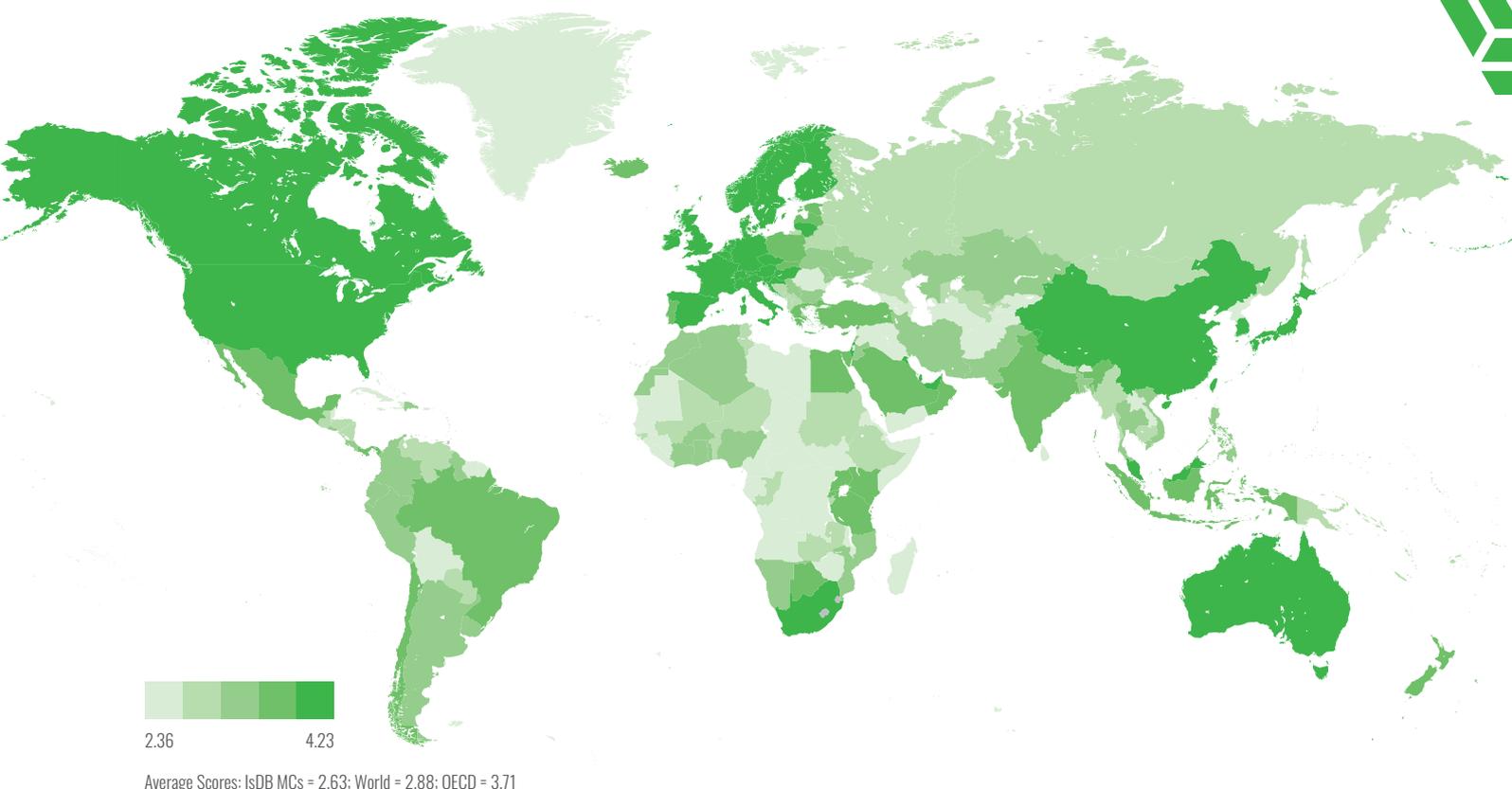
Partially as a result of this performance and in recognition of their underutilized potential, **many IsDB MCs participate in formal RCI arrangements** as part of their approach to achieve economic growth and development. This includes being members to ASEAN Economic Community (AEC), Central Asia Regional Economic Cooperation (CAREC), Commonwealth of Independent States (CIS), Economic Cooperation Organization (ECO), Gulf Cooperation Council (GCC), South Asian Association for Regional Cooperation (SAARC), South Asia Regional Economic Cooperation (SASEC), and the Shanghai Cooperation Organization (SCO), amongst others.

**These RCI-based arrangements have helped to promote cooperation, connectivity, trade and investment** (and sometimes other forms of cooperation). Being members of different RCI arrangements, IsDB MCs have succeeded in developing some RCI-related professional and institutional capabilities. This expertise can be used as a basis for the implementation of the IsDB's RCI Strategy. Figure A2.3 in Appendix 2 illustrates the RCI performance of 8 regional cooperation organizations in Africa, which include the participation of many of IsDB's MCs. Regional integration scores for the eight RECs range from 0.395 to 0.540 (on the scale from 0-1), demonstrating that there is considerable potential for improving RCI performance.

## 2.2 STOCKTAKING OF RCI INTERVENTIONS BY ISDB GROUP

**Since inception IsDB Group has launched several RCI initiatives**, including many infrastructure projects to foster cross-border connectivity. IsDB Group also acts as a trusted partner that facilitates intra-OIC trade and investment. In this regard, IsDB, ICD, ICIEC and ITFC have important mandates for supporting trade and investment and the central focus is on "trade and investment as a development engine."<sup>6</sup> ICIEC's mandate is to help increase the scope of trade transactions of MCs, to facilitate the flow of foreign direct investments into member countries, and to provide reinsurance facilities to export credit agencies in member countries. ITFC supports the development of markets and trading capacities of member countries of the OIC in order to promote the IsDBG's developmental objectives. Some programs that illustrate IsDB Group's support to RCI are summarized in **Appendix 3**.

**FIGURE 3: World Bank Logistics Performance Index (LPI) 2016 Map<sup>5</sup>**



**Indeed, every entity of the IsDB group has made a significant financial contribution to RCI over the years.** Its flagship institution, the IsDB, has been contributing to RCI for the past 40 years. Within the last three years (2015-2017) alone, IsDB sector operations approvals with an RCI component accounted for 29 percent of total approvals, or US\$ 4.44 billion. A few recent major RCI projects to which IsDB has contributed (among others) are summarized in Box 1, below. Over the same period (2015-2017), 40 percent of ICIEC's export insurance has covered intra-OIC trade whereas 31% of its outward investment insurance approvals have covered intra-OIC investments. Similarly, intra-OIC trade financed by ITFC since inception (2008-2018) has accounted for 66 percent of trade financed, and 15 percent of ICD's approvals since inception have been regional in nature (2000-2018). Further RCI Baseline is needed to understand IsDBG's past RCI contributions and lessons learned.

THE IsDB, HAS BEEN CONTRIBUTING TO RCI FOR THE PAST

**40 YEARS**

WITHIN THE LAST THREE YEARS (2015-2017) ALONE, IsDB SECTOR OPERATIONS APPROVALS WITH AN RCI COMPONENT ACCOUNTED FOR

**29%**  
TOTAL APPROVALS, OR  
**US\$ 4.44 BILLION**

<sup>4</sup> The Enabling Trade Index (ETI) measures countries on their success in building an environment for trade, covering tariff and non-tariff considerations such as border administration, quality of transport services, infrastructure, technological sophistication and operating environments. Source: *Global Enabling Trade Report 2016 (WEF)*.

<sup>5</sup> The Logistics Performance Index (LPI) is a benchmarking tool created to help countries identify the challenges and opportunities they face in their performance on trade logistics and what they can do to improve their performance. The LPI 2016 allows for comparisons across 160 countries. The LPI consists of both qualitative and quantitative measures of performance along the logistics supply chain within a country and offers two different perspectives: international and domestic. Source: *World Bank*.

<sup>6</sup> *IsDB Group Efforts in facilitating intra-OIC trade & trade cooperation*, presentation by Dr. Walid Abdelwahab, Director, Infrastructure Department, IsDB, at OIC High Level Forum on Trade Facilitation & Single Window Initiatives for Enhanced Regional Economic Cooperation, Casablanca, February 25-26, 2013.

## BOX 1 EXAMPLES OF RECENT MAJOR RCI PROJECTS RECEIVING ISDB APPROVALS

### TRANS-SAHARAN ROAD PROJECT

This corridor links the following six countries in Africa: Algeria, Chad, Mali, Niger, Nigeria and Tunisia. The main part of the Trans-Saharan Road Project starts from the city of Lagos in Nigeria in West Africa and then passes through Niger to reach the city of Algiers in Algeria, North Africa on the shores of the Mediterranean Sea. All in all, it stretches for 9,000 kilometers inclusive of its off-shoots connecting Mali, Chad and Tunisia, all IsDB Member countries. IsDB has contributed US\$454 million to the corridor in the form of 19 operations.

### CENTRAL ASIA-SOUTH ASIA ELECTRICITY TRANSMISSION AND TRADE PROJECT (CASA-1000)

The project aims at meeting the electricity demand in Afghanistan and Pakistan through the establishment of cross-border energy exchange among four member countries as part of regional economic integration. The exchange will be utilizing efficient and environmentally friendly indigenous hydropower resources of Tajikistan and Kyrgyzstan. The project will provide sustainable, reliable and affordable electricity to Pakistan and Afghanistan while boosting foreign currency earning for Tajikistan and Kyrgyzstan through monetization of their seasonal surplus hydropower resources. It will include construction of 500 kV high voltage overhead transmission line connecting Kyrgyzstan, Tajikistan, Afghanistan and Pakistan). In 2015, IsDB approved US\$ 70 million for Tajikistan's portion of the project, US\$35 million for Pakistan's, and US\$ 50 million for the Kyrgyz Republic's portion. Nevertheless, some implementation difficulties were encountered, which provide valuable lessons for future RCI projects.

### TAPI GAS PIPELINE PROJECT

The project aims at enhancing the sub-regional economic cooperation among Turkmenistan, Afghanistan, Pakistan and India based on the needs of the market economy through expanding the use of natural gas resources. The TAPI gas pipeline project will help in exporting up to 33 (bcm) of natural gas per year, approximately 1800 kilometer (km) long, from Turkmenistan to Afghanistan, Pakistan, and India. In 2016, IsDB approved a total US\$ 700 million for Turkmenistan's portion of the project (in two US\$350-million phases), although the project has faced implementation delays, which again provide valuable lessons for future major RCI projects.



THE ISDB HAS CONTRIBUTED

**US\$ 454 MILLION**  
TO THE TRANS-SAHARAN CORRIDOR IN  
THE FORM OF  
**19 OPERATIONS**

IN 2015, FOR THE CASA-1000 PROJECT, ISDB APPROVED

**US\$ 70 MILLION**  
FOR THE TAJIKISTAN PORTION,  
**US\$ 35 MILLION**  
FOR PAKISTAN'S, AND  
**US\$ 50 MILLION**  
FOR THE KYRGYZ REPUBLIC'S PORTION

IN 2016, ISDB APPROVED A TOTAL OF

**US\$ 700 MILLION**  
FOR TURKMENISTAN'S PORTION OF THE TAPI GAS  
PIPELINE PROJECT (IN TWO US\$350-MILLION  
PHASES)

**TABLE 1: SWOT Analysis**



**STRENGTHS**

- Unique Charter premised on Islamic solidarity for development of the nation and the OIC MCs and for fostering collective action
- World leadership on Islamic Finance and specific modalities for application for development purposes
- Experience investing in specific projects and providing associated knowledge transfer and capacity building for greater cross-border flows
- Partnerships with RCOs and with other multilateral development-finance partners investing in RCI in MCs



**WEAKNESSES**

- Limited knowledge of the effectiveness of its past support to RCI
- Limited inter-relationship between its existing RCI-related programs
- Opportunistic rather than strategic/programmatic approach to identifying RCI opportunities in MCs
- Lack of clarity on what is an RCI project and how to assess it
- Challenges, cuts, and limited projected growth in IsDBG financing over the 10YS period
- Lack of familiarization and limited use of specific Islamic finance instruments for cross-border development financing



**OPPORTUNITIES**

- Global recognition of the importance of the collective development of MCs
- Increasing importance of regional economic trade and investment to sustain growth
- Large scope for improving physical connectivity among MCs
- Need to mitigate cross-border health and environmental risks
- Heightened scarcity in the quantity/quality of some shared natural resources important for economic growth and public health



**THREATS (CONSTRAINTS)**

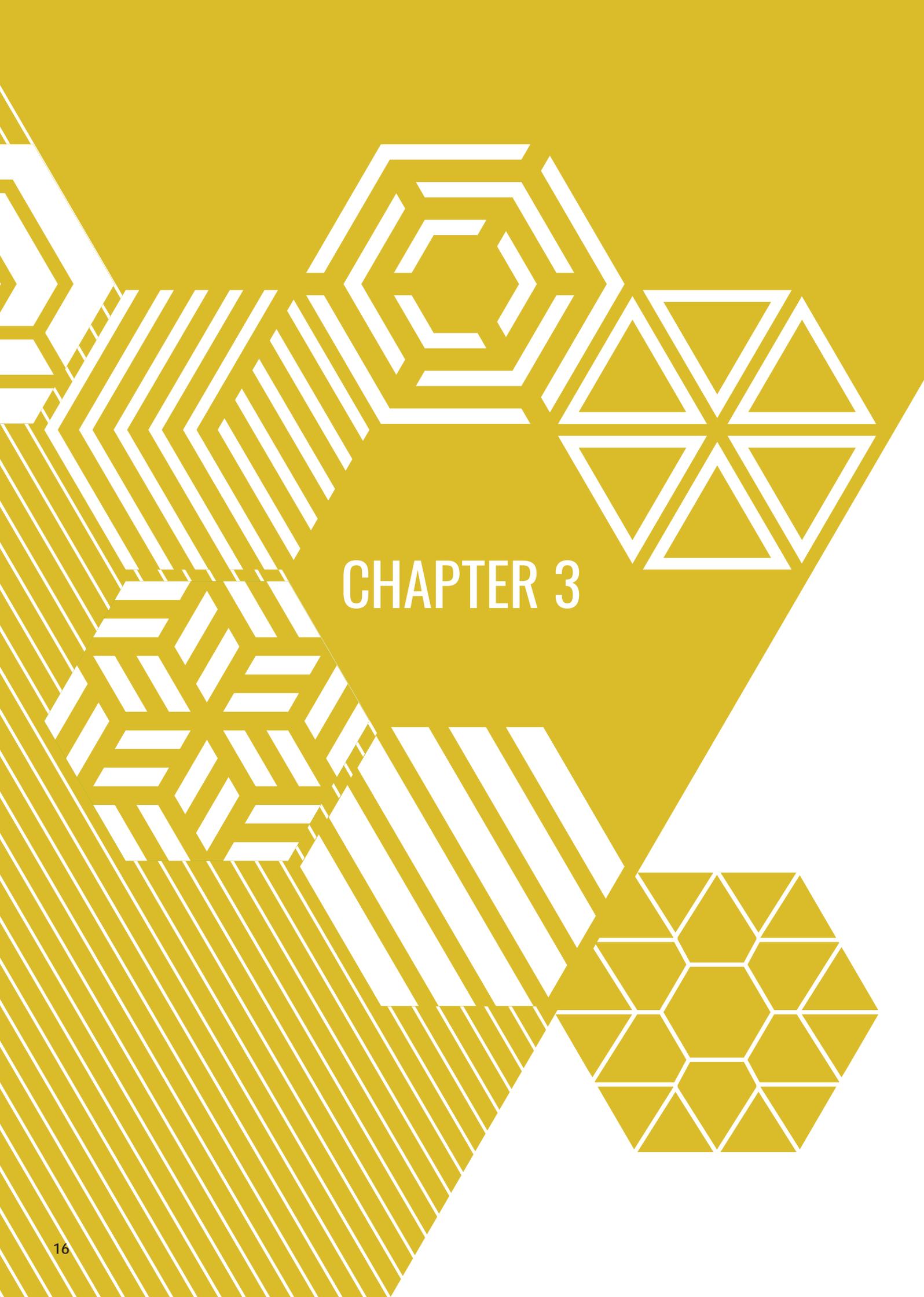
- National and cross-border instability or other development crisis affecting some MCs
- Some MCs have limited knowledge, experience, institutional capabilities/policy frameworks in relation to RCI
- Significant increase in natural disasters and severity of climate change
- Fragility of MCs, such as Yemen, Syria, Iraq, Palestine, etc.

