

ISDB REGIONAL COOPERATION AND INTEGRATION POLICY

**ACHIEVING SUSTAINABLE
AND INTER-DEPENDENT
GROWTH THROUGH
MUTUAL COOPERATION**





IsDB COUNTRY
STRATEGY AND
COOPERATION
DEPARTMENT

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ABBREVIATIONS

10-YS	10-Year Strategy
AMU	Arab Maghreb Union
COMESA	Common Market for Eastern and Southern Africa
ECO	Economic Cooperation Organization
ECOWAS	Economic Community of West African States
ETI	Enabling Trade Index
FDI	Foreign Direct Investment
FPI	Foreign Portfolio Investment
GCC	Gulf Cooperation Council
ICIEC	Islamic Corporation for the Insurance of Investment and Export Credit
ICD	Islamic Corporation for the Development of Private Sector
ICDT	Islamic Center for Development of Trade
ICT	Information and Communication Technology
ITFC	International Islamic Trade Finance Corporation
IsDB	Islamic Development Bank
ITAP	Investment Promotion Technical Assistance Program
LPI	Logistics Performance Index
MSMEs	Micro-, Small and Medium-sized Enterprises
NEPAD	New Partnership for Africa's Development
OIC	Organization of Islamic Cooperation
P5P	President's Five-Year Program
PPP	Private Public Partnership
RCI	Regional Cooperation and Integration
RCO	Regional Cooperation Organization
SDGs	Sustainable Development Goals
SESRIC	Statistical, Economic and Social Research and Training Centre for Islamic Countries
TAP	Technical Assistance Program
UNECA	United Nations Economic Commission for Africa
UNESCAP	United Nations Economic and Social Commission for West Asia
WTO	World Trade Organization

PURPOSE, OBJECTIVES AND BACKGROUND



Regional Cooperation and Integration (RCI) could be described as the process by which countries (often grouped together regionally) coordinate with each other to strengthen their economies through a variety of different means. The Islamic Development Bank (IsDB) RCI policy provides guidance and offers clarity to its RCI operations and initiatives on the programming, planning, and implementation mechanisms. The features of this RCI policy sets out responsibilities for a subsequent RCI Implementation Strategy and its action plans across the IsDB.

From a cross-sectional view of the IsDB Member Countries (MCs) and sub-regional groupings, there is considerable diversity in the MCs in terms of location, per-capita income, size and nature of the national economy. This diversity also extends to the scale and quality of inter-regional connectivity and the degree of access to global markets. These differences amongst MCs provide opportunities for applying RCI principles and initiatives to further develop and use the comparative advantages of individual and groupings of MCs for their collective benefit. This observation also points towards the necessity of planning and implementing RCI interventions in ways that produce a balanced distribution of benefits across participating MCs.

RCI interventions enable freeing up movement of goods, services, information, technologies and people across borders. These opportunities help create integrated economic spaces, reach larger global markets and generate production efficiencies that would have been limited if they had remained fenced inside a country's own economy.

In this regard, RCI interventions can generate direct cross-border economic, social, or environmental outcomes and associated benefits. In addition, economically integrated regions have proven to be 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.

Recognizing this potential for economic transformation of countries through RCI, the Sustainable Development Goals (SDGs) explicitly recognize the importance of planning and cooperating at the national, regional and international levels. In fact, the SDGs and their associated targets include the following: promoting regional economic integration and interconnectivity, strengthening regional development planning (Target 11.a), regional and trans-border infrastructure to support economic development (Target 9.1), and South-South and regional cooperation on access to science, technology and innovation and to enhance knowledge sharing (Target 17.6).

IsDB MCs are already part of large regional integration and connectivity projects, such as the Belt and Road Initiative (BRI), Bereket-Etrek Railway Project (KTI) in Central Asia, and Trans Saharan Road (TSR) in Africa. Moreover, MCs are part of various regional trade preferential agreements, such as the Trade Preferential System of OIC (TPS-OIC) and the African Continental Free Trade Area (AfCFTA) Agreement, to name a few.

However, this potential for regional integration and cooperation remains a challenge for the majority of IsDB MCs, as reflected in international assessments of country and regional trade and investment performance. 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. The ETI and LPI indicators of IsDB MCs rank them lower at scores of 3.95 and 2.63 compared to 4.38 and 2.88 for the rest of the world, respectively. The Middle East/North Africa region, Sub-Saharan Africa, Central Asia, and South Asia are among the lowest performing regions in terms of connectivity and associated logistics infrastructure and systems essential for modern trade and competitiveness. 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 connections.

Since its inception, the Bank has recognized both the potential and magnitude of challenges of RCI in its MCs. IsDB has made intense efforts to contribute towards RCI through various intervention windows. These include infrastructure projects directly impacting cross-border connectivity and intra-OIC trade and investment facilitation. In this regard, the Group entities of ICD, ICIEC and ITFC have mandates for supporting trade and investment for development.

In accordance with the Board approved 10 Year-Strategy (10-YS), the IsDB aims to boost regional integration by channeling more resources (for trade and investments) and expertise (sharing knowledge and best practices), as well as supporting regional infrastructure (financing operations). The various RCI interventions of the IsDB are also captured under the current 10-YS goals of "Connectivity" and "Cooperation among MCs" along with their associated key performance indicators.

