

## **THE ROLE OF PRIVATE SECTOR INVESTMENTS IN THE ECONOMIC PERFORMANCE OF OIC MEMBER COUNTRIES**

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This paper examines the private sector investments as a proxy for private sector development in the OIC countries. It aims at addressing the issues and challenges facing the developing countries in their efforts to achieve the levels of investment required to ensure high economic growth. In this respect, the most important determinants of investment are examined: macroeconomic policies, microeconomic incentives and institutional factors. In addition, since the central challenge for those countries is to attract FDI and other private flows, the paper also concentrates on private capital flows in the OIC countries: foreign direct investment, portfolio equity, bonds, bank and trade-related lending. It mainly concludes that although achieving macroeconomic stability and improving existing institutions is a long and difficult process, it is most likely to be rewarded by increased private sector investments, thus high and sustained growth.

### **1. INTRODUCTION**

One of the indisputable stylised facts of economic development has been the wide disparity in the economic performance of countries across the world. Attempts to explain these divergent outcomes have generated a voluminous theoretical and empirical literature. A key element in this literature has been the debate over the role of capital accumulation. In this context, the role of investment in the economic growth process has gone through several phases. After the worldwide recession and the debt crisis of the early 1980s, Gross Domestic Investment (GDI) began to recover in many developing countries. This recovery reflects a clear shift in the composition of investment in favour of private as opposed to public sector investments. These clear shifts in public and private sector investments indicate the changing global and business conditions and country-specific factors. Briefly, the increasing pace of globalisation and

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technological developments made investment re-emerge as a key concern in economic growth.

The world economy has undergone rapid changes over the past two decades. Developing countries have responded to the change and challenges of recent decades in different ways, which gave rise to different outcomes. Yet, the rising private sector activities are the common feature of the last twenty years since private sector development promotes efficient economic growth and development through job and income creation. In addition to its economic merit, it brings about social and political benefits by engaging people more actively in the production and decision-making processes; and tax bases created by private sector development can be directed to tackling social and environmental challenges.

Economic growth and development depend essentially on a country's ability to invest and make efficient and productive use of its resources. In this regard, the role of the private sector is important both in terms of its contribution to the quantity of GDI and its ability to allocate and employ resources efficiently. Private investment, as a proxy for a dynamic private sector, has not only been seen as an engine for job and income creation, but it also has a role to play in the provision of both infrastructure and social services. Briefly, there cannot be growth without investment of sufficient amount and quality. In fact, investment is both a result and cause of economic growth. A critical challenge is to ensure the necessary internal conditions for mobilising enough domestic savings to sustain adequate levels of investment in productive and human capacities. This responsibility includes creating the conditions that make it possible to secure the needed financial resources for investment which include macroeconomic and microeconomic policies, public finance, the condition of the financial system, and other basic elements of a country's economic environment.

The favourable overall performance of private investment still masks wide disparities in investment performance across regions. For example, high and steady investment rates in the East Asian region stand in marked contrast to low and falling investment rates in Sub-Saharan Africa. Moreover, the different levels of investment and how efficiently it is being used are affected by many factors, most of which are grouped into macroeconomic policies, microeconomic incentives and

institutional factors. Clearly, macroeconomic stability, well-defined property rights, a sound judicial and contracting system, a reasonable level of certainty about government policies, well functioning financial markets, a good physical, social and technological infrastructure, and educated healthy individuals are all ingredients of a sound investment climate. In addition, access to international markets is important for investment since better integration with the world economy facilitates the flow of goods, capital, technology and ideas.

Although private investment is financed through a variety of sources, its bulk continues to be financed by domestic savings. However, access to foreign sources of capital plays an increasingly important role for the private sector in developing as well as developed countries. Hence, international sources of capital have become an important part of private investment in developing countries in recent years. Long-term investment flows, in particular foreign direct investment (FDI), are essential in complementing the national development efforts of developing countries, particularly to consolidate infrastructure development, enhance technology transfer, deepen productive linkages and boost overall competitiveness.

Over the last two decades, like other developing countries, most OIC member countries have experienced an upward trend in private investment. This reflects the increasing role played by market forces in those countries. A solid economic growth as well as continued efforts aiming at reforming and privatising the public sector, removing price distortions, liberalising foreign trade and payments, opening the market up to FDI and strengthening the capacity of the financial system to mobilise domestic savings and allocate financial resources have all contributed to increasing the share of private investment in developing countries. However, many of the developing countries, including the majority of the OIC countries, still have room to improve their private investment performance.

The present paper deals extensively with the topics related to private investment. It aims at addressing the issues and challenges facing the developing countries, including the OIC countries, in their efforts to achieve the desired levels of investment required to ensure high economic growth and sustainable development. However, information on the breakdown of total investment into private and public

components is not readily available from the standard national accounts statistics of many OIC countries where the concept of public investment is not always precise. Thus, the data used in this paper largely relies on African Development Indicators 2002 and International Finance Cooperation Trends in Private Investment in Developing Countries 2001. The second section deals with investment and particularly evaluates the private investment and the performance of OIC countries over the last two decades. The third section examines the role of foreign sources in financing private investment. The fourth section presents the determinants of private investment and discusses the challenges facing the private sector in developing countries, including the OIC countries, for private sector development. The last section identifies the policy implications and initiatives that may be taken to stimulate private investment. The Annex presents the strategies of international institutions in private sector development.

## **2. PRIVATE INVESTMENT IN OIC MEMBER COUNTRIES**

Efficient and stable private investment activities present various opportunities to developing countries, including OIC countries. In fact, investment is associated with both economic and social rewards. That is, private investment not only plays an important role in job and income creation, but also has a role to play in the provision of both infrastructure and social services. Moreover, enabling the people to benefit from productivity advances and better service options provided by the private sector is at the core of the development challenge. Therefore, the development of a strong and dynamic private sector is also a necessary condition for sustained poverty reduction. Hence, this section presents, firstly, the overall investment performance and then examines the trends of private investment in OIC countries.

However, it is important to point out in this regard that since the OIC countries are not made up of an economically homogeneous group, an overall group analysis is rather difficult and may conceal some underlying factors. For this reason, an attempt has been made to divide the OIC countries into 4 sub-groups which, presumably, would better illustrate the developments and the overall performance within them. The first group includes the least-developed member countries of the OIC, which will be named the OIC-LDC group. This group is made up of those members of the OIC which are designated as least-developed

countries by the United Nations. The second group is the OIC group of Middle Income Countries (OIC-MIC) and is made up of those member countries of the OIC which are classified as middle income countries according to their GNP per capita in the year 2000 (between \$756 and \$9266). The remaining two groups are the oil exporting OIC countries (OIC-OEC) and the countries in transition (OIC-TC).

**TABLE 1. INVESTMENT AND SAVING RATES (%)**

	Gross Domestic Capital Formation (% of GDP)			Gross Domestic Savings (% of GDP)		
	1990	1995	2000	1990	1995	2000
OIC-LDC	16.5	18.3	22.2	7.3	7.8	15.5
OIC-MIC	26.4	27.8	21.8	20.7	21.8	21.8
OIC-OEC	22.5	22.7	18.3	26.2	28.6	38.1
OIC-TC	32.3	23.4	16.2	22.5	19.9	21.6
OIC Countries	24.6	25.4	20.5	21.6	22.9	26.6
Developing Countries	25.8	28.8	25.8	26.3	27.2	26.5
Developed Countries	21.7	21.5	22.2	20.9	21.4	21.6

Source: Table A.1 in the Annex.

Gross Domestic Investment began to recover in many developing countries after the worldwide recession and the debt crisis of the early 1980s. As presented in Table A.1 in the Annex, of the 43 OIC countries for which the data are available, 17 countries experienced a rise in the share of investment in GDP. In the rest, this share remained constant or declined according to the countries' social, political and economic environments and the responses to the shocks they faced within the last 20 years. Table 1 shows the investment and saving performances of OIC countries in terms of their share in GDP. All the groups of OIC countries, except OIC-TCs, experienced a rise in their GDI as a percentage of GDP in the first half of the 1990s. Yet, in the second half, due to the negative effects of the Asian crisis on economically large OIC-MICs, the trend in GDI reversed. Only OIC-LDCs as a group increased continuously their share of investment in GDP. Moreover, developing countries also experienced a higher percentage of investment in GDP in 2000, (25.8 per cent), compared with 22.2 per cent in the developed countries. In fact, developed countries followed quite a flat pattern in their investment behaviours in the 1990s. In addition, although the share of investment in developing countries' GDP was 25.8 per cent in 2000, in the OIC countries this percentage was 20.5 per cent.

The measures so far taken to boost investment will not succeed if the required financing, which comes from domestic savings, is not available. In fact, saving rates play a crucial role in mobilising domestic sources. Domestic savings are often not sufficient to finance the investment needs of developing countries, in particular those with low incomes. Foreign savings, thus, represent an alternative source of accumulation of investment. The foreign source of private investment will be discussed in the next section of the paper. During the last decade, although gross domestic saving as a percentage of GDP in OIC countries was lower than the average of developing countries, this percentage reached the average saving rates in the developing countries in 2000. Yet, OIC-LDCs and OIC-TCs suffered from low saving rates in the last decade (See Table 1).

As a result of the rapid trend towards liberalisation of the world economy, private investment share in total investment has expanded in many countries over the past decades. Table A.3 in the Annex presents the share of private and public sectors in total investment for OIC countries. The Table indicates that the major share of investment comes from the private sector in almost all OIC countries. The proportion of investment accounted for by the public sector is less than that of the private sector, depending on the size of the public sector and the level of development. In 2000, 23 out of 30 OIC countries had private sector share in total investment more than 50 per cent. In contrast, public sector share was more than 50 per cent in only 7 OIC countries in the same year.

**TABLE 2. PRIVATE AND PUBLIC INVESTMENT**

	Private Investment (% of GDP)			Public Investment (% of GDP)		
	1990	1995	2000	1990	1995	2000
OIC-LDC average	9.1	11.4	14.6	7.3	6.9	7.4
OIC-MIC average	16.6	18.5	14.0	8.6	7.0	7.7
OIC-OEC average	10.3	15.1	16.1	8.2	8.3	8.5
OIC total average	14.7	17.2	14.5	8.4	7.3	7.9
Developed Countries	17.9	17.6	18.6	3.6	3.9	3.6
Developing Countries	13.4	14.1	14.7*	7.8	7.6	7.1*

Source: Table A.2 in the Annex.