Through its WTO-related Global and Regional Technical Assistance and Capacity Building program, IsDB helps MCs in their relationship with the WTO through national-level capacity building initiatives and facilitating their accession to, and implementation of, WTO agreements. Additionally, IsDB's Investment Promotion Technical Assistance Program (ITAP) has as its main objective to enhance the capacity of Investment Promotion Agencies (IPAs) in MCs to attract domestic and foreign direct investment (FDI).

IsDB has also established an institutional platform for strategic consultations with regional organizations, the "IsDB Consultative Forum with Regional Cooperation Organizations in the OIC Region" (Forum). During these occasions, participating organizations exchange views and identify possible priority areas for cooperation. They also share information on their strategies and long-term action plans for promoting RCI.

Despite significant contributions to promote RCI, IsDB still faces some challenges and constraints. IsDB needs to take greater advantage of its strengths and opportunities offered by MCs to play a larger and more effective role in RCI based on wide-ranging discussion across the IsDB Group. An analysis of those views and perspectives and their implications for the formulation and implementation of the RCI Strategy are summarized and set out in a SWOT analysis (see Table 1) and TOWS analysis (see Appendix 4). Generally, the results show that there are good opportunities for increasing RCI among MCs that could be realized on the basis of a number of institutional strengths that IsDBG clearly possesses. However, realizing those opportunities will also require some concerted changes in the way the IsDB plans its operations and how it marshals its resources and deploys them, alone and in partnership with other organizations.

**IsDBG NEEDS TO TAKE GREATER ADVANTAGE OF ITS STRENGTHS AND OPPORTUNITIES OFFERED BY MCS TO PLAY A LARGER AND MORE EFFECTIVE ROLE IN RCI**



# CHAPTER 3

# STRATEGY



## 3.1 RATIONALE AND OBJECTIVES

The IsDB RCI Strategy presented below provides guidance on programming, planning, implementing, supporting and resourcing sector and other thematic-based operations as regional activities, and it sets out unit responsibilities for RCI Strategy implementation across the IsDB and provide guidance to all IsDB Group members. The RCI Strategy aims to improve effectiveness and efficiency of IsDBG interventions.

Given the IsDBG's uniqueness and the existing potential to foster regional cooperation and integration in order to promote economic and social progress of MCs, **the IsDB RCI vision, mission and principles are the following:**

- RCI Vision: IsDB MCs coexist harmoniously and achieve sustainable and interdependent growth through mutual cooperation:** Member Countries cooperate in close partnership with each other to promote, participate in and support the integration of their economies with their regions and with the international economy. Working together, Member Countries establish policies and programs that connect and improve the functioning of markets, strengthen investment and trade, increase productive employment, enable market and skills-based movement of labor across borders, contribute to mutual sustainable development, encourage learning from each other, foster harmonious relations, ensure a better quality of life for MCs, and impact the improved well-being of the Ummah.
- RCI Mission: Working as 'One IsDBG' in cooperation with public and private sector partners to bring together Member Countries, regional cooperation organizations and communities to achieve inclusive growth through joint actions:** The IsDBG will harness its collective institutional strengths and resources to support MCs and regional organizations through investment and concessional operations, and by expanding the creation and sharing of knowledge and information on Regional Cooperation and Integration (RCI). Acting as an 'honest broker' and catalyst for RCI, the IsDBG will assist MCs and regional organizations to build their institutional capacity to increase and manage RCI especially in regions or situations where it has been lacking and its benefits are most needed, including in fragile development contexts and in emerging areas for cooperation, such as youth empowerment and climate change.
- RCI Principles: Promote RCI knowledge sharing; support regional and global value chain integration; and anchor in SDGs.**

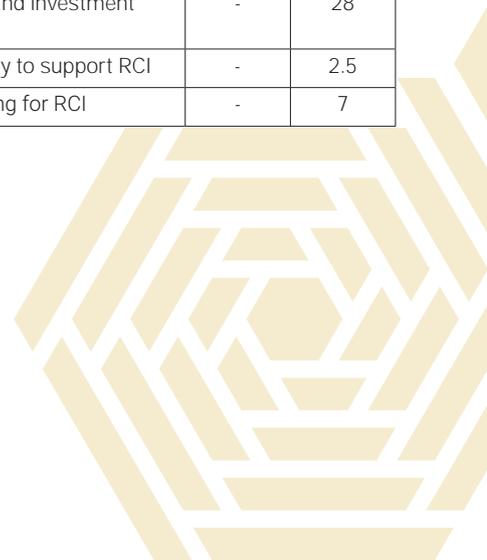
There are two ultimate goals of RCI in the IsDB 10-YS. The 10-Year Strategy defines two high-level "Goals" related to increasing (i) intra-OIC trade and (ii) the share of OIC in global FDI (foreign direct investment) (see Table 2). IsDB seeks to influence that performance through implementation of its RCI Strategy.

Similarly, there are expected results in the IsDB 10-YS relating to RCI. The 10-Year Strategy defines four "Results" (see Table 2) that represent IsDBG financial commitments towards the two "Goals" and other financial support for RCI-related operations under its RCI Strategy. The top two "Results" are clearly supportive of the top two "Goals" for increasing OIC trade and investment. The bottom two "Results" include support for RCI operations that are *enablers or otherwise supportive* of increased intra-OIC trade and global FDI (e.g., physical connectivity, FDI promotion and facilitation) as well as support for additional outcomes that improve cross-border productivity and competitiveness, generate regional public goods, improve cooperation mechanisms among MCs and regional cooperation organizations (RCOs), and expand the application of Islamic Finance across sector and thematic areas and MCs in support of RCI.

**TABLE 2: Key RCI-related Results Indicators in the IsDBG's 10 Year Strategy Map**

	INDICATORS	BASELINE 2014	BASELINE 2025
Goals (%)	Intra-OIC trade	19.3	25
	Share of OIC in global FDI	9.4	11
Results (\$B)	Intra-OIC trade financed	-	54
	Intra-OIC trade and investment insured	-	28
	Financing Facility to support RCI	-	2.5
	Projects financing for RCI	-	7

Source: IsDBG.



## THE ISDB'S RCI STRATEGY INCLUDES FOUR MAIN PILLARS:

(I) ENHANCING CROSS-BORDER CONNECTIVITY

(II) IMPROVING INVESTMENT CLIMATE AND COMPETITIVENESS

(III) MAINSTREAMING TRADE AND ISLAMIC FINANCE

(IV) FACILITATING COOPERATION TO PROVIDE REGIONAL PUBLIC GOODS (RPGs)

## 3.2 THE ROLE OF RCI IN ACHIEVING THE SDGs

Multiple targets of the Sustainable Development Goals (SDGs) explicitly recognize the importance of planning and cooperation at the national, regional and international levels. In fact, the SDGs and their associated targets include the following: the promotion of regional economic integration and interconnectivity; strengthening regional development planning (Target 11.a); regional and trans-border infrastructure to support economic development (Target 9.1); increasing the exports of developing countries, in particular with a view to doubling the least developed countries' share of global exports by 2020 (Target 17.11); and South-South and regional cooperation on access to science, technology and innovation and to enhance knowledge sharing (Target 17.6).

Furthermore, IsDB's RCI strategy is designed to support many of the goals and targets of the SDGs, especially where action at the national level might not be sufficient. The Strategy emphasizes the role of IsDB as an honest broker and catalyst for RCI, as well as a trusted partner for regional cooperation organizations (RCOs) and a facilitator of their interventions, given IsDB's reputation and legitimacy in the eyes of its communities. Clearly, enhancing intra- and inter-regional, cross-border trade (Pillars 1, 2, and 3 of the RCI Strategy, below) have the promise of delivering export-oriented growth. This growth would serve such SDGs as Goal 8 (Decent Work and Economic Growth) and Goal 9 (Industry, Innovation and Infrastructure). Beyond this, however, Pillar 4 of the RCI Strategy, below, plays a crucial role, as many SDGs involve Regional Public Goods (RPGs), which require collective action. For example, controlling the cross-border spread of communicable diseases (Target 3.3), ending human trafficking and protecting migrant workers (Targets 8.7 and 8.8, respectively) and tackling many environmental challenges (including natural resource sharing, climate change and disaster management) (Goals 12 and 13, especially Targets 12.2 and 13.1) all require collective action at the regional level.

## 3.3 STRATEGIC PILLARS

The IsDB's RCI Strategy includes four main Pillars:

(i) enhancing cross-border connectivity; (ii) improving investment climate and competitiveness; (iii) mainstreaming trade and Islamic finance; and (iv) facilitating cooperation to provide regional public goods (RPGs). These Pillars collectively cover the "hard" and "soft" components necessary for regional cooperation and integration; they also highlight the IsDB's comparative advantage as a trusted partner and facilitator of cooperation and Islamic finance mobilization. They are depicted in Figure 4, below.

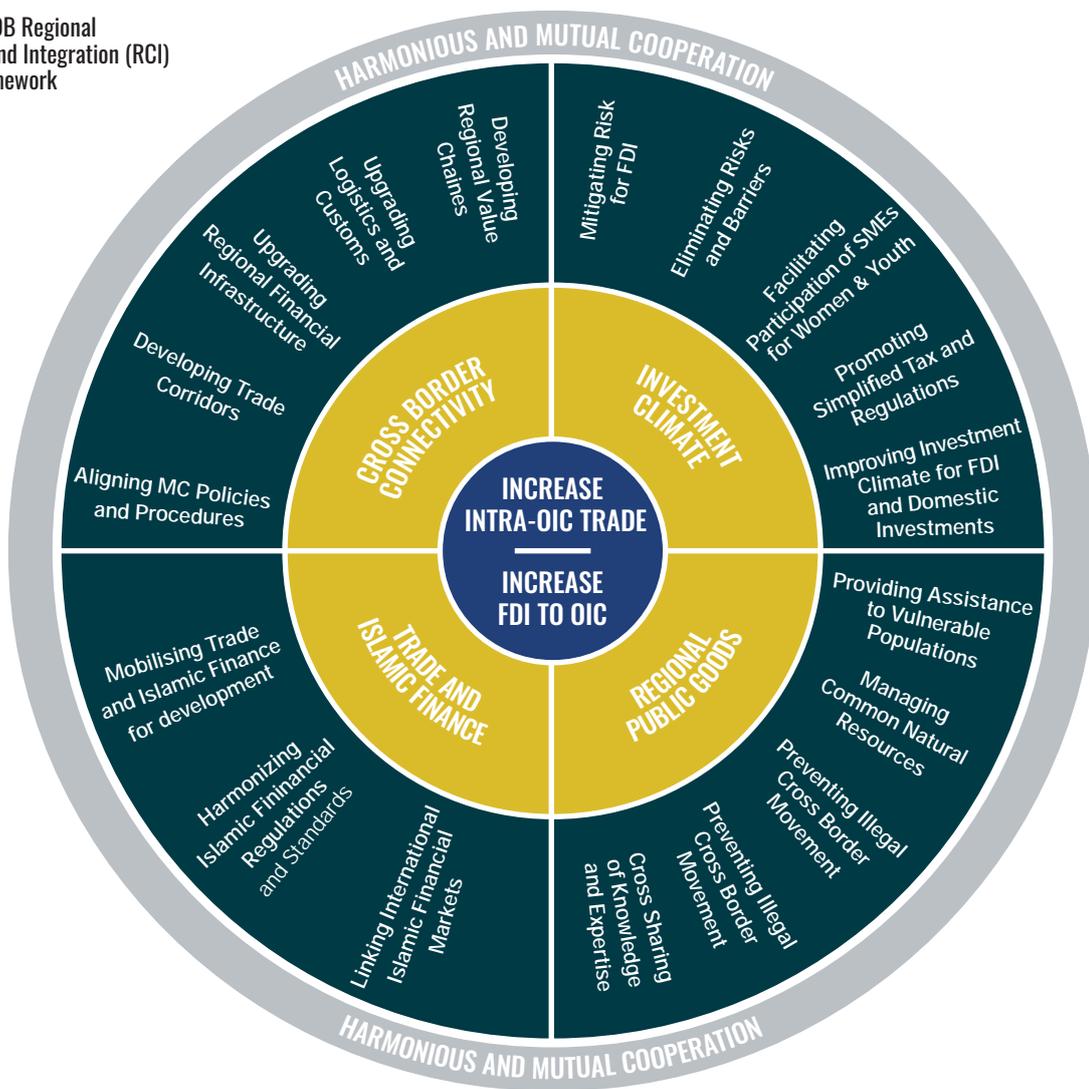
Taken together, IsDB's four RCI Pillars are expected to help to: (i) expand the tradable sector of MC economies and increase the quantity and value of competitive trade in goods among MCs; (ii) deepen economic integration (beyond trade in goods) to include more trade in services and cross-border investment, including greater and wider mobilization and allocation of Islamic finance; (iii) build common policy and regulatory frameworks and associated institutional capacity supportive of private-sector-led RCI, but also more inclusive RCI connecting MCs at different levels of development; and (iv) promote and support expanded and more effective collective action among MCs that brings about larger common goods with shared and more inclusive economic and human development benefits. More specifically, these aims are expected to be achieved by the focused types of intervention detailed under each Pillar of the RCI Strategy, below.



### PILLAR 1 ENHANCING CROSS-BORDER CONNECTIVITY

Economic integration requires investment in physical infrastructure to connect markets, lower transportation and communication costs, and to upgrade logistics systems. Often, necessary infrastructure either does not exist or requires maintenance or expansion. Economic integration also requires improved systems, regulations and procedures, especially at border areas, to facilitate cross-border movement.