Despite significant contributions to promote RCI, IsDB still faces some challenges and constraints. These include limited inter-relationship between various RCI interventions and limited experience in designing RCI projects and developing tools to assess their effectiveness. In addition, the Bank adopted an exclusively demand driven rather than strategic/programmatic approach to identifying RCI opportunities in MCs. Therefore, increasing RCI among MCs will require a deliberate strategy from IsDB in terms of how it utilizes its resources and deploys them, particularly in partnership with other organizations.

THE RCI POLICY WILL HELP ISDB HARNESS ITS COLLECTIVE INSTITUTIONAL STRENGTHS AND RESOURCES TO SUPPORT MCs AND REGIONAL ORGANIZATIONS

To implement the 10-YS and the President's 5-Year Program (P5P), IsDB embarked on an organization transformation to define a new 'bank of developers' concept. A key feature of this transformation is to focus on building strategic partnerships and networks, within and amongst MCs to leverage greater and more diverse stakeholder participation in IsDB-designed programs and initiatives. IsDB's RCI activities through this policy are geared to focus on promoting and supporting public and private sector cross-border cooperation and economic integration in a holistic manner.

In line with the OIC-2025 Program of Action, IsDB 10-YS, and the P5P, the RCI policy will help IsDB harness its collective institutional strengths and resources to support MCs and regional organizations through investments and operations, and by expanding the creation and sharing of knowledge and information on RCI. Acting as a 'knowledge broker' and catalyst for RCI, the IsDB will assist MCs and regional organizations to build their institutional capacity to increase and manage their RCI interventions and potential.

The policy has been developed through a comprehensive, transparent and inclusive process involving discussions, workshops and reviews in MCs, Regional Cooperation Organizations, concerned internal IsDB departments, IsDB Group entities, and taking into consideration global best practices (see [Annex 1](#)). A series of internal and external consultations were conducted to ensure coherence with other IsDB policies (see [Annex 2](#)). Substantive comments on the background document and policy objectives were provided by the representatives of the MCs, their trade representatives, OIC General Secretariat, AMU, COMESA, ECO, ECOWAS, GCC, ICDT, NEPAD, SESRIC, UNECA, UNESCWA, World Bank, WTO and other partner institutions and trade representatives of MCs.

The policy outlines guiding principles to promote and direct the IsDB's RCI operations to achieve institutional and MCs goals. More detailed instructions, including operational and procedural aspects, and internal roles and responsibilities will be provided in a subsequent RCI Implementation Strategy. However, it is to be noted that the Bank will not engage in activities affecting MCs' statehood, sovereignty and territorial integrity.

The Policy defines its overarching goal as "IsDB MCs coexisting harmoniously and achieving sustainable and interdependent growth through mutual cooperation". More specifically, the policy aims at: (i) Improving effectiveness and efficiency of IsDB interventions; (ii) Enabling IsDB to become an effective connecting platform for MCs and regional cooperation organizations (RCOs) to cooperate with each other; and (iii) Strengthening economic cooperation among MCs, and enabling greater trade and investment with the global economy.

DEFINITIONS



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.



Connectivity (also known as cross-border or regional infrastructure): There are two broad types - "Hard" cross-border infrastructure that includes improved physical connectivity (cross-border transportation, ICT connectivity, energy transmission) and "Soft" cross-border infrastructure that includes improved coordination in customs and streamlined border procedures, amongst others.



Regional Project/Intervention (single country, multi-country): RCI interventions generally fall into two main categories: single country projects and multi-country projects. A 'single country' RCI intervention is a commitment and set of actions taken by one country at the national level but within an established/planned inter-country cooperation framework. A 'multi-country' RCI intervention has formal joint commitment and resource allocation among at least two countries.



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. The term trade facilitation is extended to address a wider agenda to include: the improvement of transport infrastructure, the modernization of customs administration, the removal of other non-tariff trade barriers, as well as export marketing and promotion.



Regional Public Goods (RPG) term refers to goods, services, resources, or system of rules or policy regime that are public in nature, are produced and/or consumed collectively and/or have the potential to generate significant shared benefits and positive cross-border spillover effects. They entail, managing common natural resources, providing assistance to vulnerable people in cross-border fragility, conflict and violence-prone areas, containing communicable disease outbreaks, and preventing cross-border exploitation.

SCOPE

The RCI Policy is intended to address the priority RCI needs of MCs and to improve effectiveness and efficiency of IsDB interventions. It applies to all RCI operations, plans, programs and projects implemented by IsDB. Additionally, it can serve as a guide for ICIEC, ICD and ITFC to implement their RCI operations.

The RCI Policy is designed to promote South–South and global cooperation, to reinforce complementarities and to establish closer dialogue between MCs. It is also meant to leverage regional value chain opportunities, and facilitate the exchange of knowledge and best practices among actors in MCs. The Bank’s policy’s goal is to create a larger and more attractive regional market, and support MCs’ integration into the global economy.