Note: \* indicates 1999 values.

Moreover, different types of public investment are likely to have different effects on private investment and overall growth. For example,

public investment in basic infrastructure, such as roads, ports and telecommunications, which supports private investment projects, is likely to have a major impact on growth and could attract further private investment. Thus, public investment in infrastructure can act as a powerful catalyst to enhance private investment and growth.

The upward trend in private investment in developing countries reflects the world business conditions which are changing in two fundamental and closely related ways. First, more and more activities are becoming worldwide in scope and, second, competitive pressures are increasing almost everywhere. These changes are creating new opportunities as well as problems for the private sector and for governments. Many developing countries are responding to changing world business conditions by encouraging private investment. This has been shown through reforming and privatising the public sector, removing price distortions, liberalising foreign trade and payments, opening the markets up to foreign direct investment and strengthening the capacity of the financial system to mobilise domestic savings and allocate financial resources, factors which have all contributed to increasing the share of private investment. The general decline of public investment in many developing countries is also attributed to the fiscal stress that accompanied debt problems and restructuring.

Overall, private investment in developing countries increased in the 1990s, and public investment rates continued its downward trend that began in the early 1980s. Table 2 presents shares of private and public investment in OIC countries' GDP. On average, the ratio of private investment in GDP declined from 14.7 per cent in 1990 to 14.5 per cent in 2000. Meanwhile, public investment decreased from 8.4 per cent to 7.9 per cent in the same period. In the first half of the 1990s, private investment in all subgroups of OIC countries increased. In contrast, OIC countries as a group experienced a decline in the second half of the said decade. Not surprisingly, the most prominent declines in private investment were registered in the crisis countries. It declined by nearly half both in Indonesia and Malaysia (See Table A.2 in the Annex). Moreover, OIC-LDCs recorded increases in the private investment GDP shares, while OIC-MICs experienced a decline in the last decade. Furthermore, in the first half of the 1990s, the majority of OIC countries experienced a fall in the share of public investment in GDP. However, in the second half of the said decade, the downward trend in public investment was reversed in some OIC countries which is also reflected in the overall OIC figures.

In the last decade, private investment share in GDP in developed countries was higher than its average in developing ones. However, the share of public investment in GDP in the former was lower than the average in the latter. Furthermore, in developed countries, the share of public investment showed a slight downward movement from 3.9 per cent in 1995 to 3.6 per cent in 2000. While the downward trend in public investment in developing countries continued in the last decade, the same share started to rise in OIC countries in the second half of the decade. Moreover, private investment share in developing countries, including OIC members, continuously increased in the 1990s, but the latter group experienced a decline in the second half of the said decade.

Overall, in terms of weighted averages, total investment in OIC countries remained almost flat over the 1990-2000 period, despite a slight decline in the second half of the 1990s. However, the upward trend in private investment could not be neglected with its largest share in total investment and continued decline in the ratio of public investment to GDP still noticed in almost all OIC countries. Moreover, country-specific factors and the responses to external shocks have determined the public and private investments' behaviour in OIC countries. Thus, the share of these investments in GDP displayed different results under different OIC subgroups. While, OIC-LDCs experienced rising private investment rates through the last decade, OIC-MICs were disturbed by the Asian crisis and, hence, ended up with declining private investment rates in the second half of the last decade.

### **3. FOREIGN INVESTMENTS IN OIC MEMBER COUNTRIES**

Foreign sources of capital have become an important part of private investment in the developing countries in recent years. Even though the bulk of private investment continues to be financed by domestic savings, access to foreign sources of capital is playing an increasingly important role in the private sector of the developing countries. Following the debt crisis of the 1980s, the private sector in many developing countries now has access not only to renewed international bank lending and international debt markets, but also to international equity markets as sources of new investment capital (IFC, Trends in Private Investment in Developing Countries, 25).

Capital flows to developing countries and economies in transition can be divided into two main subgroups: private flows and official development



flows. Official development finance includes official development assistance and official non-concessional loans, both coming either from direct bilateral channels or through multilateral financial institutions. Private capital flows include foreign direct investment (FDI) and portfolio equity investment, both of which are non-debt creating flows, and bank lending and bond financing, which are the major debt creating flows. In fact, there was a broad consensus that FDI and other long-term private flows can have a strong positive impact on development, through transfer of technology, employment, national capacity building (human and institutional), diversification of the production base, development of well-functioning infrastructure and entrepreneurial capacity. Thus, measures are needed to promote such flows within an appropriate policy framework.

This section concentrates on four sources of foreign capital: foreign direct investment, portfolio equity investment, bonds, and bank and trade-related lending with special emphasis on FDI. Total financial flows to developing countries increased dramatically during the past decade as a result of policy reforms introduced in the late 1980s and continued in the 1990s. With access to foreign savings for private sources being limited to a relatively small number of middle-income developing countries and economies in transition, the majority of low-income countries remain largely dependent on official flows to meet the need for foreign capital. Moreover, although the principal trend in the 1990s was the growing importance of private flows, the vulnerability of the developing countries to crises and sudden reversals of resource flows were also major features of this period. The peso crisis in Mexico (1994/95) and the series of financial crises that affected Asia, Latin America and the Russian Federation in 1997 and 1998 are examples in this regard.

Table 3 presents the aggregate net resource flows to the OIC countries. In 2000, OIC countries experienced a fall in the aggregate net resource flows compared with the 1995-1999 total. While net resource flows in OIC-MICs declined in 2000, net outflows of resources from OIC-OECs occurred. Moreover, resource flows to OIC-LDCs rose in the period under analysis. The major source of private flows to the OIC countries is Foreign Direct Investment (FDI) which will be largely discussed in the next sub-section.

Beside FDI, developing countries today can hope to benefit from inflows of portfolio capital from world capital markets. This is due to

**TABLE 3. AGGREGATE NET RESOURCE FLOWS (LONG-TERM), million \$**

	Aggregate Net Resource Flows (excl. IMF)		Private flows								Official Flows (including grants)	
			Foreign Direct Investment		Portfolio Equity		Bonds		Bank and Trade-related Lending			
	1995-99	2000	1995-99	2000	1995-99	2000	1995-99	2000	1995-99	2000	1995-99	2000
OIC-LDC total	5886	6146	735	1209	16	3	0	0	-59	-10	5092	4942
OIC-MIC total	29021	13361	9631	1568	5607	4410	5814	5409	3087	-2771	4879	4747
OIC-OEC total	-2310	-3180	1124	1305	26	17	-11	0	-900	-2038	-2548	-2463
OIC-TC total	4363	3229	2333	1745	10	0	150	350	713	240	1241	995
OIC total	36960	19556	13823	5827	5659	4430	5953	5759	2841	-4579	8664	8221
All-DCs	303339	261133	154541	166691	33021	50867	42588	16879	28009	-8591	45180	35287
Low Income Countries	43299	25173	14603	6562	4480	2528	2808	2787	-450	-7296	21857	20592
Middle Income Countries	260041	235959	139938	160129	28541	48340	39780	14091	28459	-1295	23323	14695
Heavily Indebted Poor Countries	17748	16364	6024	6572	220	27	17	-46	-87	-1235	11574	11046

Source: Table A.4 in the Annex.

the fact that progressively more developing countries have been liberalising their capital account in recent years. However, liberalisation can safely proceed only gradually in pace with the capacity of the domestic financial system and when there is no serious macroeconomic disequilibrium, financial institutions are solvent and an effective system of prudential supervision is in place. Thus, the frequency and severity of financial crises could be reduced, but it would be unrealistic to suppose that they can be eliminated entirely.

International equity portfolio flows represent equity investments by international investors in equities traded in the issuing firm's domestic equity markets. The growth in portfolio equity investment is particularly noteworthy because it indicates the willingness of international investors to assume the risks and rewards associated with developing-country investment. Portfolio equity investment in developing markets rose in the second half of the 1990s (See Table 3). Moreover, portfolio investment was concentrated in countries that possess an adequate financial infrastructure and have received substantial direct investment. Although private portfolio equity flows increased in all developing countries, the bulk of such financing was channelled to a few OIC countries, which are limited to some OIC-MICs as shown in Table A.4 in the Annex. The same situation is valid for private bond flows. In short, capital markets activity, both stock and bond markets, have grown in importance globally over the period 1985-95 (IFC, *Trends in Private Investment in Developing Countries*, 31). But capital markets, especially bond markets, still play only a limited role in financing private investment in emerging markets, and bank loans remain a more important source of financing. However, in 2000, all regions of the world experienced an outflow in case of bank and trade-related lending flows including the OIC countries. Higher interest rates and concerns about exchange rate risks all contributed to reduced lending in 2000 (UN, *Conference on Financing for Development*).

### **3.1. Foreign Direct Investment in OIC Member Countries**

Worldwide flows of FDI have increased dramatically in recent years. The revival of interest in capital accumulation and economic growth has encouraged research into the channels through which FDI might be expected to promote economic growth. Thus, FDI flows have multiple effects on economic growth. Positive effects can arise mainly through the

transfer of technology and other non-tangible assets such as skills which lead to improve efficiency in the use of resources and increased productivity. Negative economic effects can arise if the market power of the transnational corporation allows it to generate abnormally high profits and transfer them abroad rather than reinvest them in the host economy.

The increase in private investment, which occurred between the 1980s and 1990s, was financed in part by additional inflows of FDI. Almost all developing countries experienced a rise in FDI in the last two decades.

Table 4 displays OIC countries' FDI growth rates. During the last two decades, like other developing countries, the OIC member countries have been seeking to enhance the inflows of FDI to supplement domestic savings and investment and to benefit from the economy-wide associated gains of these financial resources. Looking at the recent past (1986-2000), 12 out of 52 OIC countries for which the data are available experienced an annual average growth rate of 30 per cent or more between 1986 and 2000; another 8 countries had FDI growth rates of 20-29 per cent. Yet, in 9 OIC countries, growth rates of FDI declined in the same period. Up to now, the OIC countries, as a substantial group of the world developing countries, have attracted a small share of the total FDI flowing to developing countries. That is, while the total value of FDI flowing to developing countries amounted to US\$ 199 billion in 2000, only US\$ 12 billion went to OIC countries, i.e. almost 6 per cent (see Table A.5 in the Annex).