**FIGURE 4:** IsDB Regional Cooperation and Integration (RCI) Strategic Framework



Therefore, to achieve this, IsDB Group will focus on the following areas in its intervention and can support:

- Upgrading regional physical infrastructure that enables market integration (e.g. energy).
- Developing trade corridors via investing in multi-modal transport and communication connectivity (e.g., road, rail, ICT communications, etc.) over a single route or network involving two or more MCs, including ancillary activities to improve the quality of connectivity planning and management.
- Aligning MCs' policies and procedures to achieve:
  - trade and investment liberalization within and between groupings of MCs;
  - simplification of export and import processes;
  - greater private sector-focused cross-border investment and trade, including public-private partnership (PPP) operations;
  - less trade-restrictive behavior of state-owned enterprises; and
  - easier cross-border movement and employment of professional and business skills and expertise.
- Upgrading logistics and customs through investment in new ICT technology.
- Supporting cross-border value chains by helping to connect SMEs and rural producers to cross-border markets.



## PILLAR 2 IMPROVING INVESTMENT CLIMATE AND COMPETITIVENESS TO PROMOTE EXPORT-ORIENTED AND CROSS-BORDER INVESTMENT

MCs need to mobilize larger amounts of funds (both foreign and domestic) to invest in regional economic infrastructure, support trade and investment facilitation services, and to support domestic enterprises seeking to expand their cross-border trade using newly created or upgraded regional infrastructure platforms. Greater capital mobility with more efficient financial markets cannot be achieved by individual economies alone, highlighting the important role of regional cooperation to strengthen financial and capital market development. To address this, the IsDBG can support Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI) and domestic resource mobilization/investment as means to promote RCI.

Therefore, to achieve this, IsDBG will focus on the following areas in its intervention and can support:

- Improving Investment climate and competitiveness for FDI, FPI, and domestic investment to promote intra-OIC investment. Simple, clear, transparent regulations create a good level playing field. In addition, targeted investment climate reforms (such as special economic zones and investment promotion agencies) can support a firm's entry into supply chains and production networks.
- Improve regional policy dialogue on trade, investment and monetary and financial cooperation
- Simplifying regulation and taxation, reducing regulatory barriers to business entry and competition, including inefficient tax administration.
- Mitigating Risk for foreign investment; factors that prevent financial institutions from providing more services to firms include high borrowing and risk-management costs, lack of information about potential clients, and lack of well-functioning financial systems.
- Eliminating constraints and barriers hindering export-oriented and cross-border investment.
- Facilitating participation of entrepreneurs, particularly youth and women, and SMEs in regional value chains.



## PILLAR 3 MAINSTREAMING TRADE AND ISLAMIC FINANCE TO PROMOTE CROSS-BORDER DEVELOPMENT

Trade and Islamic finance remain underutilized, inconsistently regulated, and poorly understood within regions dominated by IsDBG's MCs. The IsDBG is in a unique position among multilateral development-finance institutions in having the capability to integrate the development impact of trade finance, Islamic finance and RCI in MCs. The IsDBG can support trade and Islamic finance as means to promote RCI.

Therefore, to achieve this, IsDBG will focus on the following areas in its intervention and can support:

- Mobilizing trade and Islamic finance for RCI via encouraging governments, trade and banking entities and other private financial institutions to mobilize Islamic finance to fund trade finance and integration finance operations, in addition to engaging in these activities directly by IsDBG entities.
- Harmonizing Islamic Finance regulations and screening standards for equities across borders. The relevant regulatory frameworks to be harmonized include those governing banking, insurance, and capital markets.
- Linking international Islamic financial markets across borders.
- Contribution to expand the use of specific types of Islamic Finance instruments across borders and potentially into new sectors or new MCs

**FIGURE 5: Illustrative Typology of Potential IsDBG-assisted RCI Projects**

	PILLAR 1: CROSS-BORDER CONNECTIVITY	PILLAR 2: INVESTMENT CLIMATE	PILLAR 3: TRADE AND ISLAMIC FINANCE	PILLAR 4: REGIONAL PUBLIC GOODS
<b>National</b> (single-country RCI)	National inland transport networks linked to gateway ports	Economic zones and services; investment promotion agencies	Mobilizing domestic resources for trade finance	Benchmarking national performance standards against other MCs
<b>Cross-border/Regional</b> (single-country RCI)	Transport, energy, ICT infrastructure; logistics centers	Trade facilitation; FDI facilitation; cross-border professional skills and standards accreditation	Regional investment funds	Improving natural resource management of a shared Environment; upgrading phytosanitary standards
<b>Regional</b> (multi-country RCI, RCO sponsorship)	ICT/Transport cross-border economic corridors; technology parks	Forums of regional groupings of MC private-sector stakeholders	Islamic financial markets integration; knowledge sharing platforms	Joint action combating communicable & infectious disease and illicit trade; cooperation on recovery from natural disasters
<b>Inter-regional/Global</b> (multi-country RCI, RCO sponsorship)	Deepwater ports and modern shipyards; inter-regional telecommunication networks	Trade integration	Harmonizing Islamic finance regulations and standards; knowledge sharing platforms	Agreements on technology Sharing and Intellectual property



## PILLAR 4 FACILITATING COOPERATION TO PROVIDE REGIONAL PUBLIC GOODS (RPGs)

Many MCs face human security, human development and environmental challenges that entail cross-border risks and costs but also represent opportunities for pooling and sharing scarce knowledge and technological and institutional capabilities for the common good. There is a need for cooperation among MCs and other regional actors to achieve this common good.

Therefore, to achieve this, IsDBG will support greater cooperation among MCs to achieve sustainable and mutually beneficial solutions/agreements in the following focus areas:

- Managing common natural resources—including an essential focus on shared freshwater aquifers in addition to other resources.
- Providing assistance to vulnerable people in cross-border fragility, conflict and violence-prone areas, where two or more MCs are affected.
- Containing communicable disease outbreaks of human or animal origin.
- Preventing Informal cross-border movement (of humans, goods, or finance), especially human trafficking.

- Sharing expertise on RPGs through centers of excellence to enable the widest and most cost-effective use of scarce professional skills and technical resources to provide quality public services among neighboring MCs. IsDB’s “Reverse Linkage” Program will be a core component of the organization’s support under this Pillar and will be expanded to include greater participation of three or more MCs in a single reverse linkage operation.
- Sharing knowledge and expertise on Islamic finance-based trade and integration finance—in order to identify new opportunities, promote good practices and scale-up successful pilot projects incorporating innovations with cross-border Islamic finance.

Figure 5 provides an illustrative typology of potential types of IsDBG-assisted RCI projects/operations. The operations recognize the possibility of single-country or multi-country RCI projects (rows), reflect the Pillars (columns), and underscore the importance of involving and partnering closely with RCOs on RCI operations. The choice of modality of Islamic financing for individual RCI operations would depend on the specificities of MCs’ prevailing development contexts, the purpose and design of the project, and the associated approvals of Islamic Finance modalities as provided by Islamic authorities in the participating MCs. These have been further developed in Appendix-8.

**MANY MCs FACE HUMAN SECURITY, HUMAN DEVELOPMENT AND ENVIRONMENTAL CHALLENGES THAT ENTAIL CROSS-BORDER RISKS AND COSTS BUT ALSO REPRESENT OPPORTUNITIES**



# CHAPTER 4

# OPERATIONAL IMPLICATIONS AND RECOMMENDATIONS OF THE STRATEGY



## 4.1 ISDB'S MAIN ROLES

To operationalize and achieve the intended outcomes of IsDB's RCI strategy, a set of operational implications and recommendations must be considered. Implementation of the Strategy will be based fundamentally upon IsDB's current institutional capabilities and relevant roles, thematic and cross-cutting policies and strategies documents, in addition to some new suggested institutional arrangements. Furthermore, this implementation process will be results-oriented, with an emphasis on Strategy-level as well as project-level results.

The IsDB will strive to play an integral RCI role within a global development-assistance architecture that has two main dimensions: (i) a country-focused approach and (ii) a regional/global issues-driven one, with a significant share of development resources channeled through regional operations. As the only multilateral development institution specialized in the development of OIC countries, the IsDB has a special role and responsibility to keep both dimensions in balance and help achieve complementarities between them, in its own RCI work and in working with partners. Drawing upon its institutional capabilities, IsDB will undertake the following four RCI-related roles: (i) advisor; (ii) financier; (iii) capacity builder and knowledge broker; and (iv) partner. Each of these roles is described in detail, below.



**Advisor.** IsDB will support MCs in identifying pipelines of potential RCI investments and beneficial cross-border policy harmonization. IsDB will provide research and advisory services on trade issues and cross-border investments plus direct technical assistance that strengthens regional institutions and cooperation mechanisms. In situations where cooperation among MCs faces significant coordination challenges, the IsDB will use its convening power to facilitate inter-MC dialogue.



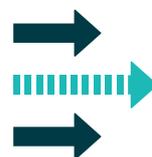
**Financier.** IsDB will provide a range of trade and Islamic finance products and services to support both sovereign and non-sovereign operations across a range of RCI activities under each of the four Pillars. IsDB and the

Group will finance single-country and multi-country RCI projects, both sovereign and non-sovereign. The modality and scale of particular packages of financial support to RCI will take into consideration the MCs' macroeconomic situation and financial capacity, program/project content, financial/economic analysis and due diligence at the operational level, regional/national capacity to implement and manage the RCI operation at requisite standards, and other financing available from MCs, the private sector, and development partners. In this context, the public-private

partnership (PPP) model will be explored for regional connectivity projects.

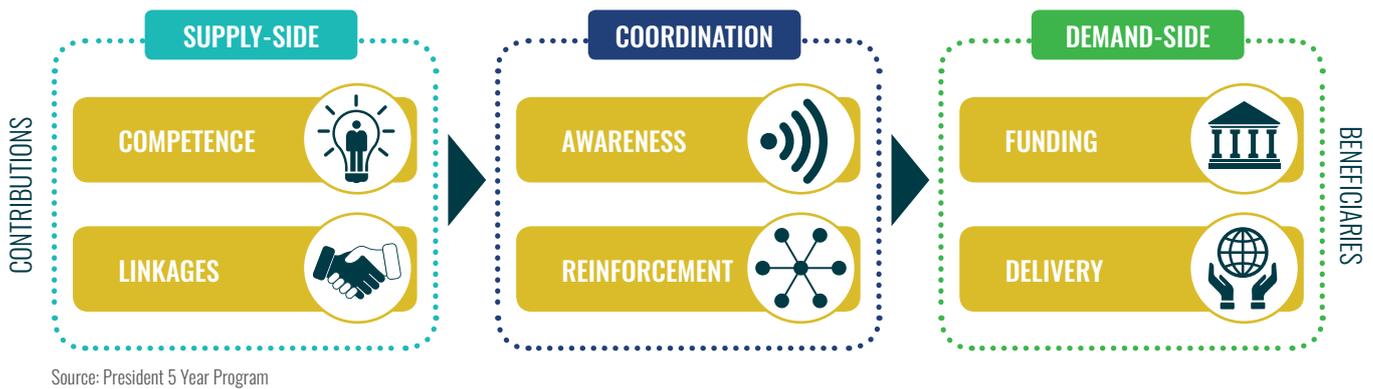


**Capacity Builder and Knowledge Broker.** IsDB will assist the preparation and delivery of RCI capacity building programs on a multi-MC and RCO basis. IsDB will promote strategic RCI dialogue/events at the RCO level and on a sector/thematic basis, involving senior officials of the public and private sectors from many MCs plus regional and even international experts and representatives of development partners operating in the MCs. This strategic RCI dialogue may be supported by studies prepared by IsDB alone or in partnership with centers of excellence in MCs (or elsewhere, if appropriate) and development partners. IsDB will contribute to the development and operation of RCI online knowledge portals or gateways that provide a wide range of RCI-related resources, including the following: trade and investment information and analyses, research and other studies, capacity building and other learning-based modules, information management tools (e.g., advanced search functions), and platforms for connecting stakeholders and facilitating their discussions and sharing of RCI knowledge, experience, and best practices.



**Partner.** The implementation of the RCI strategy will require substantial cooperation and coordination between IsDB Group and other international and regional organizations. IsDB will partner with RCOs, development-finance organizations, the private sector, centers of excellence, civil society stakeholders, and other relevant entities that are in a position to assist cross-border trade and investment and other economic flows. This partnership will aim to strengthen collective action on public policy or on addressing RPGs, or otherwise to facilitate joint actions, knowledge sharing and the promotion of RCI as a key element of national development. IsDB will explore opportunities for complementary technical and financial cooperation with multilateral development banks in the context of their recently updated RCI strategies or plans and the IsDB's RCI programs, including those where IsDB is already an active partner with them especially OIC and COMCEC. IsDB will plan a new partnership with the Asian Infrastructure Investment Bank (AIIB) that involves two or more MCs. And IsDB and the Group at large will continue to partner with specialized agencies of the United Nations, RCOs, investment promotion agencies, and other relevant organizations, drawing upon their unique mandates and expertise.

**FIGURE 6: P5P Change Management Framework**



## 4.2 IMPLEMENTATION

The implementation of the RCI Strategy will be aligned with the President's new 5-Year Program (P5P) and its Integrated Strategic Programming Framework. This new business model repositions IsDB towards a catalytic role that facilitates cooperation among 'developers' at every step of the development cycle. IsDB's role would be to tie end beneficiaries (demand-side) with contributors (supply-side) through a global grid of developers (see Figure 6). Implementation of the Strategy will take place within this 'architecture' of the new change management framework and program, and the following subsections containing the details of implementation broadly reflect this framework. Additionally, promoting deeper integration of firms in value chains (both regional and global), as mentioned in the P5P, is an important element of IsDB's RCI Operational strategy.

In fact, the concept of global value chains is both foundational to IsDB Group's new GVC based Member Country Partnership Strategy (MCPS) approach as well as fundamentally regional (and sometimes global) in nature. Cross-border movement of inputs and outputs and multi-country linkages, especially within a given region, are fundamental to the division of labor and comparative-advantage-based specialization inherent to modern value chains. As such, the RCI Operational Strategy is closely related to the new MCPS, complementing its country-centered analysis with a wider, more holistic approach. Value chain analysis will guide the implementation of the RCI Operational Strategy, and RCI considerations will be part of MCPS preparation.

### 4.2a PROGRAMMING AND SELECTIVITY CRITERIA

IsDB will review/assess its existing RCI portfolio, including the preparation of an RCI Baseline Report, a Regional Cooperation Organizations (RCO) Report. As part of this assessment exercise, and in consultation with the relevant MCs and RCOs, IsDB will identify the following: (i) well-performing projects that should continue as planned; (ii) under-performing projects for restructuring and re-approval by Management and the Board of Executive Directors; and (iii) poorly-performing projects to be redeployed, with the 'saved' resources going to new RCI operations. Some criteria for portfolio assessment of RCI projects are set out in Appendix 5.