The Policy Framework: To implement its RCI policy, the Bank will focus on the following main areas: (i) Enhancing cross-border connectivity; (ii) Improving investment climate and competitiveness; (iii) Mainstreaming trade and Islamic finance; and (iv) Facilitating cooperation on regional public goods. Each pillar stems from an underlying need and entails specific focus areas of intervention. More specifically, the goals are expected to be achieved by the focused types of interventions illustrated under RCI Policy framework circle (Figure 1).

These areas also highlight the IsDB’s comparative advantage as a trusted partner and facilitator of cooperation, and in promoting Islamic finance mobilization. The pillars streamlining the policy are as follows:

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





PILLAR 1 ENHANCING CROSS-BORDER CONNECTIVITY

Supporting economic integration requires investment in physical infrastructure assets to connect MCs to regional and global markets, reducing transportation and communication costs, and breaking barriers to trade and cooperation amongst neighbors. Often, necessary basic infrastructure either does not exist or requires significant maintenance/expansion. At the same time, economic integration also requires improving systems, regulations and procedures, especially at border areas, to facilitate cross-border movement.

To achieve greater cross border connectivity and economic integration, IsDB will focus on the following areas that it can support and mobilize resources for: (i) Upgrading national and regional physical infrastructure that enables market integration (e.g. energy); (ii) Developing trade corridors via investing in multi-modal transport, communication, and digital connectivity (e.g., road, rail, ICT communications, etc.) over a single route or network involving two or more MCs; (iii) 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; and (iv) Supporting cross-border GVCs by helping to connect SMEs to regional and global markets.

ECONOMIC INTEGRATION REQUIRES IMPROVING SYSTEMS, REGULATIONS AND PROCEDURES, ESPECIALLY AT BORDER AREAS, TO FACILITATE CROSS-BORDER MOVEMENT



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

MCs increasingly feel the need to mobilize larger amounts of funds (both foreign and domestic) to invest in improving regional economic infrastructure, support trade and investment facilitation services in order 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, thereby highlighting the critical role of regional cooperation to strengthen financial and capital market development.

To address this, IsDB will continue its efforts to mobilize and attract Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI) as well as domestic resources and investments as means to promote RCI through its flagship programs, notably the Investment Promotion Technical Assistance Program (ITAP), and the Technical Assistance Program (TAP) to support Regional and Global Integration in Trade and WTO, etc. These initiatives are also meant to build necessary technical capabilities and ensure that regulatory conditions are geared towards promoting trade and investment amongst the MCs whilst safeguarding national interests.

GREATER CAPITAL MOBILITY WITH MORE EFFICIENT FINANCIAL MARKETS CANNOT BE ACHIEVED BY INDIVIDUAL ECONOMIES ALONE



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

Trade and Islamic finance remain underutilized, inconsistently regulated, and poorly understood modalities within regions dominated by IsDB’s MCs. IsDB is in a unique position among multilateral development-finance institutions in having the capability to integrate the development impact of trade finance, and mobilizing Islamic finance to support RCI interventions in MCs.

The IsDB will support trade and Islamic finance as means to promote RCI by: (i) mobilizing larger volumes of trade finance through Islamic finance for RCI interventions. This would be achieved by encouraging financing from ITFC and providing an enabling environment for governments, trade and banking entities and other private financial institutions to opt for Islamic finance to fund their trade operations; (ii) 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; (iii) linking international Islamic financial markets across borders; (iv) sharing knowledge and expertise on Islamic finance and trade in order to identify new opportunities, promote good practices, and (v) Facilitating alternative sources of financing for Micro-, Small and Medium-sized Enterprises (MSMEs) for financial inclusion particularly for women and youth.

THE ISDB IS IN A UNIQUE POSITION AMONG MULTILATERAL DEVELOPMENT-FINANCE INSTITUTIONS IN HAVING THE CAPABILITY TO INTEGRATE THE DEVELOPMENT IMPACT OF TRADE FINANCE, AND MOBILIZING ISLAMIC FINANCE TO SUPPORT RCI INTERVENTIONS IN MCS



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 greater cooperation among MCs and other regional actors to achieve common good.

Therefore, to achieve this, IsDB will support greater cooperation among MCs to achieve sustainable and mutually beneficial solutions/agreements in the following focus areas: (i) managing common natural resources—including an essential focus on shared freshwater aquifers and other resources; (ii) providing assistance to vulnerable and displaced people in cross-border fragility, conflict and violence-prone areas, where two or more MCs are affected; (iii) containing communicable disease outbreaks of human or animal origin; and (iv) sharing expertise on Regional Public Goods through centers of excellence to enable the widest and most cost-effective use of scarce professional skills and technical resources. IsDB’s “Reverse Linkage” Program will be a core component of the organization’s support under this Pillar and will be expanded to include participation of more MCs in a single reverse linkage operation.