**TABLE 4. AVERAGE ANNUAL FDI GROWTH RATE  
IN OIC MEMBER COUNTRIES, 1986-2000 (%)**

Growth Rate	Economy
More than 30%:	Afghanistan, Azerbaijan, Bahrain, Bangladesh, Cameroon, Comoros, Djibouti, Morocco, Mozambique, Qatar, Senegal, Uganda.
20-29.9%:	Benin, Chad, Gabon, Iran, Kazakhstan, Lebanon, Sudan, and Togo.
10-19.9%:	Burkina Faso, Côte d'Ivoire, Gambia, Guinea, Guinea-Bissau, Malaysia, Maldives, Mali, Pakistan, Saudi Arabia, Somalia, Tajikistan, Tunisia, Turkey, Uzbekistan, Yemen.
0-9.9%:	Albania, Algeria, Egypt, Kyrgyz Republic, Nigeria, Sierra Leone, Syria.
Decline:	Brunei Darussalam, Indonesia, Iraq, Libyan Arab Jamahiriya, Mauritania, Niger, Oman, Turkmenistan, United Arab Emirates.

Source: UNCTAD, FDI/TNC database.

FDI flows to OIC countries accounted for around 3.7 per cent of the world in 1990. However, after the increase in the first half of the decade,

the trend was dramatically reversed in the second half. The two major OIC countries attracting the bulk of FDI flows to OIC countries over the last two decades—Indonesia and Malaysia—which were negatively affected by the Asian crisis composed the source of decline in OIC countries' share in FDI flows. Although FDI inflows to those two countries were US\$ 4.3 billion and US\$ 5.8 billion in 1995 respectively, they ended up with a decline in FDI inflows in 2000 (see Table A.5 in the Annex). Moreover, FDI outflows from Indonesia increased following the crisis years. Being an economically large country, this outflow from Indonesia also affected the OIC countries' share in world FDI flows which was 0.9 per cent in 2000.

**TABLE 5. FDI INFLOWS TO OIC MEMBER COUNTRIES**

(million US \$)

	Annual average 1982-87	1990	1995	1998	2000
Total OIC-LDCs	56	-76	249	1365	1176
Total OIC-MICs	2471	5358	13553	6876	5453
Total OIC-OECs	558	2346	-21	6129	2966
Total OIC-TCs			1695	2563	2467
Total OIC Countries	3085	7628	15476	14370	12062
OIC as % of World	4.6	3.7	4.7	2.1	0.9
OIC as % of Developing Countries	20.9	25.2	20	9.9	6.0

Source: Table A.5 in the Annex.

Furthermore, the distribution of FDI inflows was concentrated in a small number of OIC member countries, especially OIC-MICs. It is obvious that these countries are those which have more market-oriented economies, more liberalised and regulated markets, more privatised economic activities, a better quality of infrastructure and a greater size of existing stock of FDI. In contrast, the OIC-LDCs as a group remained marginal in attracting FDI. However, FDI flows into that group are rising, as is the role of FDI in their economies.

In this regard, the United Nations' World Investment Report 2001 observes that rapid expansion of FDI makes it "the main source in international economic integration". Therefore, the central challenge for OIC countries is to attract FDI flows and other private flows to a much larger number of countries and sectors. Key to this effort is the emergence and consolidation of transparent, stable and predictable frameworks for private activity as well as the institutions, corporate

governance and infrastructure that allow businesses, both domestic and international, to operate efficiently.

#### **4. CHALLENGES FACING PRIVATE SECTOR DEVELOPMENT IN OIC COUNTRIES**

The different levels of investment and how efficiently it is being used are affected by many factors. Macroeconomic stability; well-defined property rights; a sound judicial and contracting system; a reasonable level of certainty about government policy; well functioning financial markets; good physical, social and technological infrastructure; and educated healthy individuals are all ingredients of a sound investment climate. In addition, access to international markets is important in this regard since better integration with the world economy facilitates the flow of goods, capital and technology. Thus, this section focuses on determinants of private investment.

##### **4.1 Business Climate**

This sub-section presents country-specific results of the World Bank's 1997 worldwide survey of business executives. The survey focuses on obstacles to doing business in each of the 74 countries covered and their relationship with levels of investment. A few factors emerge as being of particular importance to private investment decisions: the real exchange rate, the rule of law, predictability of judiciary systems, and the extent to which financing is available to enterprises. The survey covers approximately 4000 firms in 74 countries, mostly in manufacturing and services (about half each), plus some agricultural firms. It covers large and small firms with and without foreign participation. Interviews are conducted in the countries where firms operate. The survey addresses the question: which obstacles to doing business are considered to be most serious by private sector managers in particular countries? According to the survey, the obstacles can be classified into five categories:

1. **Regulations:** Regulation-related obstacles include labour, prices and environmental regulations as well as regulations of starting a business. Entrepreneurs are concerned both about the nature of the regulations and the unpredictability of their implementation and/or changes.
2. **Trade and Exchange Rate Policies:** The entire area of foreign trade is highly sensitive for many businesses. Trade-related obstacles include

regulations that control exports and imports such as licenses, customs etc. but also foreign currency regulations.

3. **Inflation and Financing:** High and volatile inflation can hurt businesses because of unpredictable changes in prices and induced changes in wages and because of the cost of constantly adopting business strategies. Furthermore, many aspects of monetary policy affect the possibility of firms finding financing for their investment projects. Inflation and financing-related obstacles refer to inflation and the availability of financing.
4. **Public Revenue and Expenditure Policies:** Fiscal policies affect business both on the revenue and on the expenditure side. On the revenue side, the question relates to high taxes and tax regulations as important obstacles. On the expenditure side, entrepreneurs are asked whether inadequate supply of infrastructure presents an obstacle to their business.
5. **Uncertainty:** Many entrepreneurs stress that uncertainty about rules is often more troublesome than their inefficiency. Uncertainty-related obstacles include general uncertainty about costs of regulations and policy instability. The idea behind the first one is to separate the efficiency aspect of regulations from uncertainty in implementation and enforcement.

Table 6 shows the ranking of OIC countries according to the seriousness of obstacles to doing business. While low-scored obstacles mean the opposite view that there are serious obstacles, high-scored obstacles mean that entrepreneurs think there are large obstacles. Regulation-related obstacles include labour regulations and safety and environmental regulations, which are considered to be serious obstacles to doing business in a number of OIC countries. The transition countries head the ranking. That is, regulation-related obstacles are not perceived as severe in those countries. Possibly the reason is that transition countries are still busy in building the institutions that control and enforce those kinds of regulations. Inflation is one of the most prevalent perceived obstacles for many developing countries. In inflation and finance-related obstacles, Sub-Saharan African countries received the worst scores. The least obstacles related to trade are found in the Middle East and North Africa. In this survey, this group is represented by Jordan, Morocco and Palestine as well as Uganda from Sub-Saharan Africa. In the case of public revenue and expenditure policies-related obstacles, Malaysia and

Sub-Saharan Africa countries are marked with lower rating. Obstacles related to political stability and general uncertainty in the cost of regulations are much more prevalent in transition countries.

**TABLE 6. RANKING OF OIC COUNTRIES FROM LOWEST TO HIGHEST IN TERMS OF SERIOUSNESS OF OBSTACLES TO DOING BUSINESS**

	Total Obstacles	Regulation -related Obstacles	Inflation and Finance-related Obstacles	Trade-related Obstacles	Public Revenue and Expenditure Policies-related Obstacles	Uncertainty -related Obstacles
Jordan, Morocco, Palestine	1	8	2	2	5	3
Malaysia	2	11	3	5	1	2
Azerbaijan	3	1	1	3	4	8
Côte d'Ivoire, Togo	4	6	9	8	2	1
Guinea, Guinea-Bissau, Senegal	5	9	5	9	3	6
Albania, Turkey	6	3	7	4	7	9
Uganda	7	4	10	1	11	10
Benin, Mali, Nigeria	8	10	6	7	6	5
Cameroon, Chad	9	5	4	11	10	4
Kazakhstan, Kyrgyz Republic, Uzbekistan	10	2	8	10	9	11
Mozambique	11	7	11	6	8	7

Source: IFC, *Trends in Private Investment in Developing Countries*, Discussion Paper No. 33.

Since each country is associated with different macroeconomic policies, institutions, rules and regulations, each faces different business obstacles. Interestingly, some serious business obstacles facing a country may not be perceived as an important obstacle by entrepreneurs in doing business. As a result, country-specific factors play a crucial role in improving business climate. Therefore, the number of surveys aiming to determine business obstacles should be increased in parallel with their scope and quality.

#### 4.2 Macroeconomic Stability

The past few decades have yielded a rich crop of lessons about the kinds of economic policies that support development. Analyses of the East Asian miracle and other experiences consistently find a core set of policies that appear to be essential for growth: providing macroeconomic stability, avoiding price distortions and liberalising trade and investment. These policies help position an economy to benefit from competitive



market forces. These forces provide the right signals and incentives for economic agents to accumulate resources and use them efficiently. High levels of education, diversification of the export base, high saving rates, sound macroeconomic management and high rates of investment and industrialisation and rapid growth of FDI are all factors that contribute to growth. Thus, this section examines the OIC countries' investment performance in the light of macroeconomic indicators.

It was found that high private investment rates were, in general, associated with high demand growth, availability of financing, low fiscal deficits, price stability and low external indebtedness. Overall, private investors respond positively to growth of demand. Indeed, for most developing countries, growth of demand is the most important reason for investment. On the other hand, inflation and exchange rate volatility deter investors because of the unpredictability attending distorted relative prices. In addition, high inflation brings with it the expectation of currency devaluations which will increase the cost of imported capital goods and inputs to an unknown extent. Moreover, open economies often experience high private investment rates since an outward-oriented trade regime helps to increase the credibility of the national economic policy by exposing the economy to the competitive discipline of international markets. In contrast, debt overhang may discourage investment both through the uncertainty created and through its implied "tax" on future output. Overall, good macroeconomic policies stimulate private investment. Furthermore, foreign investors also tend to respond similarly to those factors. Companies are increasingly attracted by the availability of education and high skills. Foreign investors attach great importance to the stock of foreign investment as an important indicator of the quality of the business climate and to the quality of the infrastructure.