IsDB will prepare several three-year "Regional RCI Action Plans" that will be updated regularly. A first draft of the Action Plans for 2020-22 period is provided in Appendix-8. Taken together, the set of Regional RCI Action Plans will encompass all Regional Hubs and MCs. The purpose of a Regional RCI Action Plan is to leverage sector-based skills, knowledge and finance of IsDB and "Developer" partners to correctly diagnose and prioritize cross-border development challenges and opportunities in MCs and regions and then program a pipeline of RCI-based solutions.

Selected RCOs will work with the Regional Hubs to prioritize a medium-term RCI pipeline in the Regional RCI Action Plan. Other "Developers" may also contribute to the preparation of the Regional RCI Action Plan, as appropriate (e.g., centers of excellence, business and professional associations, bilateral and multilateral development-finance partners, etc.). The Regional RCI Action Plan will (i) highlight key regional development trends; (ii) demonstrate alignment of the Regional RCI Action Plan with Member Country Partnership Strategies (MCPSs) and the RCI Policy and Strategy; (iii) confirm the timeframe and major resource parameters for RCI operations; (iv) summarize any major changes to the prevailing medium-term RCI financing and non-financing programs; and (v) include a results framework of inputs, outputs and outcomes. This results framework will address key sector/thematic/regional areas of assistance, financing and co-financing, and participation of partners/ "Developers."<sup>7</sup> The Country Strategy and Cooperation (CSC) Department at IsDBG headquarters will be assigned IsDB-

wide responsibility for *coordinating* preparation and updating of the Regional RCI Action Plans.

**The preparation of the final validated Regional RCI Action Plan and assessment and selection of RCI projects will follow a standardized protocol** (outlined in Box 2, above). These processes should also take into account RCI programming and project selection initiatives/exercises of other development partners and especially those where IsDB is a participating member (e.g. CAREC).

## 4.2b DELIVERING

**RCI project preparation will include a design and monitoring framework (DMF).** An RCI project's DMF will be prepared and finalized with the concerned MCs/RCOs and other major project "Developers" during the technical design/formulation stage of the project cycle and prior to Management approval of the formal project. DMF indicators will be derived from the findings and conclusions of the earlier RCI project-level scorecard that was developed at the time of preparing the Regional RCI Action Plan and prioritizing the associated project pipeline. (**Appendix 9** sets out a list of possible DMF indicators for RCI projects as well an illustrative DMF.) The DMF will identify and describe particular project activities with key milestones. The periodic/updated findings from applying the DMF during project implementation can help the MCs, RCOs, project "Developers" and IsDB ascertain whether, and to what extent, the project is progressing on the expected results—and the linkages among them—and how they might be strengthened during continued project implementation. Additionally, a plan-level DMF will be prepared for each Regional RCI Action Plan.

## BOX 2 ASSESSMENT AND SELECTION OF RCI PROJECTS

An RCI scorecard will be used to verify/assess the RCI features and potential RCI outputs and outcomes of individual project proposals for inclusion in the Regional RCI Action Plans; it will draw upon information and criteria sourced from the concerned IsDBG operations unit(s)/MCs/RCOs/other "Developers" associated with Regional RCI Action Plan preparation. Broadly, the scorecard will encompass assessments of the following: (i) MC/RCO readiness to commit to the project and support its implementation and (partial) financing, and the capabilities of institutional counterparts in charge of integration operations, both at the national and/or regional level; (ii) the potential for direct and secondary development outcomes and benefits from the project and how they will arise; and (iii) the project's potential to generate additional project- and/or institutional-level impacts (e.g., co-financing, catalyzing private sector flows, policy reforms). An individual scorecard should include a minimum of 6 criteria—chosen and 'weighted' by experienced and knowledgeable IsDBG staff (e.g., relevant country/regional, sector/financial, and institutional/partnership specialists) and RCO experts.

Over time, there should be an appropriate mix between consistency and adaptation in the specificities/details of scorecards used for similar project proposals and sector/development contexts. A minimum score of 50/100 should be required to qualify or designate the project proposal as "regional". The final choice of projects to be included in the Regional RCI Action Plan could depend on the comparative results of individual scorecards but would also take into account other important factors, such as the prioritized development needs set out in relevant MCPSSs, prior RCI economic and sector/thematic analysis, and MC/RCO/IsDBG preferences for 'sector balance' (including sector-specific and inter-sectoral activities) across RCI operations in relation to a grouping of MCs, among others. **Appendix 7** sets out an indicative scorecard format and criteria.

<sup>7</sup> This includes technical and/or financial contributions toward the formulation and implementation of components of individual RCI operations.



## 4.2c RESOURCE MOBILIZATION

IsDB will strive to attract and leverage global resources to support RCI operations. Towards this end, it will mobilize both internal (from across all entities of the IsDB) and external resources. IsDB will cooperate with regional and global initiatives (e.g., international climate funds, regional infrastructure funds, etc.) that provide additional resources to finance emerging priority interests of a cross-border nature. Furthermore, in sector and thematic areas where individual MCs possess relatively advanced institutional and professional capabilities and other strengths, IsDB will increasingly draw upon those assets for implementing RCI solutions in less-developed MCs (e.g., IsDB's "reverse linkage" activities) as a reflection of South-South cooperation and solidarity among MCs.

**In fact, IsDB can finance many RCI-related initiatives via off-balance-sheet resource mobilization, especially utilizing such pooled financing arrangements as specialized funds.**

Institutionally, the focal point for building the necessary partnerships and carrying-out these resource mobilization efforts will be the Global Partnership and Resource Mobilization (GPRM) Department. IsDB will explore to establish financing partnership facilities by 2021, which could include (i) special funds for grants to be administered by IsDB; (ii) project-specific financing on a joint or parallel basis through framework agreements and letters of intent with development partners; (iii) public-private partnership (PPP) arrangements for regional connectivity projects; (iv) cooperation arrangements for knowledge provision and exchange; and (v) any other form of cooperation or resource sharing that partners and IsDB may agree upon for a defined program of activities. IsDB will request official, public and private partners to provide more programmatic support for RCI, allowing for broad MC/RCO and cross-sectoral eligibility and access to resources that would support RCI activities in several MCs simultaneously.



## 4.2d KNOWLEDGE SHARING

Knowledge generation and knowledge sharing, including about RCI, will be a major function of IsDB. Under its new institutional structure, IsDB's specialized knowledge and global practices (GP) units will assist other units across IsDB through: (i) analysis of regional and global trends impacting the potential for RCI among MCs; (ii) distillation and sharing of RCI best practices in the context of single- and multi-sectoral/thematic operations; (iii) advice on the use of specific Islamic finance modalities in RCI operations; (iv) improvement of RCI policy and regulations and addressing cross-border externalities; and (v) validation of RCI project-level economic analysis prior to project approval.

**IsDB will establish an ICT-based, open-access RCI knowledge platform.** IsDB will cooperate with relevant RCI partners and "Developers" to establish this platform for capturing, consolidating, storing, retrieving, and sharing knowledge within and outside IsDB Group.<sup>8</sup> It will also be linked to websites and data libraries of IsDB's RCI partners and "Developers." The platform may be used to (i) support RCI operations planning in MCs; (ii) support RCI advisory services to MCs/RCOs; and (iii) co-create RCI knowledge products with external peers (e.g., "RCI knowledge briefs" on specific development topics). This RCI Knowledge Platform should consolidate RCI knowledge resources relevant to the needs of MCs/RCOs and provide a system for easy access to those knowledge resources by IsDB staff and external stakeholders. Once the platform is operational, staff will be mandated to use it to help decide if a new or modified knowledge solution is required, and if so to maximize the use of the resources available on the platform to design the new knowledge solution. The RCI knowledge platform could include, for example, a centralized and user-friendly portal to geographic information system (GIS) databases and RCI reports (of the IsDB and development partners), allowing staff working in similar country and sector contexts to review and assess the relevance of that information to plan new RCI operations. This would minimize unnecessary and costly duplication of work across IsDB Group and strengthen implementation of the principle, "One IsDBG" for RCI activities.

<sup>8</sup> This IsDB-based RCI Knowledge Platform would prioritize knowledge resources deemed most relevant to RCI needs of IsDB's MCs and associated RCOs.

## AN RCI SKILLS AND COMPETENCIES FRAMEWORK SPECIFIC TO THE ISDBG'S RCI STRATEGY WILL BE DESIGNED AND AN ASSESSMENT IMPLEMENTED ACROSS RELEVANT DEPARTMENTS AND OFFICES

### 4.2e COMPETENCY

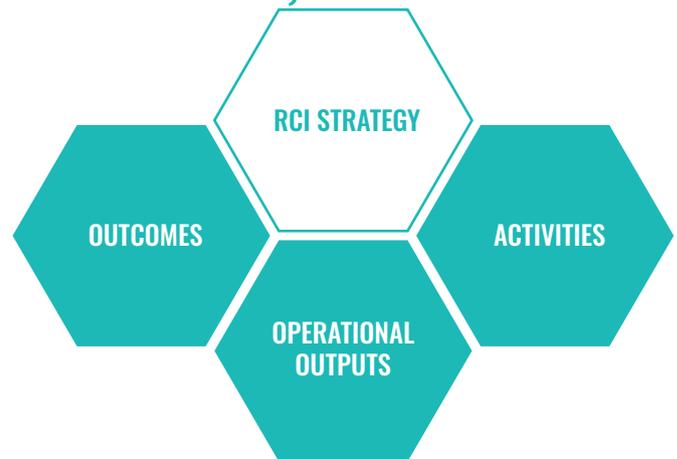
The IsDB's core skills and competencies are key factors for defining and sustaining the organization's position, performance, and reputation as a premier multilateral development-finance organization operating across the MCs and for the benefit of the Ummah. In that context, assessing IsDB's RCI skills and competencies and identifying any gaps—in relation to the skills needed to fully implement the RCI Strategy—provides valuable information for planning of training and development, improved redeployment, and for optimal external sourcing of expertise to achieve and sustain the desired RCI talent pool at IsDB. An RCI skills and competencies framework specific to the IsDB's RCI Strategy will be designed and an assessment implemented across relevant departments and offices. The findings will be shared and discussed with departments/offices to consider the following: (i) more optimal use of existing IsDBG staff with substantial RCI skills and competencies; (ii) opportunities to consolidate or redeploy staff and externally-sourced expertise (e.g., crowdsourcing, consultants, centers of excellence partners, etc.) to amplify IsDBG capabilities, fill gaps, and achieve more cost-effective alignment and allocation of expertise (e.g., 3-year fixed-term external recruitment of experts with highly specialized RCI skills). An illustrative 'catalog' of a number of key RCI-related areas of competency relevant to the four RCI Pillars and the four RCI Roles (of this RCI Strategy) is set out in [Appendix 6](#).

### 4.2f INTERNAL ISDBG INSTITUTIONAL ARRANGEMENTS AND ROLES AND RESPONSIBILITIES

The main institutional responsibility for RCI Operational Strategy implementation has the Country Strategy and Cooperation Department (CSC) as IsDBG's institutional focal point for RCI. It will (a) ensure full and timely implementation of the RCI Strategy (b) organize the RCO Consultative Forum; (c) advise the Global Partnership and Resource Mobilization unit on the establishment of an RCI Partnership Financing Fund and the allocation of resources, and advise other units on RCI-based external partnerships and external resource mobilization for RCI; (d) participate in the preparation of Regional RCI Action Plans; and (e) in cooperate with the Information Management and Disruptive Technology Department to establish and maintain an ICT-based, open-access RCI Knowledge Platform and disseminate RCI knowledge products.

Establishing and maintaining effective communication channels are essential to the implementation of IsDB's RCI Strategy. The IsDB Consultative Forum of RCOs (RCO Forum) in the OIC Region is a principle channel and platform for sustaining communication with MCs and the broader international community on the IsDBG's plans and support for RCI. Reports of meetings of the Forum as well as regional forums will be prepared and disseminated through RCOs and the IsDB's Regional Hubs to stakeholders in all MCs and will also be shared with development partners cooperating with IsDB on RCI. IsDB will prepare and disseminate a regular report on RCI, submit it to the Board of Executive Directors for information.

### 4.3 OUTCOMES (RESULTS FRAMEWORK)



Implementation of the RCI Strategy will be monitored and assessed using an RCI Results Framework and will be reviewed on an annual basis, as set out in Table 3. This Results Framework is structured around three levels, as follows: Outcomes, Operational Outputs, and Activities. Taken together, these levels summarize the theory of change underlying this RCI Strategy.

Country Strategy and Cooperation Department (CSC) will be the 'custodian' of the RCI Results Framework at IsDBG. Using the RCI Results Framework, a periodic corporate report on IsDBG's RCI operations will be prepared by CSC and presented to the Management for its review and endorsement, seeking guidance on future RCI Strategy implementation.

The CSC will periodically update the RCI Results Framework as various Regional RCI Action Plans are developed over time—refining or replacing specific indicators, baseline data and targets as may be appropriate—drawing on inputs provided by Operations and Global Practices.

**TABLE 3: IsDB Group's Results Framework for Regional Cooperation and Integration Strategy<sup>9</sup>**

INDICATOR		BASELINE	TARGET
<b>Expected Outcomes</b>			
1	Intra-OIC trade (%)	19.3 (2014)	25 (2025)
2	Share of OIC in global FDI (%)	9.4 (2014)	11 (2025)
3	Logistics performance index score average score	2.63 (2016)	Within 10% of world average by 2025
4	Enabling trade index score	3.95 (2016)	Within 10% of world average by 2025
<b>Operational Outputs</b>			
<b>General IsDBG</b>			
5	Number of RCI knowledge products generated and disseminated	NA	6 (By 2022)
6	Number of persons trained in RCI-related skills, including IsDBG staff and other stakeholders	NA	300 (By 2022)
7	Financing Fund to support RCI interventions in Asia, Africa and MENA*	NA	\$1.25 billion by (2023)
	Proportion RCI over given 3-year period (unless otherwise specified)	Avg. Over 2015-2017**	Avg. Over 2020-2022**
<b>IsDB</b>			
8	No of MCs (as a percentage) covered by IsDB-assisted RCI capacity building and financing operations	74%	80%
9	Number of IsDB sectors that have an RCI component	10	11
10	RCI financing share of operations (as a %age of total approvals)**	29%	33%
11	No. of MCs covered by investment promotion services (ITAP)	43	47
<b>IRTI</b>			
14	Training of regional nature (in % of total participants)	26%	45%
<b>ICIEC***</b>			
15	Export insurance (in percentage of total business insured) for RCI	40%	45%
16	Outward investment insurance in percentage of total approvals)	31%	30%
<b>ICD</b>			
17	Operations in percentage of total approvals) (Baseline: 2000-2018; Target: 2019-2025)	15%	20%
<b>ITFC***</b>			
19	Trade financing interventions on RCI earmarked for OIC (Baseline: 2008-2018; Target: 2019-2025)	33%	40%
20	Intra-OIC trade financed (Baseline: 2008-2018; Target: 2019-2025)	66%	75%
<b>Activities by 2021</b>			
21	Regular IsDB RCO Consultative Forum arranged		
22	Regular RCI Report prepared and provided to the IsDBG Management and the BED		
23	Operations portfolios include RCI projects/activities for all IsDBG entities and all Regional Hubs		
24	Regional RCI Action Plans are prepared, and systematic updating is undertaken on a regular basis		
25	IsDB's main sector policies are updated to reflect importance of RCI and to incentivize sector participation in IsDB-assisted RCI operations		
26	Establishment of an ICT-based, Open-Access RCI Knowledge Platform and GIS Platform with increasing diversity and quantity of content and a growing/more diverse user profile		
27	Organization of an RCI Day on a regular basis that attracts diverse external stakeholder participation and support		

\*A sectoral breakdown for IsDB operations is given in Appendix 10.