ISDB’S “REVERSE LINKAGE” PROGRAM WILL BE A CORE COMPONENT OF THE ORGANIZATION’S SUPPORT UNDER THIS PILLAR AND WILL BE EXPANDED TO INCLUDE PARTICIPATION OF MORE MCS IN A SINGLE REVERSE LINKAGE OPERATION

GUIDING PRINCIPLES

COVERAGE OF THE POLICY

The coverage of the Policy will be based on:

- Importance of RCI in the relevant Member Country Partnership Strategy (MCPS) or other IsDB programming documents/MC dialogue process
- Contribution to stronger regional or global economic integration of MCs.
- Importance to implement existing cross-border agreements or formal joint commitments
- Contribution to improve regional policy dialogue on trade, investment, and monetary and financial cooperation; cooperation on regional public goods; aligning domestic policy reforms with cross-border objectives; research and knowledge transfer and utilization
- Generation of new opportunities for improving/expanding direct multi-country cooperation, including RCOs or other regional institutions.
- Contribution to expand the use of specific types of Islamic Finance instruments across borders and potentially into new sectors or new MCs.
- Strengthen/expand IsDB's catalytic role of mobilizing/leveraging additional direct project finance from official and/or private sector sources into MCs/RCOs to support RCI, with preference for additionality in the form of Islamic Finance.
- Strengthen IsDB's leadership for RCI in key sectors or assisting prioritized development issues/challenges for a grouping of MCs/RCO(s).
- Generating additional investment through the attraction of external funding, such as FDI, to the participating countries that would not be forthcoming for nationally-based projects.

The RCI policy will not engage in activities affecting MCs' statehood, sovereignty and territorial integrity. IsDB interventions will be selective and based on their RCI features and potential RCI outputs and outcomes.

The policy is founded on guiding principles which, taken together, will enable IsDB to become a primary connecting platform for MCs, Regional Cooperation Organizations (RCOs), and relevant communities to cooperate with each other. The guiding principles are supportive of "open regionalism" as mandated by the MCs and RCOs, strengthening economic cooperation among MCs, and enabling greater trade and investment with the global economy. They are motivated by the aspiration to enable all member countries to achieve a quality of life reflected by the OIC Charter and repeated resolutions of COMCEC Ministerial Meetings.



Anchor Interventions in SDGs: The Sustainable Development Goals (SDGs) explicitly recognize the importance of planning and cooperation at the national, regional and international levels. IsDB's RCI Policy is designed to support key related goals and targets, especially where action at the national level is insufficient. Enhancing intra- and inter-regional, and cross-border trade (Pillars 1, 2, and 3 of the RCI Policy) has the promise of delivering export-oriented growth. This would serve SDG 8 and 9 of providing decent work and economic growth, and promoting industry, innovation and infrastructure, respectively. Additionally, Pillar 4 of the Policy, plays a crucial role, as many SDGs involve Regional Public Goods, which require collective action (SDG 6, 7, 13, 14, 15, 16). In addition, efforts will be undertaken to ensure all RCI interventions are youth and gender transformative.



Support Regional Value Chain Integration as a step toward better integration in the Global Value Chain: Adopt the regional value chain approach to achieve deeper integration of MCs in regional and global value chains, creating intraregional supply chains, and establishing stronger financial links.



Promote Knowledge Sharing: Encourage and provide advisory services on best practices and other innovations to various types of cross-border operations, and act as a focal point for RCI knowledge sharing, including best practices, in relation to respective sector/thematic areas of expertise.

ROLES AND RESPONSIBILITIES

To operationalize and achieve the intended IsDB's RCI objectives, a set of operational implications and recommendations must be considered. As the only multilateral development institution specialized in the development of all OIC countries, the IsDB has a special role and responsibility to help achieve complementarities between MCs, in its own RCI work and in working with partners. Drawing upon its institutional capabilities and resources, IsDB will undertake four RCI-related roles:



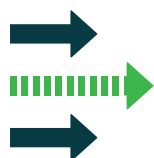
Advisor: IsDB will assist MCs and RCOs to plan and implement RCI through regional cooperation programs and platforms.



Financier: The IsDB will provide a range of Islamic finance products and services to support both sovereign and non-sovereign operations across a range of RCI activities under Operational Pillars 1 and 2. IsDB will finance single country and multi-country RCI projects.



Capacity Builder and Knowledge Broker: IsDB will develop and take the lead in the delivery of RCI capacity building programs on a multi-MCs and RCO basis. IsDB will promote strategic RCI dialogues/events at the RCOs 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.



Lead Partner: IsDB will take the lead in partnering 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, to strength collective action on public policy or address Regional Public Goods.

The main institutional focal point for ensuring the implementation of the RCI Policy will be with the Country Strategy and Cooperation Department. The success of the Policy will largely depend on sufficient allocation of human and financial resources. Towards this end, a subsequent RCI Implementation Strategy will define detailed set of implementation arrangements necessary for a sound, sustainable and effective implementation of the Policy, including accountability mechanisms and results framework.

RELATED DOCUMENTS

Extensive discussions with RCOs, OIC institutions and various stakeholders at different MCs have ensured that the Policy is in line with the Global Sustainable Development Goals (SDGs), the OIC Ten-Year Program of Action "OIC-2025", the IsDB Articles of Agreement, the IsDB 10-Year Strategy (10YS), IsDB Sector Policies, and the President's 5-Year Program (P5P).