High private investment rates are found in countries that have high growth rates since private investment is discouraged by slower or negative growth. Based on average annual growth rates over the period 1990-2000, those countries that, on average, grew faster over this period also had a higher average share of total investment in GDP. On average, the annual GDP growth was lower in OIC countries than that of the developing countries during the same period. As indicated in Table 7, the slower GDP growth of the OIC region during the period 1990 to 2000 coincided with a time of falling investment. Moreover, since the GDP growth in OIC countries was lower than that in the developing countries, the decline in investment rates in the former was larger than that in the latter.

The growth performance of the OIC group was negatively affected by the Asian Crisis of 1997-1998 and the fall in world commodity prices in the same period. In this regard, the economy of the OIC-MIC group seems to be the most negatively affected by the external shocks in 1998. Parallel to this, the investment performance of the OIC-MIC group deteriorated in the second half of the 1990s. The OIC-LDC group achieved the highest average growth rate of 5 per cent in the 1990-2000 period. At the same time, when discussed under the investment figures introduced in Table 7, it is easy to see that among the OIC subgroups, only the OIC-LDC group witnessed a continuous rise in its investment share. Lastly, after experiencing negative growth rates in the first half of the 1990s, the group of OIC-TC countries managed to reverse their growth trends and were quite successful in maintaining positive rates in the second half of the decade. However, negative growth rates in the last decade were associated with a fall in investment.

Adequate levels of investment will not be forthcoming in an environment of high and fluctuating inflation where local currencies are either unstable or significantly overvalued. High inflation creates uncertainty about the returns on savings and investment, thus creating a disincentive for capital accumulation. Inflation also makes it difficult to maintain a stable but competitive exchange rate, thus impeding a country's ability to exploit the benefits of openness and creating wage volatility.

**TABLE 7. MACROECONOMIC INDICATORS**

	GDP (Average annual % growth)	CPI (Average annual % growth)	Gross Domestic Capital Formation (% of GDP)		
	1990-2000	1990-2000	1990	1995	2000
OIC-LDC average	5.0	18.4	16.5	18.3	22.2
OIC-MIC average	4.0	28.6	26.4	27.8	21.8
OIC-OEC average	2.5	9.4	22.5	22.7	18.3
OIC-TC average	-2.9	76.7	32.3	23.4	16.2
OIC average	3.5	21.5	24.6	25.4	20.5
Developed Countries	2.3*	2.7*	21.7	21.5	22.2
Developing Countries	5.7*	28.8*	25.8	28.8	25.8
Least-developed Countries	4.3*	22.0*			

Source: Table A.6 in the Annex.

Note: \* indicates the period 1990-1999.

As presented in Table 7 above, the average inflation rate in OIC countries was 21.5 per cent in the period 1990-2000, which was slightly

lower than that in the developing countries (28.8 per cent). The average inflation rate observed in the OIC-TC group was considerably higher than the OIC average in this period since the countries in transition experienced hyperinflation in the early 1990s. However, in the second half of the 1990s, OIC-TCs managed to curb inflation rates. Yet, the unfavourable growth performance of the OIC-TCs and the hyperinflation experienced by transition countries in the first half of the 1990s disturbed the overall investment performance. Thus, the largest declines in investment rates were experienced by OIC-TCs. After OIC-TCs, OIC-MICs occupied the second place when ranked from high to low inflation rates. Thus, the second highest decline in investment ratios among OIC countries was experienced by OIC-MICs.

Similarly, an inappropriate exchange rate policy in the form of an overvalued rate for the local currency can give an inadequate incentive to investment because of the obstacles it creates in achieving price competitiveness in export markets. Obviously, the net effect on investment depends on the degree of capital mobility relative to the import content of investment. In short, overvalued currencies discourage the production of goods and services. Table A.7 in the Annex displays the exchange rates in the OIC countries against US dollar. In the last decade, the majority of OIC countries' national currencies were depreciating against the US dollar, and only the currencies of 8 out of 50 OIC countries remained stable.

Moreover, open markets offer opportunities for citizens and businesses by increasing access to supplies, equipment, technology and finance. Additionally, improved incentives and opportunities allow entrepreneurs to use resources more efficiently. Although the total exports of OIC countries doubled in the last decade, their share in world exports showed a negligible improvement. Among the OIC subgroups, OIC-MICs and OIC-TCs experienced a large rise in their exports (see Table A.6 in the Annex). In this framework, primary commodity exports with exogenously-determined prices constitute an important source of macroeconomic instability in those countries since the international prices of primary commodities tend to fluctuate sharply. In fact, 15 OIC countries are exporters of primary commodities and 13 have fuel as the main source of export earnings (IMF, World Economic Outlook, April 2002, p. 151). Therefore, many OIC countries, particularly the OIC-LDCs, need to diversify their economies to have sustained levels of economic performance and decrease their vulnerability to external shocks.

When we consider the external debt of the OIC countries, the picture becomes worse. According to the World Bank's classification of all economies according to their indebtedness in January 2002, 23 OIC countries are classified as severely-indebted countries and another 15 are classified as moderately-indebted (World Bank, Global Development Finance 2002, pp. 130-131). Furthermore, as shown in Table A.6 in the Annex, the total external debt of OIC countries increased in the last decade. This rise was largely experienced by all the subgroups except OIC-OECs.

With respect to macroeconomic stability, the OIC countries have recently succeeded in reducing the rate of inflation. But inflation remains a serious problem in many of them. Also, in the last decade, OIC countries, especially OIC-LDCs, performed better in terms of GDP growth rates. But still, the growth rates of OIC countries were not enough to boost investment. In addition, trade performance of OIC countries was not compatible with the high investment rates. Also, overvalued currencies disturb the private sector investments in the majority of OIC countries. Moreover, the external debt accumulated in OIC countries discouraged private investments since debt overhang may have discouraged investment both through the uncertainty created and through its implied "tax" on future output. As a solution to the debt problem, the World Bank and the IMF's enhanced Heavily Indebted Poor Countries (HIPC) Initiative aim to provide a faster, deeper and broader debt relief to as many as 30 countries, mostly in Sub-Saharan Africa. These countries have to focus on macroeconomic stability as a key feature in the design of programmes.

Also, there is the institutional factor which encourages or inhibits private investment. The risks of doing business are much higher in countries where the rules of the game are unclear or where the State does not ensure that private contracts are enforced and where the judicial system does not function well. Improvements in macroeconomic conditions as well as in the quality of institutions have been achieved in a number of developing countries but private investors have often been slow to respond. The strongest responses occur when investors believe that improvements will sustain.

## **5. POLICY RECOMMENDATIONS AND CONCLUSION**

The role of private sector investments is crucial in the development agenda since it provides various income and job opportunities. In this

context, the role of the private sector in the promotion of intra OIC-trade and economic cooperation has been emphasised in the recent resolutions of the Islamic Summits and Islamic Conferences of Foreign Ministers. However, investment is associated with long run benefits. Thus, the majority of private sector development strategies needs an implementation period. That is, achieving macroeconomic stability and improving existing institutions are a long and difficult process, but progress along the way is likely to be rewarded by increased private sector investments, thus high and sustained growth.

In this regard, the OIC countries are faced with various obstacles that hinder private sector investments. These obstacles vary from one country to another. However, an average trend in private sector investments has been on the rise in recent years. Furthermore, in the context of their investment performances, private investment in OIC countries has been higher than public investment throughout the last decade. Yet, although the first half of the 1990s was characterised by high private investment ratios, in the second half, OIC countries faced declining private investment levels. In fact, the source of decline largely depends on OIC-MICs since some economically large countries in this group were seriously influenced by the Asian Crisis. Also, FDI flows to those countries declined because of the same reason, and this decline was reflected in the total OIC figures. In addition, both domestic and foreign investment figures of OIC countries were highly related with macroeconomic stability. That is, high inflation and low growth rates accompanied declining investment levels.

The business environment remains problematic in many respects and incapable of generating the high rates of private investment that can foster economic growth. More and deeper actions will be necessary to improve the business environment, and the financial sector must be stronger if it is to support private business growth. Moreover, overdependence for export earnings on a small number of agricultural commodities, a small and narrow manufacturing base, high population growth, low savings and investment rates, low human capital development, high debt servicing, poor infrastructure and structural rigidities have disturbed growth. Especially in some OIC-LDCs and low income countries, widespread poverty and a high burden of debt led to lower consumption demand and lower savings and investment ratios which, in turn, hindered growth and reduced productivity. There is a

need to remove those constraints on growth in order to break the vicious circle of low savings, low investment and low income. In this respect, a wide range of policy recommendations, which are classified at both country and OIC levels, can be proposed for increasing both domestic and foreign private investment as follows:

### **Action at the country level**

1. From the perspective of promoting private sector investment, the primary objective will be to stabilise the macroeconomic environment:
  - Member countries should pursue sound macroeconomic policies geared to the achievement of high rates of sustainable economic growth.
  - Member countries should give priority to avoiding inflationary distortions, prudent fiscal and monetary policies and an appropriate exchange rate regime.
  - Sustainable debt financing is an important option for mobilising resources for public and private investment. National comprehensive strategies to monitor and manage external liabilities embedded in sound macroeconomic policies should be a key element in reducing domestic vulnerabilities and avoiding serious mismatches between financing needs and repayment capacity.
  - Free trade and export processing zones in the member countries should be encouraged and private sector investments in these zones should be promoted by parties from other member countries (OIC Strategy and Plan of Action: 1994).
2. The central purpose of the financial sector is to promote savings and channel investible resources into the most productive sectors:
  - There should be a diverse, well-functioning, competitive financial system based on a modern legal framework incorporating international accounting and auditing standards as well as corporate governance and bankruptcy arrangements that are adapted to the local culture but meet global standards.