\*\*This is the time frame unless otherwise noted in the indicator descriptions (see ICD and ITFC).

\*\*\*Here, regional is defined simply as intra-OIC, since operations are cross-border in nature.

<sup>9</sup> Targets for IRTI, ITFC, ICD, ICIEC are just proposals to be validated after consultation with concerned entities.



## 4.4 RISKS AND MITIGATION

There are external and internal risks that could challenge effective RCI Operational Strategy implementation and they need to be taken into consideration. *External* challenges may arise, inter alia, from (i) national or cross-border instability affecting some MCs; (ii) government prioritization of very challenging or unprecedented national development problems; (iii) existing national policy frameworks that work against expanding RCI and could be very difficult to amend for domestic reasons; (iv) the simple fact that MCs may not plan for RCI as an integral part of their sustainable economic development; and (v) competition with “national investments that may seem to have higher short-term financial and political payoffs.”<sup>10</sup> Some *internal* challenges are (i) IsDBG’s limited experience with RCI activities in some sectors; (ii) a preference for entity-specific RCI operations rather than cross-entity collaboration on RCI; (iv) challenges, cuts and limited projected growth in IsDBG’s operational resource envelope under the remaining period of the 10YS; and (iv) a “mismatch between complicated and long-term regional integration projects and the time to assess project effectiveness.”<sup>11</sup>

**Certain measures should be taken to mitigate external and internal risks.** *Externally*, IsDBG’s regular development dialogue at national and sector levels can (i) advocate for RCI as part of national development planning and budgeting; (ii) build support for RCI among national stakeholders; (iii) help identify specific areas/opportunities for new RCI; (iv) identify potential constraints and risks to future RCI planning and operations in MCs; and (v) advocate for a long-term approach to investing in RCI. To this end, the RCI Operational Strategy places strong emphasis on close and sustained consultation between IsDBG and MCs, RCOs and other development-finance and private-sector partners who are knowledgeable and experienced with public and commercial RCI among MCs. *Internally*, the risks underscore the importance of inculcating a stronger RCI culture across the IsDBG by (i) requiring cross-entity involvement in systematic planning of RCI programs and projects; (ii) using internal resource allocation as a means of incentivizing a “One IsDBG” approach to RCI; and (iii) promoting longer assessment periods for RCI projects.

**THERE ARE EXTERNAL AND INTERNAL RISKS THAT COULD CHALLENGE EFFECTIVE RCI STRATEGY IMPLEMENTATION AND THEY NEED TO BE TAKEN INTO CONSIDERATION**

**THE RCI STRATEGY PLACES STRONG EMPHASIS ON CLOSE AND SUSTAINED CONSULTATION BETWEEN IsDBG AND MCs, RCOs AND OTHER DEVELOPMENT-FINANCE AND PRIVATE-SECTOR PARTNERS**

<sup>10</sup> AfDB’s Regional Integration Policy and Strategy (RIPoS) 2014-2023, pg. 23.

<sup>11</sup> *Ibid.*, pg. 23.



# APPENDICES

# APPENDIX 1

## MEMBER COUNTRIES (MCs) OF THE ISLAMIC DEVELOPMENT BANK (IsDB)

The present membership of the IsDB consists of 57 countries. The basic condition for membership is that the prospective member country should be a member of the Organization of the Islamic Cooperation (OIC). Members are listed by their cumulative capital subscription (in decreasing order) from the Initial to the 5th General Capital Increase and the shareholding position of the member countries (MCs).

1	Saudi Arabia	30	Guinea
2	Libya	31	Tunisia
3	Iran	32	Lebanon
4	Nigeria	33	Mauritania
5	United Arab Emirates	34	Bahrain
6	Qatar	35	Mozambique
7	Egypt	36	Maldives
8	Kuwait	37	Kyrgyzstan
9	Turkey	38	Gambia
10	Algeria	39	Uganda
11	Pakistan	40	Benin
12	Indonesia	41	Palestine
13	Malaysia	42	Syria
14	Bangladesh	43	Tajikistan
15	Yemen	44	Togo
16	Morocco	45	Sierra Leone
17	Sudan	46	Uzbekistan
18	Jordan	47	Comoros
19	Senegal	48	Cote D'Ivoire
20	Oman	49	Afghanistan
21	Iraq	50	Chad
22	Brunei	51	Albania
23	Cameroon	52	Suriname
24	Burkina Faso	53	Djibouti
25	Niger	54	Guinea-Bissau
26	Gabon	55	Somalia
27	Kazakhstan	56	Turkmenistan
28	Azerbaijan	57	Guyana
29	Mali		

Source: <http://www.isdb.org>



# APPENDIX 2

## INTERNATIONAL ASSESSMENTS OF TRADE AND INVESTMENT PERFORMANCE

The World Bank's *Doing Business* records the time and cost associated with the logistical process of exporting and importing goods. It measures the time and cost (excluding tariffs) associated with documentary compliance, border compliance and domestic transport—for exporting/importing a shipment of goods.<sup>12</sup>

**TABLE A2.1: World Bank Trading Across Borders Indicator - Regional Comparison**

REGION	TRADING ACROSS	TIME TO EXPORT: BORDER COMPLIANCE	COST TO EXPORT: BORDER COMPLIANCE	TIME TO EXPORT: DOCUMENTARY COMPLIANCE	COST TO EXPORT: DOCUMENTARY COMPLIANCE
East Asia/ Pacific	68	57 hrs	USD 402	73 hrs	USD 132
Europe/ Central Asia	84	28 hrs	USD 195	27 hrs	USD 111
Latin America/ Caribbean	68	64 hrs	USD 527	56 hrs	USD 111
Middle East/ North Africa	56	64 hrs	USD 460	77 hrs	USD 261
OECD High Income	94	12 hrs	USD 150	3 hrs	USD 36
South Asia	58	59 hrs	USD 376	78 hrs	USD 183
Sub-Saharan Africa	51	103 hrs	USD 583	93 hrs	USD 230

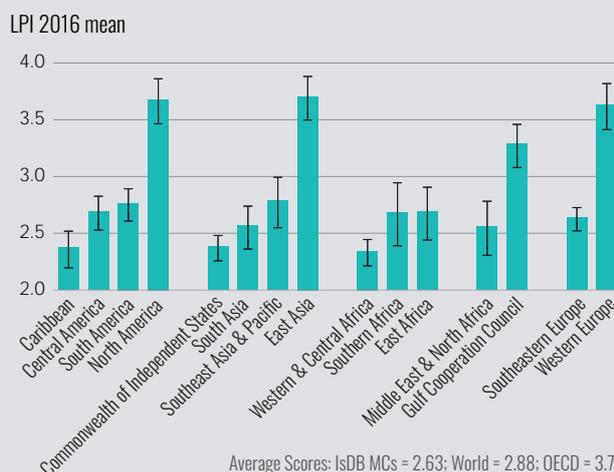
Notes:

(1) "DTF" refers to the "distance to frontier" score, which helps assess the absolute level of regulatory performance over time. It measures 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* sample. An economy's distance to frontier is indicated on a scale from 0 to 100, where 0 represents the lowest performance and 100 the frontier.

(2) Values have been rounded to the nearest whole number.

**FIGURE A2.1: World Bank Logistics Performance Index (LPI) 2016 score means, by geographical region**

The Logistics Performance Index (LPI) is a benchmarking tool created to help countries identify the challenges and opportunities they face in their performance on trade logistics and what they can do to improve their performance. The LPI 2016 allows for comparisons across 160 countries. The LPI consists of both qualitative and quantitative measures of performance along the logistics supply chain within a country and offers two different perspectives: international and domestic.



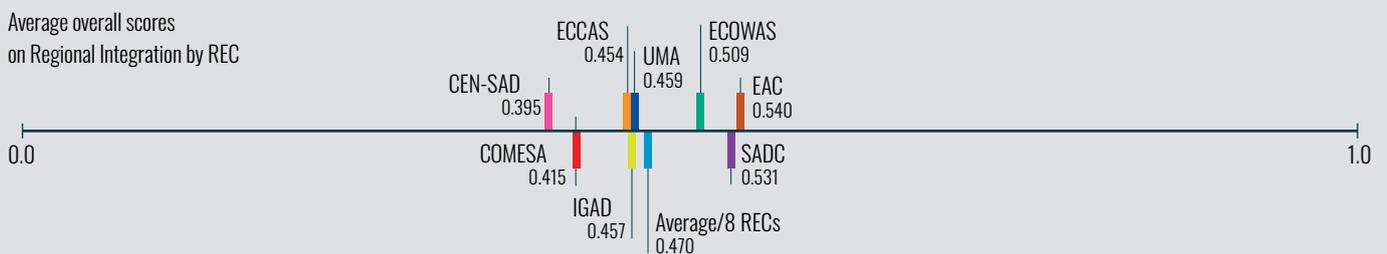
<sup>12</sup> Source: World Bank 2017.



**FIGURE A2.2: UNCTAD World Investment Report 2016 – Regional Trends for FDI Inflows and Outflows<sup>13</sup>**



**FIGURE A2.3: Africa Regional Integration Index 2016<sup>14</sup>**



Notes:

(1) REC (Regional Economic Community)

(2) CEN-SAD: Community of Sahel-Saharan States; COMESA: Common Market for Eastern and Southern Africa; EAC: East African Community; ECCAS: Economic Community of Central African States; ECOWAS: Economic Community of West African States; IGAD: Intergovernmental Authority on Development; SADC: Southern African Development Community; UMA: Arab Maghreb Union

<sup>13</sup> Source: UNCTAD World Investment Report 2016.

<sup>14</sup> Source: Africa Regional Integration Index Report 2016.

# APPENDIX 3

## SOME PROGRAMS REPRESENTATIVE OF ISDBG'S SUPPORT FOR RCI

**Trade Finance:** ITFC, as the trade financing arm of the IsDBG, has consolidated all trade finance businesses that used to be handled by various windows within the IsDB Group. ITFC deploys its expertise and funds to businesses and governments. Its primary focus is to finance intra-trade among OIC member countries. It works as a facilitator, to mobilize private and public resources to foster economic development through trade. The ITFC helps businesses in MCs gain better access to trade finance and provides them with trade-related capacity building tools to help them compete successfully in the global market.

**Investment and Export Credit Insurance:** ICIEC provides investment and export credit insurance for MCs. ICIEC enables the business community of MCs to offer their overseas customers more flexible payment options - without exposing themselves to non-payment and political risks. ICIEC insurance also allows exporters to obtain Export Credit finance from banks. ICIEC can insure the credit risk of the obligor or its guarantors, helping the business community to mitigate the risks and increase their asset size and improve their asset quality and finally increase the volume of business. It can share the credit risk of the issuing bank with traders, so that they build capacity for more business and increase their exports.

**Investment Finance:** ICD fosters development of the private sector in its member countries by providing financing for investment projects, improving the enabling environment in member countries and promoting cross-border investments. ICD's activities are centered in five strategic focus areas:<sup>†</sup> (i) Setting up and strengthening Islamic financial institutions in order to create a multiplier impact, (ii) Extending finance for investments in high impact sectors such as infrastructure, agriculture and manufacturing; (iii) Providing advisory services for issuing sukuk, improving business environment, establishing Islamic Finance windows, and converting conventional financial institutions into Islamic Finance organizations<sup>‡</sup>; (iv) Mobilizing Resources for private sector projects in its member countries through setting up new funds as well as developing syndication projects, and (v) Promoting trade and investment among its member countries through organizing investment forums and business events.

**The Trade Cooperation and Promotion Program (TCPP):** The TCPP is the trade promotion and facilitation arm of the ITFC that designs and delivers trade-related technical assistance programs to IsDBG MCs. Its principal objective is to promote and enhance intra-trade and trade cooperation among MCs. It provides trade related technical assistance programs in cooperation with local, regional and international trade institutions and small and medium-size enterprises (SMEs) in MCs. TCPP activities fall into four business lines: trade promotion, trade facilitation, capacity building and strategic commodities.

AID FOR TRADE INITIATIVE FOR ARAB STATES (AFTIAS) IS A PARTNERSHIP OF

# 22

ARAB COUNTRIES, REGIONAL ECONOMIC ORGANIZATIONS, INTERNATIONAL TRADE-RELATED ORGANIZATIONS AND DONORS AS WELL AS THE UNDP IN IMPLEMENTATION.

**Aid for Trade Initiative for Arab States (AFTIAS):** The AFTIAS aims at enabling the MCs of the Arab League to benefit from regional and international trade, and to achieve regional integration. The initiative is a partnership of 22 Arab countries, regional economic organizations, international trade-related organizations and donors as well as the UNDP in implementation. The overarching objective of AFTIAS is to support inclusive economic growth with increased employment opportunities and greater competitiveness through trade policy reforms in the Arab States. AFTIAS addresses challenges at the levels of market access and business environment, value chains, labor markets, as well as with the management and deployment of technical-assistance resources.

**Investment Promotion Technical Assistance Program (ITAP):** ITAP' main objective is to enhance the capacity of the Investment Promotion Agencies (IPAs) in IsDB MCs to attract both domestic and foreign direct investments. ITAP delivers its services in the form of short to long term programs and capacity building (training) programs to its beneficiary IPAs in IsDB MCs.

**Technical Assistance to Regional Organizations:** At regional and regional levels, IsDBG provides technical assistance to the OIC affiliated institutions and regional cooperation organizations in the OIC Regions. The Bank has signed MOUs and cooperation agreements with almost all regional organizations in the OIC regions, aiming to strengthen regional organizations' efforts in trade liberalization and facilitation. IsDBG has approved technical assistance grants to many regional entities to enhance their capacity to address regional cooperation needs of MCs, and other support for regional trade agreements (RTAs) and OIC's Trade Preferential System (TPS), regional transport connectivity, major corridor development initiatives and integration of power grids of MCs.



**WTO Technical Assistance Program:** Through its WTO related Technical Assistance and Capacity Building (TA&CB) program, IsDB helps MCs in their relationship with WTO through national level capacity building initiatives and facilitating their accession to and implementation of WTO agreements. The program is designed to build the institutional and human capacities of its MCs on Multilateral Trade Negotiations such as those conducted under the auspices of the WTO, including the interface with regional trading arrangements with a view to facilitating their effective participation into the global economy and fostering regional integration.