At an operational level, the Policy relates to specific Thematic/ Cross Cutting Policy and Strategy documents of the Bank; and thus, interacts extensively with policies for Resource Mobilization (in-preparation), Capacity Development, Climate Change, Energy, Transport, ICT (in-preparation), Education sector (see [Annex 3](#) for more details of alignment and internal consistency).

VERSION HISTORY

This is the first IsDB's RCI policy, which may be amended on the basis of policy amendment sponsored by the President and approved by the BED.

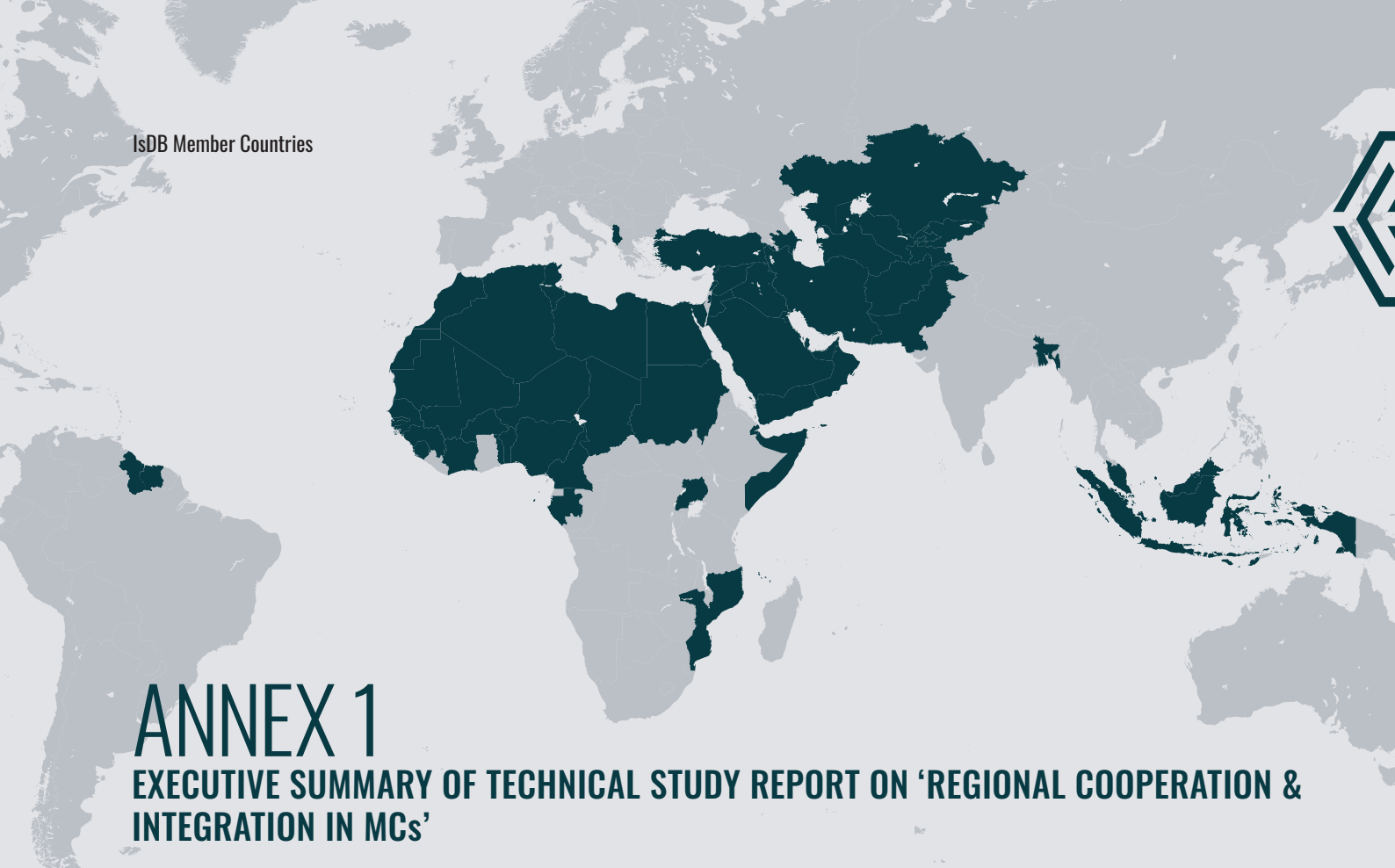
A waiver may be obtained from the provision of the policy, subject to a waiver proposal sponsored by the President and approved by the BED.

The policy is effective from the date of BED approval.

THE SUCCESS OF THE POLICY WILL LARGELY DEPEND ON SUFFICIENT ALLOCATION OF HUMAN AND FINANCIAL RESOURCES



ANNEXES



ANNEX 1

EXECUTIVE SUMMARY OF TECHNICAL STUDY REPORT ON 'REGIONAL COOPERATION & INTEGRATION IN MCs'

Regional Cooperation and Integration (RCI) is a process by which countries coordinate, collaborate and invest to strengthen integration of their economies. RCI aims at narrowing development gaps between and within countries by improving market access and sharing resources, building closer trade and investment integration across sectors and industries, connecting lagged or isolated areas to more economically vibrant regions, and establishing stronger financial links. RCI interventions promote greater trade integration and strive to achieve an associated deeper integration of firms in the Global Value Chains.