- Banks must be competitive, efficient, properly capitalised, and well-regulated and supervised by independent authorities. Of course, building institutions that will meet these specifications is difficult and will take time. It will also require assistance by the international community.
3. Microeconomic incentives and institutional factors are crucial in building business capacity both in the public and private sectors:
- The rules and procedures governing both domestic and foreign investors' operations should be stable, predictable, and free from corruption.
  - Countries should examine critical infrastructure constraints for private sector development since both domestic and foreign investors seek skilled workforce and efficient infrastructure. Moreover, priority should be given to investment in human capital, especially basic education and health.
  - “The member countries should cooperate to develop and expand the basic national infrastructure in order to expand the capacities and efficiency in productive sectors” (OIC Strategy and Plan of Action: 1994).
4. Although private capital cannot by itself alleviate poverty, it can play a significant role in promoting growth. Yet, its provision needs to be organised in a way that reduces vulnerability to crises.
- The flow of financial resources and direct foreign investment flows among the member countries should be facilitated through gradual removal of restrictions on capital movements and ensuring investment protection and guarantees (OIC Strategy and Plan of Action: 1994).
  - Member countries should continue to improve their attractiveness to private flows by upgrading accounting and auditing standards and improving transparency, corporate governance, and the efficiency and impartiality of their administration.
  - The developmental impact of FDI flows should be enhanced, especially in strengthening technological capabilities, boosting

export competitiveness, generating employment and strengthening the skill base.

- The experience of financial crises has shown that countries should only introduce liberalisation measures in appropriate circumstances. That is, when they have sound macroeconomic fundamentals, a healthy domestic financial system and an effective system of prudential supervision.

### **Action at the OIC level**

The promotion of private investment opportunities and projects in member countries should be one of the major goals of cooperation. Therefore, member countries should point out the most needed segment of the private sector strategies according to the economic and institutional environments in which they live. In other words, tools in promoting and strengthening private sector activities should be formed according to country-specific factors. These tools could be listed as follows:

- Financing measures including guarantees and investment support.
- Technology and innovation support including R&D support, technology cooperation, knowledge transfers, diffusion of information and communication technologies.
- Labour-related measures on human resource development, including measures on management and ones aiming at skills development, mobility and relocation.
- International trade and investment-related measures including export promotion and foreign and domestic investment measures which are discussed in the individual country recommendations.

In short, in order to introduce a new dimension and dynamism into cooperation efforts among the OIC countries, particularly the implementation of the OIC Plan of Action, the private sector institutions should be given a more effective role in OIC economic cooperation activities. They should be included at all stages of the implementation process of the OIC Plan of Action. In this respect, some recommendations are also listed under the OIC umbrella to promote private sector activities since private sectors of the member countries have some problems in



financing their expansion, marketing their products, penetrating international markets, acquiring advanced technology, improving their management and promoting quality and production.

1. Regional and sub-regional cooperation and integration processes should be extended since they play a key role in fostering global trade and development by improving competitiveness and export diversification.
2. As it is presented in the OIC Plan of Action, contracts among industrialists of the member countries should be promoted to share information and experiences that will help enhance private sector cooperation.
3. All the existing financial resources within the OIC community should be utilised to the maximum possible extent and coordination may be ensured among these bodies to meet the requirements of most of the economically and technically feasible projects.
4. The non-availability of credit is normally the greatest single impediment to the growth and diversification of activities in the private sector. In this regard, stress may be given to the importance of extending lending operations, extensions of loans and technical assistance to the least-developed member countries.
5. Private sector should have greater access to information technology such as electronic commerce.
6. Member countries of the OIC have to encourage joint projects with a view to reinforcing and promoting economic complementarities of the member countries and providing guarantees and incentives to encourage the transfer of capital and investments among themselves.
7. In fact, some specific measures in other areas are also indispensable, such as those related to transportation and financial facilities, the availability of dependable and comparable data and an adequate production level. Naturally, all these issues may not be dealt with at the same time and inter and intra-sector priorities will have to be established within the context of a comprehensive strategy.

8. Member countries should develop new modalities to stimulate and promote private sector participation in cross-cutting issues of environment, development, technology and social change as it is presented in the OIC Plan of Action.
9. “Member countries should promote and expand cooperation in the area of agricultural research and development of joint activities, by giving a pivotal role to the private sector” (OIC Strategy and Plan of Action: 1994).
10. As it is presented in the OIC Plan of Action, member countries should encourage and promote extensive private sector involvement and cooperation in tourism through joint ventures in the area of improvement and enhancement of physical capacities and quality service.

In short, targeted prerequisites to generate high private investment levels could be listed as follows:

- a sound macroeconomic policy;
- an appropriate competition policy;
- investment and trade liberalisation;
- legal, judicial and tax reforms;
- product, capital and labour market reforms;
- financial sector reforms;
- sound environmental and social standards and a good physical, social and technological infrastructure.

To achieve these targets, international coordination is needed. In addition, instruments used by multilateral development banks such as policy dialogue, economic and sectoral development loans, technical assistance, cofinancing and partial credit guarantees should be improved. In this context, Annex 2 discusses the role of multilateral agencies on private sector activities. In fact, Annex 2 presents targets and instruments used by multilateral agencies on private sector development strategies. These targets and instruments should be seriously examined since member countries differ in their economic, political and social objectives. Thus, their private sectors are at different stages of development. Moreover, the recommendations listed above are mutually reinforcing each other. Therefore, there is no single factor

affecting private investment performances. In fact, increasing private sector investments is not only a goal, but also a vehicle for sustained economic growth and development.

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**ANNEX 1****TABLE A.1: SHARE OF INVESTMENTS AND SAVINGS  
IN OIC COUNTRIES (As % of GDP)**

	Gross Domestic Capital Formation (% of GDP)			Gross Domestic Savings (% of GDP)		
	1990	1995	2000	1990	1995	2000
Bangladesh	17	17	23	10	8	18
Benin	14	20	20	2	9	6
Burkina Faso	21	22	28	8	6	9
Chad	16	9	17	0	-10	1
Comoros	20	17.6	13	-3.2	-10.0	1.0
Djibouti	14	8.6	12.9	-10.2	-9.2	-0.2
Gambia	22	21	17	11	5	4
Guinea	18	15	22	18	11	17
Guinea-Bissau	30	16	18	3	-5	-9
Mali	23	26	23	6	10	7
Mauritania	20	15	30	5	11	15
Mozambique	16	60	34	-12	5	10
Niger	8	6	11	1	1	3
Senegal	14	16	20	9	10	11
Sierra Leone	9	6	17	8	-9	-8
Sudan	15	17	14			15
Togo	27	14	21	15	9	6
Uganda	13	16	18	1	7	3
Yemen	15	12	19	4	10	28
<b>OIC-LDCs average</b>	<b>16.5</b>	<b>18.3</b>	<b>22.2</b>	<b>7.3</b>	<b>7.8</b>	<b>15.5</b>
Cameroon	18	15	16	21	21	20
Egypt	29	17	24	16	6	17
Guyana	27.7	31.7	28.7			
Indonesia	31	38	18	32	36	26
Côte d'Ivoire	7	13	12	11	20	19
Jordan	32	26	20	1	3	-6
Lebanon	18	29	18	-64	-22	-7
Malaysia	32	41	26	34	37	47
Morocco	25	21	24	19	13	18
Pakistan	19	19	16	11	16	12
Syria	15	27	21	16		24
Tunisia	32	24	27	25	20	24
Turkey	24	25	24	20	20	17
<b>OIC-MICs average</b>	<b>26.4</b>	<b>27.8</b>	<b>21.8</b>	<b>20.7</b>	<b>21.8</b>	<b>21.8</b>
Algeria	29	32	24	27	29	44
Bahrain	16	18				
Gabon	22	26	26	37	48	28
Iran	29	29	20	27	34	34
Kuwait	18	12	11	4	18	37
Libya	18	15				
Nigeria	15		23	29		34
Oman	13	17		35	27	
Qatar	18	35				
Saudi Arabia	20	20	16	30	30	40
U.A.E.	20	27		45	27	
<b>OIC-OECs average</b>	<b>22.5</b>	<b>22.7</b>	<b>18.3</b>	<b>26.2</b>	<b>28.6</b>	<b>38.1</b>
Albania	29	16	19	21	-8	-3
Azerbaijan		16	26		4	28
Kazakhstan	32	22	14	30	19	25
Kyrgyzstan	24	16	16	4	10	4

**TABLE A.1: (continued)**

	Gross Domestic Capital Formation (% of GDP)			Gross Domestic Savings (% of GDP)		
	1990	1995	2000	1990	1995	2000
Kyrgyzstan	24	16	16	4	10	4
Tajikistan		17	20		18	16
Turkmenistan	40		40	28		49
Uzbekistan	32	23	11	13	24	17
<b>OIC-TCs average</b>	<b>32.3</b>	<b>23.4</b>	<b>16.2</b>	<b>22.5</b>	<b>19.9</b>	<b>21.6</b>
<b>OIC average</b>	<b>24.6</b>	<b>25.4</b>	<b>20.5</b>	<b>21.6</b>	<b>22.9</b>	<b>26.6</b>
<b>Developing Countries</b>	<b>25.8</b>	<b>28.8</b>	<b>25.8</b>	<b>26.3</b>	<b>27.2</b>	<b>26.5</b>
<b>Developed Countries</b>	<b>21.7</b>	<b>21.5</b>	<b>22.2</b>	<b>20.9</b>	<b>21.4</b>	<b>21.6</b>

Source: *World Development Indicators 2002, African Development Indicators 2002.*