**IsDB Group Business Forum (THIQAH):** The objective of THIQAH is to establish a unique and innovative platform for dialogue, cooperation and inclusive partnership for business leaders committed to partnering in promising investment opportunities.

**Special Program for the Development of Africa (SPDA):** The IsDBG has prepared special programs focused on addressing the development needs of MCs in a certain region, including the SPDA (another program is the Special Program for Central Asia, or SPCA). While not necessarily focused on cooperation or integration, the regional focus that examines multiple countries at once promotes a more holistic approach, often leading to initiatives with a significant RCI component. The approval phase under the SPDA spanned the years from 2008 through 2012. By the end of this phase, IsDBG approvals exceeded the programmed target of US\$ 4 billion by approximately 25% covering a total of 358 projects.

**Arab-Africa Trade Bridges (AATB) Program:** ITFC took the lead, in consultation, collaboration, and coordination with partners, to design a 3-year regional trade promotion program (2017-2019). This program is intended to address some of the challenges preventing the business communities in Arab countries and Sub-Saharan African (SSA) countries from fully taking advantage of existing trade potentials between the two regions. It aims to facilitate partnerships for trade, investment and technology transfer between the two regions, with the expected impact of contributing to economic development and employment creation in beneficiary countries. It is supported by a targeted budget of US\$ 5 million.

THE APPROVAL PHASE UNDER THE SPDA SPANNED THE YEARS FROM

**2008 TO 2012.**

BY THE END OF THIS PHASE, ISDBG APPROVALS EXCEEDED THE PROGRAMMED TARGET OF

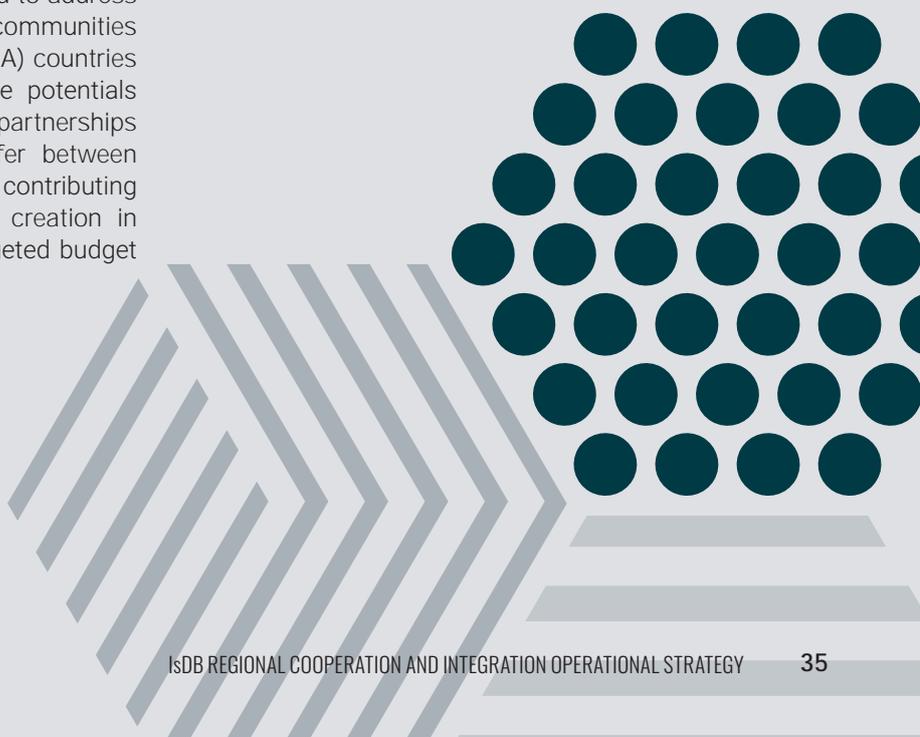
**US\$ 4 BILLION**

BY APPROXIMATELY COVERING A TOTAL OF

**358 PROJECTS**

THE ARAB-AFRICA TRADE BRIDGES (AATB) PROGRAM IS SUPPORTED BY A TARGET BUDGET OF

**US\$ 5 MILLION**



# APPENDIX 4

## TOWS ANALYSIS (STRATEGIC OPTIONS) FOR RCI AT IsDBG

	EXTERNAL OPPORTUNITIES	EXTERNAL THREATS
	<ul style="list-style-type: none"> <li>● Growing international recognition of the economic and social significance of the global Muslim community and the importance of its future growth and development.</li> <li>● Global trade and investment has declined. MCs and RCOs are looking at regional trade and investment opportunities to support growth and diversification of economies.</li> <li>● There are OIC and other regional association-backed initiatives and agreements for fostering greater RCI among groupings of MCs.</li> <li>● MCs and associated regional groupings rank comparatively low on international measures of 'connectivity'.</li> <li>● MCs are increasingly aware of the cross-border risks from episodic outbreaks of highly contagious diseases and from increased cross-border flows of people. - There is heightened scarcity in the quantity/quality of some shared natural resources that are important for economic growth and public health.</li> <li>● The AfDB, AsDB and WB have updated their RCI policies and strategies recognizing the role of the IsDBG as partner.</li> </ul>	<ul style="list-style-type: none"> <li>● Conflicts in MCs' limit opportunities to plan, implement and finance RCI cooperation. Critical domestic development challenges may be prioritized well above RCI.</li> <li>● Some MCs have limited institutional and human resource knowledge, expertise and experience with RCI. Some MCs have underdeveloped private sectors or limited knowledge of external markets that constrain them from taking full advantage of RCI.</li> <li>● Domestic financial institutions in some MCs have limited knowledge and experience using Islamic Finance to support cross-border financial flows. Some modalities of Islamic Finance are not readily or easily transferable across MCs. Public authorities in some MCs do not foster a proactive policy/regulatory framework for Islamic Finance.</li> <li>● IsDBG must ensure that it also takes a general perspective of Islamic Finance, that is, a concerted focus on particular markets (e.g., banks, insurance, capital markets) looking beyond specific modalities of Islamic Finance.</li> </ul>

INTERNAL STRENGTHS	STRATEGIC OPTIONS: USE STRENGTHS TO HARNESS OPPORTUNITIES	STRATEGIC OPTIONS: USE STRENGTHS TO LIMIT THREATS
<ul style="list-style-type: none"> <li>● IsDBG unites member countries (MCs) around an incomparable (Islamic-based) development purpose and means, and provides a platform for MCs' collective action.</li> <li>● IsDBG builds and shares unique knowledge of Islamic Finance and its cross-border interpretations and application for development and modernization of MCs. IsDBG builds technology-based partnerships across MCs and regions.</li> <li>● IsDBG has applied Islamic Finance across borders and regions into both public and private sector markets and project financing. IsDBG has internationally accredited balance sheets and internationally qualified sector and financial expertise.</li> <li>● IsDBG has RCI-related programs/ activities including project investment, trade finance and insurance, capacity building and training, knowledge-sharing, business-to-business platforms, and policy and regulatory modernization.</li> <li>● IsDBG has partnerships with various regional cooperation organizations (RCOs) and with other multilateral organizations.</li> </ul>	<ul style="list-style-type: none"> <li>● <i>Establish RCI Operational Priorities</i> on four pillars: (i) enhancing cross-border connectivity; (ii) improving investment climate and competitiveness; (iii) mainstreaming trade and Islamic finance; and (iv) facilitating cooperation to provide regional public goods. Align IsDBG's existing RCI programs and new programmed initiatives under these four pillars.</li> <li>● <i>Use/ support RCOs as leading partners for IsDBG's RCI programming on a systematic basis and across IsDBG's entities.</i> Cooperate/ support RCOs to plan, design and implement coherent RCI programs (sovereign and/or nonsovereign-financed) on a sector/ multi-sector basis under existing RCO cooperation agreements involving two and preferably more MCs. Align IsDBG's existing RCI programs and new initiatives to selected RCO-based RCI operations and 'pool' IsDBG's technical and financial support from across its major entities to support them coherently and cost effectively.</li> <li>● <i>Explore new opportunities for sovereign and/or nonsovereign-financed cooperation with the AfDB, AsDB and the WB (and other relevant organizations) in the context of</i> (i) their updated/ new RCI strategies relating to Africa, Asia (especially Central Asia) and the Middle East, and (ii) their existing/new strategies/ policies to address climate change and other RPGs. Explore opportunities for RCI cooperation with the Inter-American Development Bank (IADB) in relation to Guyana and Suriname, under the</li> </ul>	<ul style="list-style-type: none"> <li>● Cooperate with RCOs/other MDBs to design customized and targeted RCI activities in conflict/ fragile MCs. Use the RCI Fund to provide concessional financing. Carve out special areas for IsDBG where Islamic Finance modalities are especially relevant to particular stakeholders or activities.</li> <li>● Explore opportunities for IsDBG to work with central government agencies in MCs in relation to development of medium-term public expenditure programs, to identify RCI-related public programs where Islamic Finance (sovereign and nonsovereign) may be particularly relevant.</li> <li>● In RCI project design maximize opportunities for using/ adapting the most acceptable (across participating MCs) modalities of Islamic finance across the project and particularly where cross-border financial flows/ transactions are involved. Where RCI project elements do not involve cross-border financial flows attempt common deployment of other Islamic Finance modalities as much as possible.</li> <li>● Design RCI connectivity projects in conjunction with/ alongside trade facilitation and cross-border enterprise/ SME development activities or special economic zones. Link IsDB sovereign investment in physical connectivity with ITFC/ICIEC/ICD assisted operations for expanding business development that exploits the new physical connectivity and improvements in trade facilitation.</li> </ul>



INTERNAL STRENGTHS	STRATEGIC OPTIONS: USE STRENGTHS TO HARNESS OPPORTUNITIES	STRATEGIC OPTIONS: USE STRENGTHS TO LIMIT THREATS
	<p>recent IADB-IsDBG MoU. Relate joint-MDB RCI operations to IsDBG's existing RCI programs and initiatives and 'pool' IsDBG's technical and financial support from across its major entities. Establish partnership with the AIIB.</p> <ul style="list-style-type: none"> <li>● <i>Become the G20's 'Go to Resource' on 'Islamic Finance &amp; RCI'</i>. Take the lead in carrying out/ financing/ disseminating 'signature' research and other analysis of RCI-related trends, developments and investments, where Islamic Finance is proving to be a central factor for achieving success.</li> </ul>	<ul style="list-style-type: none"> <li>● Working together, ITFC, ICIEC and ICD could consider joint/parallel programs of complementary Islamic Financing to particular market segments (banks, insurance, capital markets) in one or more MCs, to support RCI-related activities of the private sector.</li> </ul>

INTERNAL WEAKNESSES	STRATEGIC OPTIONS: LIMIT WEAKNESSES THROUGH OPPORTUNITIES	STRATEGIC OPTIONS: LIMIT WEAKNESSES AND THREATS
<ul style="list-style-type: none"> <li>● The IsDBG lacks a 'body of knowledge' and 'lessons-learned' based on its cumulative support for RCI.</li> <li>● IsDBG's projected resources allow only limited growth/ expansion.</li> <li>● The IsDBG's planning and programming for RCI is project specific, responsive to individual MC/RCO requests, opportunistic, and confined to a single entity or sector. IsDBG lacks a programmatic approach to planning and resourcing RCI operations.</li> <li>● IsDBG's RCI-related programs are not evidently inter-related and provide synergistic impacts in MCs. The IsDBG's knowledge-based programs/ operations are not evidently linked to RCI operational planning/ programming.</li> <li>● The IsDBG lacks a definition or classification method for RCI operations and associated methods for the economic analysis of regional projects.</li> <li>● IsDBG must ensure that the planned RCI Strategy is fully aligned with its 10 Year Strategy, defines the main RCI operational directions and roles, defines the associated financial, operational and organizational implications for IsDBG, and includes a results framework aligned to the 10 Year Strategy.</li> </ul>	<ul style="list-style-type: none"> <li>● <i>Use the results/ outcomes of RCI-related consultations with RCOs and MDBs to inform and guide formulation of individual MCPs and to plan specific supportive activities under IsDBG's existing RCI-related programs</i> (e.g., sovereign project financing, RCO and WTO-related capacity building and training, trade promotion, aid for trade, trade financing and export credit insurance, business-to-business linkages, private sector financing).</li> <li>● <i>Use the results/ outcomes of RCI-related consultations with RCOs and MDBs to update IsDBG's key sector/ thematic strategies/ policies</i> (e.g., transport, energy, agriculture, water, health, among others) that are expected to be significant operational areas under IsDBG's RCI programs. Undertake a similar exercise in relation to IsDBG partnership arrangements/ agreements with RCOs, MDBs, as well as other organizations which could potentially provide relevant technical and financial support to IsDBG's RCI operations.</li> <li>● <i>Require each IsDBG entity to include a definitive RCI segment in its medium-term work program and budget exercise</i> and explain how it is related to RCI-related activities of other entities at IsDBG. Use these results to support the establishment of an RCI Fund (concessional resources) and to plan initial and succeeding resource mobilization into the Fund.</li> <li>● <i>The RCI Strategy should include an agreed</i> (i) RCI classification method relevant to the needs of various RCOs and sectors, and (ii) approach to economic analysis of RCI operations.</li> <li>● <i>Assign responsibilities for coordinating:</i> (i) work programs across IsDBG entities, (ii) updating sector policies/ strategies and partnerships, (iii) establishment of the RCI Fund and resource mobilization.</li> </ul>	<ul style="list-style-type: none"> <li>● <i>Use a "One IsDBG" approach.</i> Link existing RCI-related programs/ activities of various IsDBG entities and develop and implement/ finance future RCI programs/ projects on a cross-entity basis and deploy them jointly or as complements within sector, country and RCO/ regional specific contexts.</li> <li>● <i>Integrate knowledge-based activities across entities to:</i> (i) support upstream or program-based RCI advisory services to MCs/RCOs benefiting multiple stakeholders; (ii) identify key emerging RCI trends, (iii) support new RCI program development for IsDBG financing, (iv) plan strategic but also 'highly selective'/ 'opportunistic' RCI interventions in fragile/ conflict situations, and (v) attract additional cooperation/ support from development partners.</li> <li>● <i>Provide opportunities for 'reverse linkage'-type activities involving two or more MCs/ RCOs on the use/ application of various forms/modalities of Islamic Finance</i> across sectors, businesses, industries, market segments of the financial sector. Involve multiple stakeholders (e.g., government, private sector, civil society, and Islamic scholars).</li> <li>● <i>In conflict and fragile country contexts use common performance indicators, performance targets and operational interventions as the 'RCI link'.</i> In a specific sector/ subsector and using its special relationship with MCs, IsDBG can take leadership assisting MCs to reach consensus/ jointly endorse common outputs and outcomes in a specific sector/ subsector, and deploy common operational interventions while minimizing the necessity of substantive joint activities among MCs.</li> <li>● Develop an RCI classification method to guide operational planning. Focus on distinctive cross-border benefits and collective action among MCs. And, the RCI Strategy to include a results framework—inputs/ outputs/ outcomes.</li> </ul>