RCI PROGRESS IN MCs

Various international assessments of country and regional trade and investment performance highlight successes and weaknesses of IsDB MCs, but they also clearly point to the considerable potential for strengthening regional trade and investment performance and positively impacting both economic and broader human development.

- **World Economic Forum Global Enabling Trade Index (ETI):** The ETI measures countries on their success in building an environment for trade, covering both tariff and non-tariff considerations such as border administration, quality of transport services, infrastructure, technological sophistication and operating environments. In 2016, the average scores of IsDB MCs (3.95) is lower than World average (4.38) and the OECD average (5.19) indicating that there is a potential for improving future performance.
- **World Bank Trading Across Borders Indicator:** Trading Across Border measures the time and cost (excluding tariffs) within the overall process of exporting/importing a shipment of goods. Distance to Frontier (DTF) score shows how far on average an economy is from the best

performance achieved by any economy on Trading Across Borders indicators). In 2018, DTF for OECD high income countries was close to the frontier, while IsDB countries are slightly above 50 per cent. This underlies the importance of facilitating trade.

- **World Bank Logistics Performance Index:** 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 show that the average scores of IsDB MCs (2.63) is lower than World average (2.88) and the OECD average (3.71).
- **UNCTAD Foreign Direct Investment (FDI) Statistics:** The total value of FDI inflows to IsDB Countries was recorded at as low as USD 87.5 billion in 2005. After the global economic crisis, it stayed in the USD 142-104 billion range over the period 2012-2015. In 2016, the total value of FDI flows to IsDB Countries was measured at USD 96.3 billion, registering a decrease for four consecutive years, since then also the IsDB member countries share of global FDI remains low at a ratio below 10%. This suggests that a majority of IsDB Countries are still not able to set up favorable economic frameworks to attract more FDI flows.

Many MCs currently participate in formal RCI arrangements or mechanisms as part of their approach to achieve economic growth and development. E.g.: GCC, AEC, CAREC, SASEC, WAEMU and COMESA, etc. In this process, they have developed foundations of RCI-related professional and institutional capabilities upon which the IsDB can plan and implement its future RCI policy and thereby further strengthen the development effectiveness of the participating MCs.

ANNEX 2

SUMMARY OF INTERNAL AND EXTERNAL CONSULTATION PROCESS

ISDB'S SUPPORT FOR COOPERATION ON TRADE INVESTMENT AMONG MCs

IsDB acts as a trusted financial partner that facilitates intra-OIC trade and investment. IsDB is unique among MDBs for its strong support for trade finance. To further strengthen partnerships between MCs, the IsDB actively supports participation of MCs in regional and global production, trade and investment networks by assisting MCs develop efficient, transparent and outward-oriented trading systems and a conducive environment for investment. IsDB, ICIEC and ITFC have important mandates for supporting trade and investment and the central focus is on "trade as a development engine." IsDB MCs are already part of large regional integration and connectivity projects, such as Bereket-Etrek Railway Project (KTI) in Central Asia, and Trans Saharan Road (TSR) in Africa.

GOING FORWARD: ISDB'S POLICY FOR THE UNITY AND SOLIDARITY OF THE UMMAH

As IsDB's Member Countries continue to lag behind the global average in many RCI indicators. Faced with this reality, IsDB has drawn upon its own experiences and that of other MDBs to develop a clear and coherent RCI policy. 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 RCI policy will enable IsDB to become a primary connecting platform for MCs, regional cooperation organizations (RCOs) and relevant communities to cooperate with each other. The policy is supportive of "open regionalism," strengthening economic cooperation among MCs and enabling greater trade and investment with the global economy. The policy is motivated by the aspiration to enable all member countries to achieve a quality of life reflected by the OIC Charter. This policy will support achieving the following RCI-related Results Indicators in the IsDB's 10 Ys:

	INDICATORS	BASELINE 2014	TARGET 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 & Investment Insured	..	28
	Financing facility to support RCI	..	2.5
	Projects financing for RCI	..	7

CONSULTATION

Consultations were conducted internally with various IsDB Directorates and Departments:

- Economic Research and Institutional Learning Department
- Resilience and Social Development Department
- Operations Evaluation Department
- Operations Quality and Results Division
- Economic and Social Infrastructure Department
- Country Relations and Services Department (Africa and Latin America)
- Country Relations and Services Department (Asia)
- Country Relations and Services Department (MENA Region – Europe)
- Department of Strategy and Transformation

INTERNAL AND EXTERNAL REVIEW

A series of internal and external consultations were conducted to ensure its relevance for MCs and coherence with other IsDB policies. Feedback was received from ITFC, ICD and ICIEC, and the following external entities: OIC General Secretariat, ICDT, GCC, ECO, NEPAD, AMU, ECOWAS, SESRIC, World Bank, UNECA, WTO, COMESA, UNESCWA

EXTERNAL CONSULTATIONS

In-country consultation workshops participants included representatives from: SESRIC, Turkish Ministry of Energy and Natural Resources, Turkish International Cooperation and Development Agency (TIKA), TEPAV, Turkish, Ministry of Transportation and Infrastructure Ministry of Treasury and Finance, Kuveyt Turk, D-8, Turkish Ministry of Trade, Turkish Central Bank, Eximbank, Indonesian Ministry of Planning (BAPPENAS) (The Director of International Cooperation and his team, The Deputy Director of Foreign Policy and International Development Cooperation and his team), Indonesian Coordinating Ministry for Economic Affairs (Deputy Assistant for Capital Market and Financial Institution and his team), Indonesian, Ministry of Trade (Director of ASEAN Negotiation), Moroccan Ministry of Trade, Moroccan Ministry of Finance, etc.