**TABLE A.2: SHARE OF PRIVATE AND PUBLIC INVESTMENTS IN OIC COUNTRIES**

	Private Investment (% of GDP)				Public Investment (% of GDP)			
	1980	1990	1995	2000	1980	1990	1995	2000
Bangladesh	8.2	9.8	12.4	15.7	7.1	7.2	6.7	6.7
Benin		6.0	6.9	11.2		7.4	10.4	7.3
Burkina Faso		15.3	14.0	12.6		4.4	11.0	15.0
Chad		1.3	5.3	10.2		10.0	6.3	10.3
Comoros	5.3	6.7	9.2	6.4	23.2	5.2	6.9	6.6
Djibouti		5.1	4.8	8.6		9.2	3.6	6.6
Gambia		14.9	10.2	13.5		7.4	10.0	3.8
Guinea		8.3	10.3	14.1		9.2	6.3	7.3
Guinea-Bissau		8.4	7.1	5.3		21.5	15.2	13.9
Mali		12.4	13.5	12.2		10.5	9.4	10.4
Mauritania		13.7	15.5	22.1		6.2	3.8	8.0
Mozambique	-1.7	3.6	10.8	21.1	7.6	12.0	12.0	12.6
Niger	5.1	4.0	1.8	4.6	20.4	7.4	5.2	5.8
Senegal		7.7	10.2	13.1	5.5	4.1	4.4	6.7
Sierra Leone	10.7	5.2	0.5	1.5	6.0	3.5	7.4	1.8
Sudan	3.8		15.9	15.4	6.9		0.6	2.2
Togo	8.0	18.0	10.1	14.1	20.2	7.3	3.5	6.2
Uganda		6.5	10.2	11.5		6.2	5.4	6.7
<b>OIC-LDCs Average</b>		<b>9.1</b>	<b>11.4</b>	<b>14.6</b>		<b>7.3</b>	<b>6.9</b>	<b>7.4</b>
Cameroon	15.6	11.9	13.3	15.1	4.4	5.5	1.2	1.4
Egypt		16.7	10.7	14.1		10.2	5.5	7.5
Guyana		14.4	15.5	12.5		13.3	16.3	16.2
Indonesia	13.7	19.5	20.8	12.9	10.5	8.5	7.7	8.3
Côte d'Ivoire	13.0	4.9	9.5	12.9	11.4	3.6	4.2	4.7
Malaysia	19.5	20.9	31.7	10.8	11.6	11.5	12.6	11.1
Morocco	12.4	16.4	12.5	16.0	9.8	8.6	8.9	8.8
Pakistan	7.7	8.9	8.7	8.6	9.4	8.4	8.2	4.7
Tunisia	13.3	19.7	11.9	13.1	15.0	11.0	12.3	12.0
Turkey	13.3	15.8	20.0	17.0	8.8	7.0	4.2	6.8
<b>OIC-MICs Average</b>		<b>16.6</b>	<b>18.5</b>	<b>14.0</b>		<b>8.6</b>	<b>7.0</b>	<b>7.7</b>
Algeria	22.8	17.6	21.9	13.5		8.2	7.3	8.0
Gabon	21.4	17.6	17.6	21.3	5.3	3.9	5.1	4.8
Iran	11.4	8.5	12.6	19.0	10.4	7.3	10.4	8.6

TABLE A.2: (continued)

	Private Investment (% of GDP)				Public Investment (% of GDP)			
	1980	1990	1995	2000	1980	1990	1995	2000
Iran	11.4	8.5	12.6	19.0	10.4	7.3	10.4	8.6
Libya	1.8				19.4			
Nigeria		3.8	11.1	12.9		10.8	5.3	9.8
<b>OIC-OECs Average</b>		<b>10.3</b>	<b>15.1</b>	<b>16.1</b>		<b>8.2</b>	<b>8.3</b>	<b>8.5</b>
Azerbaijan				23.6				4.1
Kazakhstan				14.0				1.9
Uzbekistan				7.5				14.3
<b>OIC-TCs</b>								
<b>OIC total</b>		<b>14.7</b>	<b>17.2</b>	<b>14.5</b>		<b>8.4</b>	<b>7.3</b>	<b>7.9</b>

Source: African Development Indicators 2002 and IFC, *Trends in Private Investment in Developing Countries* (44).

Note: For some countries, the sum of private and public investment does not add up to total domestic investment due to statistical discrepancies.



**TABLE A.3: SHARE OF PRIVATE AND PUBLIC SECTORS  
IN TOTAL INVESTMENT**

	Private Investment (% of Total Investment)			Public Investment (% of Total Investment)		
	1990	1995	2000	1990	1995	2000
<b>OIC-LDCs</b>						
Bangladesh	58	65	70	42	35	30
Benin	45	40	61	55	60	39
Burkina Faso	73	54	45	21	43	54
Comoros		52	49		39	51
Djibouti	36	56	56	66	42	43
Gambia	67	50	78	33	50	22
Guinea	47	62	64	53	38	33
Guinea-Bissau	28	32	28	72	68	72
Mali	54	59	54	46	41	46
Mauritania	69	80	73	31	20	27
Mozambique	23	47	63	77	53	37
Niger		25	43		71	55
Senegal	64	61	66	30	26	34
Sierra Leone	55	6	44	37	87	53
Togo	68	63	69	27	22	30
Uganda	51	62	63	49	33	37
<b>OIC-MICs</b>						
Cameroon	67	92	92	31	8	9
Egypt	58	62	59	35	32	31
Guyana	52	49	44	48	51	56
Indonesia	70	73	61	30	27	39
Côte d'Ivoire	58	70	73	42	31	27
Malaysia	65	72	49	35	28	51
Morocco	66	58	65	34	42	35
Pakistan	51	51	65	49	49	35
Tunisia	64	49	52	36	51	48
Turkey	69	83	71	31	17	29
<b>Other OIC Countries</b>						
Algeria	60	69	57	28	23	34
Gabon	81	74	82	18	22	18
Iran	54	55	69	46	45	31
Nigeria	26	68	57	73	33	43

**Source:** *World Development Indicators 2002, African Development Indicators 2002, and IFC, Trends in Private Investment in Developing Countries (44).*

**Note:** For some countries, the sum of private investment and public investment does not add up to total domestic investment due to statistical discrepancies.

**TABLE A.4: AGGREGATE NET RESOURCE FLOWS (LONG TERM) (Million US\$)**

	Aggregate Net Resource Flows (excl. IMF)		Private flows								Official Flows (including grants)	
			Foreign Direct Investment		Portfolio Equity		Bonds		Bank and Trade-related Lending			
	1995-99	2000	1995-99	2000	1995-99	2000	1995-99	2000	1995-99	2000	1995-99	2000
Bangladesh	1101	1207	105	280	16	3	0	0	-25	-14	1005	938
Benin	204	192	31	30	0	0	0	0	0	0	173	162
Burkina Faso	302	437	13	10	0	0	0	0	0	0	289	427
Chad	177	94	15	15	0	0	0	0	0	-1	162	79
Comoros	23	13	2	0	0	0	0	0	0	0	22	13
Djibouti	55	27	5	0	0	0	0	0	0	0	50	27
Gambia	43	47	11	14	0	0	0	0	0	0	32	33
Guinea	265	177	25	63	0	0	0	0	-6	0	146	113
Guinea-Bissau	67	61	3	0	0	0	0	0	0	0	64	61
Maldives	41	23	10	13	0	0	0	0	5	1	26	10
Mali	343	420	54	76	0	0	0	0	0	0	289	344
Mauritania	182	183	3	5	0	0	0	0	4	-2	174	180
Mozambique	1080	971	155	139	0	0	0	0	1	-1	924	833
Niger	199	179	12	15	0	0	0	0	-17	-2	204	166
Senegal	442	349	89	107	0	0	0	0	-9	-2	361	243
Sierra Leone	103	186	3	1	0	0	0	0	-6	0	106	185
Sudan	341	563	168	392	0	0	0	0	0	0	173	171
Togo	139	93	27	30	0	0	0	0	-1	0	113	63
Uganda	724	936	170	220	0	0	0	0	-4	11	558	705
Yemen	55	-12	-166	-201	0	0	0	0	-1	0	221	189
<b>OIC-LDCs total</b>	<b>5886</b>	<b>6146</b>	<b>735</b>	<b>1209</b>	<b>16</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>-59</b>	<b>-10</b>	<b>5092</b>	<b>4942</b>
Cameroon	194	185	35	31	0	0	0	0	-42	-52	200	205
Egypt	2450	2312	853	1235	818	619	20	0	-194	114	952	345
Guyana	163	128	63	67	0	0	0	0	-4	0	104	61
Indonesia	6989	-9156	2423	-4550	1959	379	1503	-2050	-552	-4988	1657	2053
Côte d'Ivoire	537	56	320	106	13	6	-14	-46	-158	-113	375	103
Jordan	630	807	172	558	26	12	13	-95	-120	-20	539	352
Lebanon	1378	2258	143	298	79	4	801	1040	124	687	231	230
Malaysia	8214	3411	3622	1660	1455	542	1488	477	1634	550	15	182
Morocco	134	-460	37	10	176	147	52	-30	-53	-419	-78	-167

TABLE A.4: (continued)