# APPENDIX 5

## INDICATIVE CRITERIA FOR RCI PROJECT PORTFOLIO REVIEW AT ISDB

1. What is the progress made to date towards achievement of the specific objectives of the RCI project in each participating country? Are there difficulties assessing the outputs and outcomes of the project, especially in relation to joint responsibilities among countries and in the identification and measurement of cross-border spillover benefits? Have any remedial actions been put in place by IsDB, countries or partners collaborating on the project?
2. The quality and timeliness of inputs provided by each participating country, IsDB, and other participating partners.
3. The quality of the project's management arrangements especially for substantial cross-border functions/ activities and the control and monitoring systems and reporting, and extent to which these are proving effective in participating country and at IsDB.
4. Are project funds being used in accordance with the conditions of the Project agreement in each participating country, and as administered by IsDB and collaborative partners? Is there acceptable cost-efficiency of project interventions in the participating countries?
5. What have been the main intended and unintended outcomes as well as challenges arising from project execution? Has there been timely completion of various milestones especially for project functions requiring joint or otherwise inter-related contributions/actions among participating countries, IsDB and partners collaborating on the project?
6. Are there cost over-runs beyond any original contingency provided for in the project? Are these cost-over-runs hindering timely execution of joint responsibilities on the part of individual participating countries?
7. Average Implementation period (months)
8. Average annual disbursement rate (%)
9. Gross disbursement rate (%)
10. Proportion of projects at risk (%)
11. Average age of active portfolio (years)
12. Overall rating of projects (defined scale basis)



# APPENDIX 6

## ILLUSTRATIVE CATALOG OF RCI-RELATED AREAS OF COMPETENCY

Cross-border infrastructure	<ul style="list-style-type: none"> <li>roads, railways, ports, airports, multimodal transport</li> <li>telecommunication and ICT</li> <li>energy/energy trade</li> <li>power/power trade</li> <li>cross-border logistics</li> <li>multi-sector connectivity</li> <li>policy/regulatory reforms</li> </ul>
Regional capital markets	<ul style="list-style-type: none"> <li>monetary/financial cooperation</li> <li>cross-border infrastructure funds</li> </ul>
Cross-border economic corridors	<ul style="list-style-type: none"> <li>production networks and value chains</li> <li>cross-border trade and trade facilitation</li> <li>coordinated border management</li> <li>special economic zones</li> <li>cross-border tourism</li> </ul>
SMEs	<ul style="list-style-type: none"> <li>SME competitiveness on cross-border markets</li> <li>SME trade and supply-chain finance</li> </ul>
Cross-border skills and knowledge transfer	<ul style="list-style-type: none"> <li>cross-border mutual recognition agreements</li> <li>cross-border skilled-labor mobility</li> </ul>
Regional public goods (RPGs)	<ul style="list-style-type: none"> <li>cross-border dialogue and cooperation on COP21 commitments or other RPG agreements</li> <li>regional institutions program planning and implementation</li> <li>preparing/facilitating cross-border agreements</li> <li>'Green bond' financing</li> <li>alignment of climate and environment policy/regulation</li> <li>cross-border disaster risk management and finance</li> </ul>
Cross-border public health	<ul style="list-style-type: none"> <li>e-health initiatives for regional health solutions</li> <li>cross-border disease control (animals and humans)</li> <li>harmonization of health sector policy and regulation</li> <li>mutual recognition agreements for health professionals</li> </ul>
Economic and sector analysis for RCI pipeline development	<ul style="list-style-type: none"> <li>regional capital/financial market integration</li> <li>cross-border trade &amp; investment policy reform</li> <li>investment opportunities in cross-border economic corridors/special economic zones</li> <li>cross-border energy markets</li> </ul>
Project economic analysis	<ul style="list-style-type: none"> <li>benefit-cost analysis of direct cross-border outcomes/impacts</li> <li>distributional analysis of cross-border benefits/costs among MCs</li> <li>regional economic net-present value</li> </ul>
RCI leadership & management	<ul style="list-style-type: none"> <li>develop agenda for RCI knowledge operations in MCs</li> <li>establish multi-stakeholder RCI cooperation agreements</li> <li>lead and coordinate RCI forums</li> <li>lead RCI programming and project development in cooperation with "Developers"</li> </ul>

# APPENDIX 7

## INDICATIVE RCI SCORECARD FOR REGIONAL PROJECTS AND RCI PROJECT CRITERIA<sup>15</sup>

ASSESSMENT LEVEL	CRITERIA	SUB-CRITERIA/INDICATORS	FULL MARK	MINIMUM REQUIRED SCORE		
Regional and country	Regional Relevance/ Country Readiness	Project is considered essential to implement existing cross-border agreements or formal joint commitments of RCOs, participating MCs, or for implementing a high-level regional program/initiative of the Organization of Islamic Cooperation (OIC).	20	10		
		Project is expected to generate new opportunities for improving/expanding direct Multi-MC cooperation, including RCOs or other regional institutions.				
		MCs'/RCO's past performance in RCI projects and/or sector is adequate.				
		Project represents a high-priority 'crisis response' by IsDB to an OIC/RCO/MCs' request.				
Project	Expected net regional economic spill-overs/ benefits	Project is expected to create cross-border effects, such as generation of trade through improved transport and communication, or economic corridor development; or capture of economies of scale and efficiency gains from regional specialization based on selling in a larger market; or create agglomeration and network effects or urban centers in a larger cross-border market for value added trade flows; or reduce cross-border pollution or flows of illicit activities.	60	30		
		Project is expected to generate additional investment through the attraction of external funding, such as FDI (with preference given to additionality as IF) to the participating countries that would not be forthcoming for nationally-based projects. Project would expand the use of specific types of Islamic Finance instruments across borders and into new sectors or new MCs.				
		The project would provide opportunities for external 'Developers' to participate directly in IsDB cross-border project formulation, technology transfer, financing and delivery.				
	Additionality	Project would contribute to stronger regional or global economic integration of MCs.			20	10
		Project supports/reflects improved regional policy dialogue on trade, investment, and monetary and financial cooperation; cooperation on regional public goods (RPGs); aligning domestic policy reforms/ investment with cross-border objectives; research and knowledge transfer and utilization.				
		Involves at least two MCs/RCOs implementing joint actions and/or resource allocations or investment between them, which will create additional mutual benefits for them and directly/indirectly for some other (non-participating) MCs/RCOs.				
<b>Total</b>			<b>100</b>			
<b>Minimum required</b>			<b>50</b>			

<sup>15</sup> Source:

- (1) Scorecard format adapted from "Handbook for the Classification and Economic Analysis of Regional Projects—Revised Final Draft" prepared by Dr. Ramesh Adhikari and Prof. John Weis and submitted in May 2017 to the Economics Research and Regional Cooperation Department of the Asian Development Bank.
- (2) Criteria prepared on the basis of review of RCI scorecards at other international development-finance organizations and consultations with IsDB and stakeholders.

# APPENDIX 8

## INDICATIVE RCI REGIONAL ACTION PLAN FOR 2020-22

### INTRODUCTION AND BACKGROUND

**Regional RCI Action Plan:** The Regional RCI Action Plan is a 3-year medium-term strategy for an IsDB-defined region, to achieve preferred and prioritized objectives of regional cooperation. This draft Action Plan is both a diagnostic and a road map to guide IsDB's regional operations. It is intended to operationalize the RCI Strategy to support regional development. In certain areas, it also proposes a medium term regional investment and partnership framework with associated pipeline of priority projects.

**Scope/Content of the Action Plan.** This RCI Regional Action Plan sets out illustrative RCI areas of operations (beyond specific project proposals), with reference to the Asia, Africa, and Middle East & North Africa (MENA) regions, which the Bank would endeavor to develop to specific RCI projects in cooperation with RCOs, IsDB Member Countries (MCs), and development partners (official, civil society, and the private sector). For each region the illustrative RCI operations are related to one or more of the four Pillars of the IsDB's RCI Policy and Strategy. The Action Plan ends with some observations, for IsDB's consideration.

Using this first sample as a basis, the IsDB will prepare several three-year "Regional RCI Action Plans" that will be updated regularly. Taken together, the set of Regional RCI Action Plans will encompass all Regional Hubs and MCs.

Principles used to identify specific RCI areas of operation. Generally, the RCI areas of operation set out below, were identified in relation to the following principles:

- i. They are congruent with IsDB RCI Policy and Strategy
- ii. Address various recommendations of the RCI Baselines Assessment, for example: greater sector/subsector diversification and/or geographic decentralization of IsDB's RCI portfolio, increase multi-country RCI operations, establish linkage between upstream knowledge operations and downstream investment operations
- iii. Have potential for involving and strengthening sector/multisector cross-border cooperation and coordination of one or more RCOs
- iv. An opportunity for cooperation with other development partners on RCI operations involving established inter-country RCI coordination mechanisms (that include participation by some of IsDB's MCs)
- (v) Have potential for innovation in RCI project design, knowledge sharing, or modality of delivering IsDB assistance in cooperation with RCOs.



PILLAR/REGION	ASIA	AFLA	MENA
<p><b>PILLAR 1:</b> Enhancing Cross-Border Connectivity</p>	<p><b>Priority Interventions</b></p> <ul style="list-style-type: none"> <li>● IsDB will explore to establish financing partnership facilities by 2021, which should include special funds for projects and grants to be administered by Bank. The Bank will mobilize from official, public and private partners in the region to jointly provide programmatic support for RCI interventions in the region to the value of US\$ 500 million.</li> <li>● Modernization of the Central Asia Power System for joint operation/sharing of power generation and transmission (in cooperation with CAREC development partners).</li> <li>● Harmonization of energy policies and standards to promote cross-border energy/power trade (particularly for renewable energy).</li> <li>● Preparation of harmonized/aligned national energy efficiency action plans developed through knowledge sharing among MCs anchored on global best practice (in cooperation with CAREC development partners).</li> <li>● Expansion and modernization of the CAREC railway system</li> <li>● For land-locked MCs, modernize national transport infrastructure for interoperability with other (including multi-modal) transport infrastructure connecting to (preferable deep water) seaports that are connected to other markets.</li> <li>● Focus on investment in digital connectivity and associated specialized platforms for assisting SMEs that enable an expansion in South East Asia.</li> </ul>	<p><b>Priority Interventions</b></p> <ul style="list-style-type: none"> <li>● IsDB will explore to establish financing partnership facilities by 2022, which should include special funds for projects and grants to be administered by Bank. The Bank will mobilize from official, public and private partners in the region to jointly provide programmatic support for RCI interventions in the region to the value of US\$ 500 million.</li> <li>● Assist RCO-wide/inter-RCO cooperation on harmonizing/aligning policy supporting greater regional connectivity and trade.</li> <li>● Support RCO/inter-RCO coordinated approaches to development and modernization of ports in countries on the east and west coasts of Africa.</li> <li>● Develop a pipeline of complementary maritime projects and initiatives for coordinated implementation that promotes regional integration of Africa's ports through common port performance standards, interoperability of port communications and logistics infrastructure, promoting a sound regulatory environment, and building human resources.</li> <li>● Develop power generation and regional transmission infrastructure.</li> <li>● Support regional processing and transformation units for example the mango fruit in West Africa.</li> <li>● Expand Arab Africa Trade Bridges (AATB) program and interventions to boost intra-Arab trade.</li> </ul>	<p><b>Priority Interventions</b></p> <ul style="list-style-type: none"> <li>● IsDB will explore to establish financing partnership facilities by 2023, which should include special funds for projects and grants to be administered by Bank. The Bank will mobilize from official, public and private partners in the region to jointly provide programmatic support for RCI interventions in the region to the value of US\$ 250 million.</li> <li>● Expand and modernize e-commerce and digital trade, especially in services. Focusing on harmonized private sector-led investment in digital infrastructure and telecommunications.</li> <li>● Support single or cross-sectoral partnerships and agreements</li> <li>● Cross-border infrastructure in Arab-Maghreb Union area.</li> <li>● Support the initiative financed under AFTIAS related to the network among logistical platforms in Morocco, Egypt and other SSA countries.</li> <li>● Support the gas pipeline project between Morocco and Nigeria</li> <li>● Support some selected central banks to reinforce the cross-border banking supervision to prevent systemic crisis.</li> <li>● Enhance maritime transportation and trade in the gulf by supporting the special Economic Zone at Duqm (SEZAD).</li> <li>● Support Cairo – Cape town road initiative.</li> </ul>



PILLAR/REGION	ASIA	AFLA	MENA
<p><b>PILLAR 2:</b> Improving Investment Climate</p>	<p><b>Priority Interventions</b></p> <ul style="list-style-type: none"> <li>● Support landlocked countries of Central Asia to pursue closer coordination on sector/industry policy and regulatory reforms for economic diversification, improving the business climate, promoting foreign direct investment, facilitating the integration of SMEs into regional and global value chains.</li> <li>● Support RCOs to achieve harmonization on: (i) development of trade and logistics centers for export of agricultural and livestock &amp; manufactured products; and (ii) enhancement of product standardization and laboratory accreditation to improve compliance and access to the markets in the export markets (e.g. European Union and the Eurasian Economic Union).</li> <li>● Extend cooperation across the CARs linking European, Central Asian and East Asian tourism markets.</li> <li>● Developing Halal Tourism zones in South and South-East Asia Region</li> <li>● Developing Islamic Economic Zones in South Asia.</li> <li>● Embark on deregulation and policy solutions and simplification of licensing processes.</li> <li>● Build Investment Promotion Agencies' capacity, regulatory environment, design and structure.</li> </ul>	<p><b>Priority Interventions</b></p> <ul style="list-style-type: none"> <li>● Develop 'advanced transit system' agreements, facilitated by a modernized common information exchange system usable by regional trading partners and with a capacity to link into the EU New Computerized Transit System.</li> <li>● Focus trade facilitation knowledge work on (i) the impact of non-tariff barriers for SMEs and rural businesses; (ii) sub-regional trade facilitation, which builds capacity for border control agencies and their coordination to ease constraints; and (iii) inter-RCO knowledge sharing on trade facilitation regarding best practices regionally and globally.</li> <li>● Create and support a network of Investment Promotion agencies to develop regional investment projects.</li> <li>● Set up a Capacity Development program to improve the effectiveness of OHADA set of countries in Central and West Africa (training, IT governance, coordination and communication).</li> <li>● Support the growing private equity industry.</li> <li>● Build Investment Promotion Agencies' capacity, regulatory environment, design and structure.</li> </ul>	<p><b>Priority Interventions</b></p> <ul style="list-style-type: none"> <li>● Support knowledge sharing and skills transfer in MENA region from RCOs and sub-regional RCI programs in Central Asia (e.g., CAREC), South Asia (e.g., SAARC, SASEC, and Southeast Asia (e.g., ASEAN Economic Community, GMS). With key focus on formulation and implementation of intra-regional and inter-regional trade and investment policy.</li> <li>● Support RCOs to achieve harmonization/alignment among MCs on (i) development of trade and logistics centers for export of agricultural and manufactured products; (ii) institutional strengthening for export registration under the framework of the Generalized System of Preferences, and; (iii) enhancement of product standardization and laboratory accreditation to improve compliance and access to export markets in Asia.</li> <li>● Support the enabling legal and regulatory environment preferably through revisions of existing regional (and bilateral) trade agreements to support private sector investment and operation of cross-border digital services and 'Fintech'.</li> <li>● Set up a partnership framework with Tunisia to promote cooperation with SSA countries</li> <li>● Organization of a regional Forum on the role of Maghreb Diaspora in the development of their countries.</li> </ul>