The draft Policy, following the consultation, was discussed in the following meetings:

- The Quality Review and Assurance Group Meeting.
- Operations Management Committee Meeting.

ANNEX 3

ALIGNMENT OF THE RCI POLICY WITH SECTOR POLICIES



	AGRICULTURE AND RURAL DEVELOPMENT SECTOR POLICY					
	PILLAR1: Build Resilient and Smart Agriculture	PILLAR2: Improve Access to remunerative Market	PILLAR3: Promote Inclusive, sustainable, and integrated approach	PILLAR4: Promote and Enhance access to Islamic Microfinance	PILLAR5: Promote Private Sector contribution/ Participation	PILLAR 6: Strengthen Human and Institutional Capital
PILLAR 1: Enhancing Cross-Border Connectivity						
PILLAR 2: Improving Investment Climate and Competitiveness to Promote Export-Oriented and Cross-Border Investment						
PILLAR 3: Mainstreaming Trade and Islamic Finance to Promote Cross-Border Development						
PILLAR 4: Facilitating Cooperation to Provide Regional Public Goods (RPGs)						

By improving physical connectivity and business climate in member countries, the RCI policy will extend trade opportunities and investment, and improve access to market, including for small farmers and SMEs in the agrobusiness sector. By focusing on GVC integration, the RCI policy will improve productivity and income generation for small farmers. Resource mobilization and access to finance will also benefit to small farmers, as many of them are integrated in global value chains.

	ENERGY SECTOR POLICY			
	PILLAR1: Increase Access to Modern Energy Services	PILLAR2: Improve Access to remunerative Market	PILLAR3: Scale up renewable Energy	PILLAR4: Improve Knowledge Services
PILLAR 1: Enhancing Cross-Border Connectivity				
PILLAR 2: Improving Investment Climate and Competitiveness to Promote Export-Oriented and Cross-Border Investment				
PILLAR 3: Mainstreaming Trade and Islamic Finance to Promote Cross-Border Development				
PILLAR 4: Facilitating Cooperation to Provide Regional Public Goods (RPGs)				

Cross-border connectivity includes energy connectivity, which comprises power grids as well as gas and oil pipelines. Energy connectivity can contribute to meeting the growing energy demand and enhancing energy security. Practices of using water resources, for example, suggests that the development of hydropower should take into consideration the protection of cross-border watercourses and cooperation between the river basin countries.

	TRANSPORT SECTOR POLICY				
	PILLAR1: Universal Affordable Access	PILLAR2: Disaster and Post-conflict Reconstruction	PILLAR3: Efficient Transport System	PILLAR4: Regional Connectivity	PILLAR5: Green Transport
PILLAR 1: Enhancing Cross-Border Connectivity					
PILLAR 2: Improving Investment Climate and Competitiveness to Promote Export-Oriented and Cross-Border Investment					
PILLAR 3: Mainstreaming Trade and Islamic Finance to Promote Cross-Border Development					
PILLAR 4: Facilitating Cooperation to Provide Regional Public Goods (RPGs)					

More than half of global trade is intraregional and trade routes and corridors are emerging along with the need to improve regional transport connectivity. Transport connectivity whether domestic or international is essential to facilitate movements of goods and people and plays a significant role in the economic development of countries and regions.

	CLIMATE CHANGE SECTOR POLICY			
	PILLAR1: Mainstreaming Climate Change in Bank's Operations	PILLAR2: Promoting Climate Change Resilience	PILLAR3: Supporting Transition to Green Economy	PILLAR4: Leveraging Resources
PILLAR 1: Enhancing Cross-Border Connectivity				
PILLAR 2: Improving Investment Climate and Competitiveness to Promote Export-Oriented and Cross-Border Investment				
PILLAR 3: Mainstreaming Trade and Islamic Finance to Promote Cross-Border Development				
PILLAR 4: Facilitating Cooperation to Provide Regional Public Goods (RPGs)				

The first pillar of the policy will take into consideration resilience and climate change issues in implementing infrastructure projects. Climate change is a common concern that requires collective efforts to address. In addition, cross-border impacts of climate change may take the form of migration of even larger numbers of refugees, which need regional cooperation. Cooperation in managing natural resources and addressing climate-related shocks will help to solve disputes, build resilience and promote sustainability.