	Aggregate Net Resource Flows (excl. IMF)		Private flows								Official Flows (including grants)	
			Foreign Direct Investment		Portfolio Equity		Bonds		Bank and Trade-related Lending			
	1995-99	2000	1995-99	2000	1995-99	2000	1995-99	2000	1995-99	2000	1995-99	2000
Pakistan	2508	526	680	308	336	0	92	0	305	-361	1095	578
Syria	135	68	88	111	0	0	0	0	-5	-4	51	-40
Tunisia	868	1009	368	752	8	0	311	-371	55	585	126	44
Turkey	4821	12217	827	982	737	2701	1548	6484	2097	1250	-388	801
<b>OIC-MICs total</b>	<b>29021</b>	<b>13361</b>	<b>9631</b>	<b>1568</b>	<b>5607</b>	<b>4410</b>	<b>5814</b>	<b>5409</b>	<b>3087</b>	<b>-2771</b>	<b>4879</b>	<b>4747</b>
Algeria	-198	-1678	6	10	4	4	-56	0	-513	-1227	361	-465
Gabon	-217	-24	-225	150	0	0	0	0	-26	-8	34	-166
Iran	-2648	-2253	31	39	0	0	0	0	56	-649	-2735	-1643
Nigeria	684	706	1253	1083	4	2	0	0	-313	-177	-259	-201
Oman	69	69	59	23	18	11	45	0	-104	23	51	12
<b>OIC-OECs total</b>	<b>-2310</b>	<b>-3180</b>	<b>1124</b>	<b>1305</b>	<b>26</b>	<b>17</b>	<b>-11</b>	<b>0</b>	<b>-900</b>	<b>-2038</b>	<b>-2548</b>	<b>-2463</b>
Albania	273	396	59	143	0	0	0	0	-1	-1	215	254
Azerbaijan	877	305	721	130	0	0	0	0	33	45	123	130
Kazakhstan	2093	1979	1232	1250	10	0	150	350	321	300	380	80
Kyrgyzstan	267	112	76	-2	0	0	0	0	-1	-62	192	177
Tajikistan	104	134	17	24	0	0	0	0	5	40	81	70
Turkmenistan			85	100	0	0	0	0				
Uzbekistan	749	303	143	100	0	0	0	0	356	-82	250	284
<b>OIC-TCs total</b>	<b>4363</b>	<b>3229</b>	<b>2333</b>	<b>1745</b>	<b>10</b>	<b>0</b>	<b>150</b>	<b>350</b>	<b>713</b>	<b>240</b>	<b>1241</b>	<b>995</b>
<b>OIC total</b>	<b>36960</b>	<b>19556</b>	<b>13823</b>	<b>5827</b>	<b>5659</b>	<b>4430</b>	<b>5953</b>	<b>5759</b>	<b>2841</b>	<b>-4579</b>	<b>8664</b>	<b>8221</b>
<b>All-DCs</b>	<b>303339</b>	<b>261133</b>	<b>154541</b>	<b>166691</b>	<b>33021</b>	<b>50867</b>	<b>42588</b>	<b>16879</b>	<b>28009</b>	<b>-8591</b>	<b>45180</b>	<b>35287</b>
<b>Low Income Countries</b>	<b>43299</b>	<b>25173</b>	<b>14603</b>	<b>6562</b>	<b>4480</b>	<b>2528</b>	<b>2808</b>	<b>2787</b>	<b>-450</b>	<b>-7296</b>	<b>21857</b>	<b>20592</b>
<b>Middle Income Countries</b>	<b>260041</b>	<b>235959</b>	<b>139938</b>	<b>160129</b>	<b>28541</b>	<b>48340</b>	<b>39780</b>	<b>14091</b>	<b>28459</b>	<b>-1295</b>	<b>23323</b>	<b>14695</b>
<b>Heavily Indebted Poor Countries</b>	<b>17748</b>	<b>16364</b>	<b>6024</b>	<b>6572</b>	<b>220</b>	<b>27</b>	<b>17</b>	<b>-46</b>	<b>-87</b>	<b>-1235</b>	<b>11574</b>	<b>11046</b>

Source: *Global Development Finance 2002*.

Notes: Net resource flows (long-term) are the sum of net resource flows on long-term debt (excluding IMF credit) plus net foreign direct investment, portfolio equity flows, and official grants (excluding technical cooperation).

Private net resource flows are the sum of net flows on debt to private creditors plus net foreign direct investment and portfolio equity flows.

TABLE A.5: FDI INFLOWS TO OIC COUNTRIES (Million US\$)

	Annual average	FDI inflows to OIC countries			
	1982-87	1990	1995	1998	2000
Bangladesh	1	3	2	190	170
Benin	-	1	13	38	30
Burkina Faso	1	1	10	10	12
Chad	17	-	13	16	50
Comoros	1	-	2	2	2
Djibouti	-	-	3	6	5
Gambia	-	-	8	14	14
Guinea	2	18	24	18	33
Guinea-Bissau	1	2	1	10	5
Maldives	2	6	7	12	12
Mali	1	-7	123	36	56
Mauritania	6	7	7	3	2
Mozambique	2	9	45	213	139
Niger	14	-1	16	9	11
Senegal	-1	-3	35	60	107
Sierra Leone	-20	32	-2	5	3
Somalia	7	6	1	-	20
Sudan	6	-31	-	371	392
Togo	6	18	38	42	60
Uganda	-	-6	121	210	254
Yemen	10	-131	-218	100	-201
<b>OIC LDCs Total</b>	<b>56</b>	<b>-76</b>	<b>249</b>	<b>1365</b>	<b>1176</b>
Cameroon	115	-113	7	50	45
Côte d'Ivoire	-	-	268	314	290
Egypt	809	734	598	1076	1235
Guyana	2	8	74	47	67
Indonesia	282	1093	4346	-356	-4550
Jordan	43	38	13	310	300
Lebanon	4	6	35	200	180
Malaysia	844	2333	5816	2700	5542
Morocco	42	227	335	329	201
Pakistan	86	244	719	507	308
Surinam	-16	-43	-21	9	-12
Syria	18	71	100	80	84
Tunisia	150	76	378	670	781
Turkey	92	684	885	940	982
<b>OIC MICs Total</b>	<b>2471</b>	<b>5358</b>	<b>13553</b>	<b>6876</b>	<b>5453</b>
Algeria	-7	-	5	5	6
Bahrain	45	-4	431	180	500
Brunei	1	3	13	20	-19
Gabon	78	74	-113	211	90
Iran	-105	-362	17	24	36
Iraq	3	-	2	7	-
Kuwait	-3	-6	7	59	16
Libya	-152	159	-107	-152	-128
Nigeria	371	588	1079	1051	1000
Oman	139	141	29	101	62
Qatar	-2	5	94	347	303
Saudi Arabia	149	1864	-1877	4289	1000
U.A.E	41	-116	399	-13	100
<b>OIC-OECs Total</b>	<b>558</b>	<b>2346</b>	<b>-21</b>	<b>6129</b>	<b>2966</b>
Albania	-	-	70	45	92
Azerbaijan	-	-	330	1023	883
Kazakhstan	-	-	964	1152	1249

TABLE A.5: (continued)

	Annual average	FDI inflows to OIC countries			
	1982-87	1990	1995	1998	2000
Kyrgyzstan	-	-	96	109	19
Tajikistan	-	-	15	30	24
Turkmenistan	-	-	100	64	100
Uzbekistan	-	-	120	140	100
<b>OIC-TCs Total</b>	-	-	<b>1695</b>	<b>2563</b>	<b>2467</b>
<b>OIC Countries Total</b>	<b>3085</b>	<b>7628</b>	<b>15476</b>	<b>14370</b>	<b>12062</b>
<b>All-LDCs</b>	<b>197</b>	<b>154</b>	<b>2016</b>	<b>3679</b>	<b>4414</b>
<b>All-DCs</b>	<b>14752</b>	<b>30248</b>	<b>77489</b>	<b>144620</b>	<b>199395</b>
<b>World</b>	<b>67526</b>	<b>203812</b>	<b>331068</b>	<b>692544</b>	<b>1270764</b>

Source: World Investment Development Report, various years. United Nations. New York and Geneva.

TABLE A.6: MACROECONOMIC INDICATORS FOR OIC COUNTRIES

	Macroeconomic Indicators					
	GDP (Average annual % growth)	Inflation Rate (1) (%)	External Debt (US \$ million)		Exports (US \$ million)	
	1990-2000	1990-2000	1990	2000	1990	2000
Bangladesh	4.8	5.5	12757	15609	1672	5658
Benin	4.7	8.7	1245	1599	122	232
Burkina Faso	4.9	5.5	834	1332	152	221
Chad	2.2	8.1	530	1116	89	85
Comoros		4.5*	185	232	23	15
Djibouti		2.4*	206	262	59	148
Gambia	3.1	4	369	471	172	20
Guinea	4.3	6.8*	2476	3388	605	820
Guinea-Bissau	1.2	34	712	942	34	63
Maldives			78	207	52	287
Mali	3.8	5.2	2502	2956	251	241
Mauritania	4.2	6.1	2141	2500	469	499
Mozambique	6.4	34.9	4665	7135	383	379
Niger	2.0	6.1	1793	1638	272	167
Senegal	3.6	5.4	3731	3372	861	862
Sierra Leone	-4.3	29.3	1206	1273	150	49
Sudan	8.1	81.1	14762	15741	511	1155
Togo	2.3	8.5	1286	1435	268	427
Uganda	7.0	10.5	2583	3409	181	355
Yemen	5.8	32.6	6345	5616	1561	1899
<b>OIC-LDCs</b>			<b>60406</b>	<b>70233</b>	<b>7887</b>	<b>13582</b>
Cameroon	1.7	6.5	6679	9241	2026	2217
Egypt	4.6	8.8	33402	28957	2585	5458
Guyana		6.1*	1945	1455	232	643
Indonesia	4.2	13.7	69872	141803	25681	67327
Côte d'Ivoire	3.5	7.2	17259	12138	2813	4702
Jordan	5.0	3.5	8184	8226	922	1428
Lebanon	6.0	-0.4*	1779	10311	455	825
Malaysia	7.0	3.6	16421	41497	29420	102390
Morocco	2.3	3.8	23527	17944	4574	8338
Pakistan	3.7	9.7	20663	32091	5587	9156

TABLE A.6: (continued)

	Macroeconomic Indicators						
	GDP (Average annual % growth)	Inflation Rate (1) (%)	External Debt (US \$ million)		Exports (US \$ million)		
			1990-2000	1990-2000	1990	2000	1990
Surinam						469	512
Syria	5.8	6.7	17068	21657	4218	4628	
Tunisia	4.7	4.4	7690	10610	3555	6233	
Turkey	3.7	79.9	49238	116209	13420	27625	
<b>OIC-MICs</b>			<b>273727</b>	<b>452139</b>	<b>95957</b>	<b>241482</b>	
Algeria	1.9	19.5	27896	25002	11018	20225	
Bahrain					3836	8058	
Brunei					2212	3093	
Gabon	2.8	5.7	3984	3995	2483	3883	
Iran	3.5	26	9021	7953	19305	22195	
Kuwait	3.2	2			8143	11577	
Libya		-2.9*			13878	12471	
Nigeria	2.4	32.5	33440	34134	10273	20410	
Oman	5.9	0.1	2736	6267	4584	8869	
Qatar		1.7			3278	9685	
Saudi Arabia	1.5	1			44416	69327	
U.A.E.	2.9	1.4*			21984	38362	
<b>OIC-OECs</b>			<b>77077</b>	<b>77351</b>	<b>145410</b>	<b>228155</b>	
Albania	3.3	27.8	349	784	322	280	
Azerbaijan	-6.3	170.8	36	1184	228*	1400	
Kazakhstan	-4.1	67.8	1724	6664	244*	7977	
Kyrgyzstan	-4.1	23.1	294	1829	315*	527	
Tajikistan	-10.4	11.6	382	1170	29*	936	
Turkmenistan	-4.8		276		64*	1892	
Uzbekistan	-0.5		1032	4340	162*	2709	
<b>OIC-TCs</b>			<b>4093</b>	<b>15971</b>	<b>322</b>	<b>15721</b>	
<b>OIC-total</b>			<b>1480170</b>	<b>2563592</b>	<b>249576</b>	<b>498940</b>	
<b>Developing Countries</b>				<b>2491975</b>	<b>936700</b>	<b>2243700</b>	
<b>World total</b>					<b>3386100</b>	<b>6341200</b>	
<b>OIC as % of world</b>					<b>7.4</b>	<b>7.8</b>	

Source: World Development Indicators 2002, IMF Global Development Finance 2002, Direction of Trade Statistics, 2001.