PILLAR/REGION	ASIA	AFLA	MENA
<p><b>PILLAR 3:</b> Mainstreaming Trade and Islamic Finance</p>	<p><b>Priority Interventions</b></p> <ul style="list-style-type: none"> <li>● Participate in the operationalization of the anticipated Regional Comprehensive Economic Partnership (RCEP).</li> <li>● Promoting Islamic Finance through Mobilizing Trade and Cross Sharing of Knowledge (Malaysia, Bangladesh and Maldives).</li> <li>● Leveraging Islamic Finance to implement SDGs.</li> <li>● Promote Islamic Finance on the Astana International Financial Corporation platform to enable the country to provide IBF services in regional and global markets.</li> <li>● Support greater knowledge sharing and policy/technical advisory services from the Islamic Financial Services Board (IFSB) and INCEIF in Malaysia, to MCs in other regions.</li> <li>● Support harmonized policy/regulatory frameworks segmenting Islamic finance for RCI-related development purposes, generally along the following approach: (i) Islamic insurance and reinsurance (takaful and re-takaful) for supporting climate or environment-related disaster-risk reduction; (ii) Islamic banking windows for supporting SMEs in cross-border value chains.</li> <li>● Specific products under these 'segments' should be seen as a complementary to conventional or non-Islamic financing so as to incentivize additionality of financial resources for RCI, either as standalone or as part of a larger package of co-financing for specific RCI purposes.</li> </ul>	<p><b>Priority Interventions</b></p> <ul style="list-style-type: none"> <li>● Support the African Continental Free Trade Area implementation.</li> <li>● Support one or more RCOs to develop harmonized policy/regulatory frameworks across MCs/RCOs, segmenting Islamic finance for RCI-related development purposes generally along the following approach: (i) Islamic insurance and reinsurance (takaful and re-takaful) for supporting climate or environment-related disaster-risk reduction; (ii) Islamic banking windows for supporting SMEs in cross-border value chains; Islamic banking/Islamic investment banking for supporting (mainly through Sukuk bonds) cross-border infrastructure investment and to finance state-owned enterprise reform for public utilities operating across borders (e.g. power utilities).</li> <li>● Specific Islamic Finance products under these 'segments' should be seen as complementary to conventional or non-Islamic financing so as to incentivize additionality of financial resources for RCI, either as standalone financing or as part of a larger package of co-financing for specific RCI purposes.</li> <li>● Develop capacity building on e-commerce, trade of services and trade negotiations.</li> </ul>	<p><b>Priority Interventions</b></p> <ul style="list-style-type: none"> <li>● Support harmonized policy/regulatory frameworks segmenting Islamic finance for RCI-related development purposes.</li> <li>● Support the private sector mechanisms including through regional Private Sector Organizations.</li> <li>● Develop capacity building on e-commerce, trade of services and trade negotiations.</li> <li>● Support capacity development programs on trade facilitation under the Agadir Agreement framework (Morocco, Tunisia, Jordan, Egypt).</li> <li>● Supporting the creation of a Regional Islamic Finance Hub in partnership with the Central Banks of the region.</li> <li>● Support COMESA Regional Payment and Settlement System (REPSS).</li> <li>● Expand AFTIAS 2nd phase program to boost intra-Arab trade</li> <li>● Support GCC in achieving its goal to have an Economic Unity by 2025.</li> </ul>



PILLAR/REGION	ASIA	AFLA	MENA
<p><b>PILLAR 4:</b> Facilitating Cooperation to Provide Regional Public Goods (RPGs)</p>	<p><b>Priority Interventions</b></p> <ul style="list-style-type: none"> <li>● Support bilateral cooperation between Indonesia and Malaysia to address recurrent (seasonal) air pollution that affects the two neighboring MCs of IsDB, adversely impacting public health including the health of women and children.</li> <li>● Continue to support the agriculture and water cluster, and clean energy initiatives under CAREC 2030, with a focus on supporting transboundary water management across MCs, and to support cross-border energy trade on the basis of clean energy.</li> <li>● Assist Bangladesh, Pakistan and Maldives to adopt a cooperative and knowledge sharing-based approach for (i) setting harmonized objectives or commitments to existing agreements concerned with reducing port-related GHG emissions, improving water quality management and solid waste disposal at ports; and provide (ii) technical support to port operators in preparing sustainable and bankable investment projects that help them attain green objectives and improve the quality of marine and coastal environments in South Asia.</li> <li>● Promote interventions for the passage of safe Migration among South and South-East Asia Region (Bangladesh, Maldives, Malaysia and Brunei).</li> <li>● Enhance the resilience of Southeastern Countries' against natural disasters by supporting climate resilient and climate smart projects.</li> </ul>	<p><b>Priority Interventions</b></p> <ul style="list-style-type: none"> <li>● Support the African Union formulation of an African commodities strategy.</li> <li>● Implement a sustainable fisheries resources exploitation and transboundary management.</li> <li>● Support the Blue Belt Initiative launched by Morocco and other African Countries to develop fisheries and Aquaculture.</li> <li>● Assist RCOs to support a regional approach for working with port authorities across MCs in (i) setting harmonized objectives or implementation of existing international agreements concerned with reducing port-related GHG emissions, improving water quality management and solid waste disposal at ports; and (ii) technical support to port operators in preparing sustainable and bankable investment projects that help them attain green objectives and ensure better coastal marine management and ocean health.</li> <li>● Develop climate-mitigation plans for energy and power interconnection projects; targets and action plans for reducing greenhouse gas emissions resulting from energy and power sector development.</li> <li>● Support development and implementation of education frameworks utilizing Global Partnership for Education (GPE) financing and identifying critical shared priorities for education improvement. Encourage GPE to merge its country allocations into a regional window.</li> </ul>	<p><b>Priority Interventions</b></p> <ul style="list-style-type: none"> <li>● Access to formal education for Syrian refugees in Turkey, Jordan and Lebanon.</li> <li>● Capacity Building and Training in Border and Migration Management.</li> <li>● Support the Blue Belt Initiative launched by Morocco and other African Countries to develop fisheries and Aquaculture.</li> <li>● Support of Education Quality in the Arab Countries* project that is implemented by Regional Center for Quality and Excellence in Education (RCQE) and co-financed by IsDB.</li> <li>● Knowledge transfer projects between Egypt and other African MCs, especially in health and agriculture sectors (e.g. Sierra Leone – Maternal, Neonatal and Child Health Strengthening RL Project).</li> <li>● Support Egyptian initiatives to eliminate Hepatitis-C among one million Africans.</li> <li>● Support development and implementation of education frameworks utilizing Global Partnership for Education (GPE) financing and identifying critical shared priorities for education improvement. Encourage GPE to merge its country allocations into a regional window.</li> </ul>

# APPENDIX 9

## EXAMPLES OF RCI PROJECT DESIGN AND MONITORING FRAMEWORK (DMF) CRITERIA AND ILLUSTRATIVE EXAMPLE OF A PROJECT-LEVEL DMF<sup>16</sup>

### 9A EXAMPLES OF RCI PROJECT DMF CRITERIA

- (i) Impacts and outcomes (specific flows of cross-border goods and services) from the project's improved trade and investment regime.
- (ii) Trade and transport facilitation impacts and outcomes and related net benefits resulting from specific cross border agreements as part of the project.
- (iii) Outcomes from specific project measures to improve control of communicable diseases or water resources management and flood control, or from reduced pollution at national as well as cross border and regional levels.
- (iv) New RCI cooperation arrangements between IsDBG, MCs/RCO/development partners.
- (v) Outcomes and outputs from specific project measures in terms of joint improvement in trade facilitation.
- (vi) Specific proposals for policy changes to improve the regional investment climate.
- (vii) Net fund flows from co-financing, private sector participation, and others.
- (viii) Specific Islamic Finance instruments agreed/approved for cross-border financing of specific RCI activities.
- (ix) Increased cross-border transport connectivity and efficiency (savings in transport time and vehicle operating costs resulting) from investment in physical connectivity.
- (x) Outcomes and outputs (e.g., greater regional e-trade and e-training) resulting from project's enhanced ICT-enabled information and data services.

### 9B ILLUSTRATIVE EXAMPLE OF A DMF FOR AN RCI PROJECT

DESIGN SUMMARY	PERFORMANCE TARGETS & INDICATORS	DATA SOURCES/REPORTING MECHANISMS	ASSUMPTIONS AND RISKS
<b>Impact</b> Increased regional competitiveness and trade	By 2021 trade among Countries A, B and C increased to 400,000 tons from 150,000 tons in 2014 and the share represented by manufactured goods increased to 40% from 18 percent.	Regional, and national economic and transport statistics (statistical departments).	<b>Assumption:</b> Continued commitment by Governments to regional integration and regulatory reforms. <b>Risks:</b> Accumulated external debt weakening Country B's fiscal position.
<b>Outcome</b> Improved connectivity and mobility along Country A and Country B sections of the Transport Corridor	By 2021 waiting time at border for road cargo reduced by 35% from average 12 hours in 2014.	Ministries of Transport and Customs (MTCs) statistics divisions.	<b>Assumptions:</b> Improved and harmonized cross-border procedures agreed and established by Countries A, B and C. <b>Risks:</b> Delayed upgrading of customs facilities and associated training programs in Country B.
<b>Outputs</b> Country A to Country C border highway reconstructed and widened.	120 km of highways reconstructed across Countries A, B and C: 60 km widened to 4 lane, and 60km upgraded.	MTCs annual budgets, and capital investment and maintenance programs.	<b>Assumptions:</b> Annual CAPEX budgets approved and funds disbursed on time. <b>Risks:</b> Consultants fail to deliver timely and quality inputs.

<sup>16</sup> Source: Adapted/simplified from DMFs for RCI projects at other MDBs.

# APPENDIX 10

## SECTORAL BREAKDOWN OF RCI BASELINES AND TARGETS FOR ISDB OPERATIONS

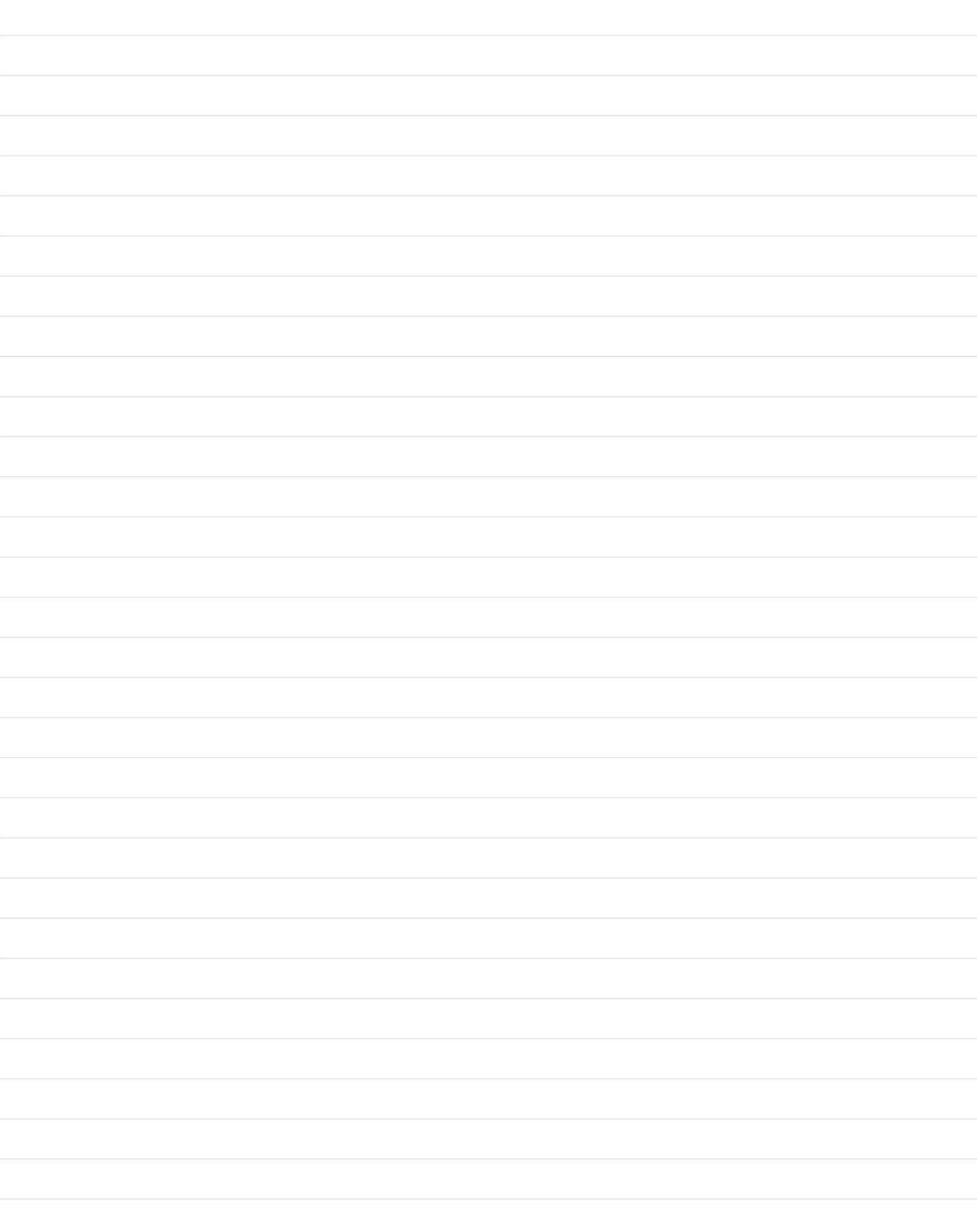


The criteria used to classify IsDB operations for baselining is based on the definition of a regional project given in the Glossary and elaborated upon in the Introduction and is in line with the RCI Results Framework.

INDICATOR	BASELINE (2015-2017)	TARGET
Finance	42%	55%
Public Administration	51%	65%
Energy	29%	45%
Agriculture	9%	20%
Health	30%	45%
Water, Sanitation and Urban Services	0%	10%
Education	0%	10%
Industry and Mining	49%	60%
Information and Communication	7%	15%
Trade	100%	100%
Transportation	56%	65%



# NOTES





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