	FRAGILITY AND RESILIENCE SECTOR POLICY			
	PILLAR1: Investing in Prevention	PILLAR2: Transitioning Relief to Development	PILLAR3: Supporting Recovery and Resilience	PILLAR4: Mobilizing Resource for Resilience
PILLAR 1: Enhancing Cross-Border Connectivity				
PILLAR 2: Improving Investment Climate and Competitiveness to Promote Export-Oriented and Cross-Border Investment				
PILLAR 3: Mainstreaming Trade and Islamic Finance to Promote Cross-Border Development				
PILLAR 4: Facilitating Cooperation to Provide Regional Public Goods (RPGs)				

The impact of state fragility is felt beyond borders. According to UNHCR, 68.5 million people are forcibly displaced is, with over 25.4 million of those individuals registered as refugees. Supporting regional initiatives, including resource mobilization, is essential to better manage cross-border movements.

	WOMEN EMPOWERMENT POLICY			
	PILLAR1: Improving Access to Resources and Services	PILLAR2: Mainstreaming Women Needs	PILLAR3: Promoting Women Agency and Participation	PILLAR4: Fostering Learning and Capacity Development
PILLAR 1: Enhancing Cross-Border Connectivity				
PILLAR 2: Improving Investment Climate and Competitiveness to Promote Export-Oriented and Cross-Border Investment				
PILLAR 3: Mainstreaming Trade and Islamic Finance to Promote Cross-Border Development				
PILLAR 4: Facilitating Cooperation to Provide Regional Public Goods (RPGs)				

Gender dimension will be considered in implementing RCI initiatives, focusing on providing more opportunities to women to access global value chains.

NOTES



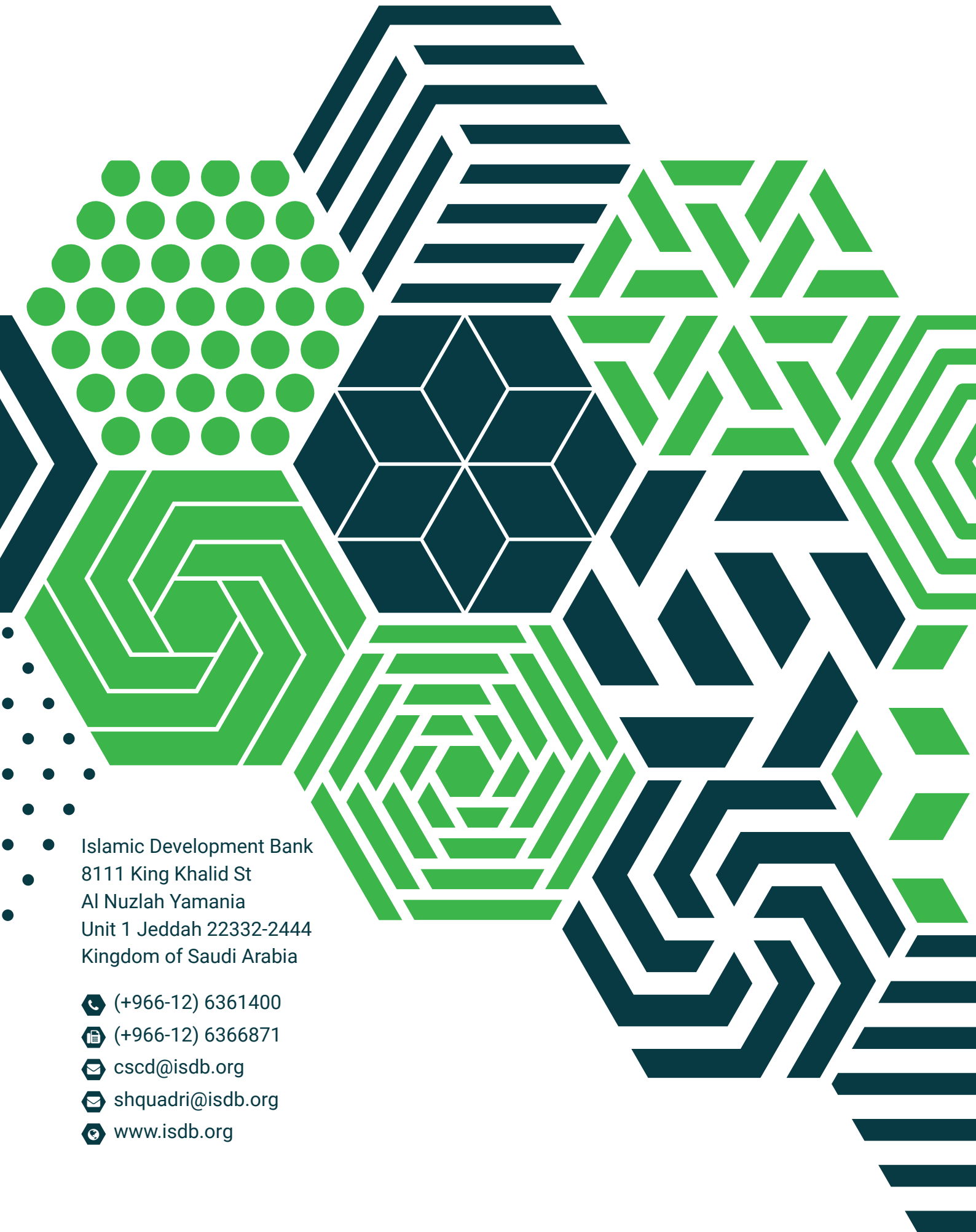


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