Notes: (1) Change in Consumer Prices.

\* the most recent year available.





**TABLE A.7: (continued)**

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Tunisia	0.8783	0.9246	0.8844	1.0037	1.01	0.946	0.973	1.106	1.1387	1.1862	1.3707
Turkey	2609	4172	6872	10985	29609	45845	81405	151865	260724	418783	625219
<b>OIC-MICs</b>											
Algeria	8.958	18.473	21.836	23.345	35.06	47.66	54.749	57.707	58.709	66.574	75.26
Bahrain	0.38	0.38	0.38	0.38	0.38	0.38	0.38	0.38	0.38	0.38	0.38
Gabon	272.26	282.11	264.69	283.16	555.2	499.15	511.55	583.67	589.95	615.7	711.98
Iran	68.1	67.51	65.55	1267.77	1748.75	1747.93	1750.76	1752.92	1751.86	1752.93	1764.43
Kuwait			0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Libya	0.2698	0.2683	0.3	0.325	0.35	0.36	0.37	0.39	0.38	0.46	0.54
Nigeria	8.038	9.909	17.298	22.065	21.996	21.895	21.884	21.886	21.89	92.338	101.697
Oman	0.385	0.385	0.385	0.385	0.385	0.385	0.385	0.385	0.385	0.385	0.385
Qatar	3.64	3.64	3.64	3.64	3.64	3.64	3.64	3.64	3.64	3.64	3.64
Saudi Arabia	3.745	3.745	3.745	3.745	3.745	3.745	3.745	3.745	3.745	3.745	3.745
U.A.E.	3.671	3.671	3.671	3.671	3.671	3.671	3.671	3.671	3.671	3.671	3.671
<b>OIC-OECs</b>											
Albania			75.03	102.06	94.62	92.7	104.5	148.93	150.63	137.69	143.71
Azerbaijan			54.2	99.98	1570.23	4413.54	4301.26	3985.38	3869	4120.17	4474.15
Kazakhstan				35.54	60.95	67.3	75.44	78.3	119.52	142.13	
Kyrgyzstan				10.84	10.82	12.81	17.36	20.838	39.008	47.704	

Source: *International Financial Statistics Yearbook 2001*.

## ANNEX 2

### **PRIVATE SECTOR ACTIVITIES OF MULTILATERAL AGENCIES**

International financial institutions reflect the economic and political contexts in which they were born and evolved. Global trends and the ways institutions respond to them shape the role of international financial institutions. This section underlines the role of multilateral development banks in private sector development.

#### **A. The World Bank Group (WB)**

Support by the World Bank Group -The World Bank (WB), the International Finance Corporation (IFC), and the Multilateral Guarantee Agency (MIGA)- for private sector development (PSD) to promote growth and efficiency and, thereby, reduce poverty has undergone substantial evolution. In the 1980s, the Bank emphasised the need to establish a macroeconomic framework for private sector development and appropriate relative prices. In the late 1980s and early 1990s, the reform agenda expanded its focus on improving the business environment, restructuring the public sector and supporting privatisation, and reforming and developing the financial sector in the developing countries. In the middle to late 1990s, as developing countries faced the increasing challenges of globalisation and liberalisation of trade and capital flows, the Bank responded by helping countries adopt measures to enhance competitiveness and global integration, good corporate governance, corporate restructuring, and debt workouts. Together, the components of this strategy are helping to nurture a healthy private sector, a prerequisite for attracting private capital flows, in addition to mobilising domestic resources and attracting investment. In contrast, the privatisation of non-financial and non-infrastructure enterprises and public enterprise reforms, once important components of adjustment operations, steadily declined in importance in the late 1990s.

PSD activities are carried out all over the Bank. Almost all sectors of the Bank have some PSD activity. However, private sector approaches are more common in some than in others. Over the last two decades, there has been a shift in lending and guarantee activities from IBRD to IFC

and MIGA. The share of lending/guarantee products by IFC and MIGA in total Bank Group financial products has increased by more than seven times over this period – from 3.3 percent in 1980 to 25 percent in 2000 (Private Sector Development Strategies, World Bank 2001).

### **Current PSD Activities of the World Bank Group**

**IBRD/IDA project lending.** A number of lending operations of IBRD and IDA support private sector development. PSD-related interventions fall into four categories based on their objectives: i) improvements in the investment climate; ii) privatisation and concession-type arrangements; iii) direct assistance to enterprises; and iv) social funds.

Investment climate interventions aim to enhance deregulation and competition by ensuring a legal and regulatory framework that encourages competitive provision of goods and services, property rights and corporate governance, and development of institutions related to PSD. The spectrum of supported privatisation actions includes management contracts, leases, concessions, Build-Operate-and-Transfer (BOTs) operations and outright divestiture. Direct assistance to private firms includes lines of credit to financial institutions which then lend on to private companies, provision of technical assistance, such as business advisory services, matching grants facilities, project-financing facilities for infrastructure projects and guarantees. Finally, social funds typically support small projects in infrastructure, social services, training and micro-credit.

**IBRD/IDA adjustment lending.** Today, adjustment lending supports a PSD agenda that enhances the foundations of a positive investment climate in the Bank's client countries: a wide array of procedural, regulatory and legal reforms have come to the fore that are critical to foster private-sector-led growth, including removing exit and entry barriers, reducing market rigidities, simplifying tax systems, safeguarding property rights, and liberalising trade barriers. Adjustment lending has become an important vehicle for promoting private participation in infrastructure, focusing on privatisation of infrastructure enterprises, sectoral reform to allow new entry and development of regulatory frameworks and institutions. To attract private investment, adjustment lending programmes support the implementation of a number of key measures to strengthen the investment climate. These

measures focus on competition policies and strengthening competitiveness through i) regulatory reform; ii) improving logistics and reducing transaction costs; iii) strengthening inter-firm linkages and government-business consultations; and iv) supporting global integration through institutional and policy reforms for greater export orientation, corporate governance and foreign direct investment.

### **International Finance Corporation (IFC)**

IFC was established in 1956 as a member of the World Bank Group. It is a legally and financially independent multilateral agency that fosters economic growth by promoting private sector investment in its developing member countries. In its project financing, IFC provides loans without government guarantees, makes equity investments, and seeks to mobilise additional project funding from other investors and lenders through loan syndications, parallel financing, and guarantees. IFC offers a range of advisory services and technical assistance (TA) in such areas as capital market development, corporate restructuring, risk management, and project preparation and evaluation, and advises member governments on creating an environment that encourages the growth of private enterprise and foreign investment.

IFC's strategy currently focuses on three areas: (i) key sectors that were originally in the public sector but are now moving to the private sector, i.e. infrastructure, oil and gas, transport, utilities, and education; (ii) financial sector, with emphasis on domestic financial market development; and (iii) Small-Medium Enterprises (SMEs). In its work to support SMEs, IFC has established a business advisory unit that provides capacity building and advice on producing viable business plans as well as accounting, financial, and credit analyses, and risk assessment skills to help SMEs and start-ups in their operations.

**IFC investments.** IFC attempts through its investments to help develop the private sector through innovative projects which demonstrate the viability of various types of investments and investment structures. By doing so, it seeks to stimulate further private sector growth as others emulate these activities. IFC investments go to a variety of sectors but some sectors dominate. About two-thirds of its committed portfolio (including guarantees and risk management products) were concentrated in three sectors: financial sector which includes financial services and collective investment vehicles, infrastructure and manufacturing.

The financial sector is the fastest growing area of IFC involvement. Other sectors which have grown recently include infrastructure and the social sectors. Investment in infrastructure has increased rapidly as more and more countries have opened up infrastructure sectors to private participation. Sectors which have grown relatively slowly in the second half of the 1990s are chemicals and petroleum, oil, gas and mining, and food and agribusiness. Textiles and tourism have actually declined. Manufacturing in general remains important in IFC's portfolio but is a declining business line.

IFC's latest strategy, articulated in the 2001 paper *IFC: Strategic Directions*, signalled a change in its strategic focus. It calls for increased intervention in frontier countries (high risk/low income countries with very limited access to foreign capital and/or undeveloped domestic financial markets) and in frontier regions or sectors within other countries. Five sectors of emphasis were identified: domestic financial institutions, infrastructure, information technology and communications, SMEs and the social sectors (health and education). However, during the 1990s, IFC's investments became increasingly concentrated in the relatively low-risk countries.

#### ***Multilateral Investment Guarantee Agency (MIGA)***

MIGA was established in 1988 to reduce poverty through FDI in developing member countries (DMC) by offering political risk investment insurance coverage to private investors and providing promotional and advisory services to help its DMCs attract and retain FDI.

**MIGA guarantees.** MIGA's activities have expanded significantly in recent years and its guarantee portfolio has diversified over time. The sectoral diversification reflects the growing importance of infrastructure projects, particularly in the power and telecommunications sectors.

MIGA's guiding principles can be grouped into four clusters, namely, (1) development impact, (2) financial soundness, (3) client orientation, and (4) partnership. The principles under the first cluster include: optimising development impact of FDI through provision of guarantees and TA services; ensuring developmental and financial soundness of its projects; and broadening the range of its products and deepening the level of its assistance to move its clients up a "ladder of effectiveness".

Principles under the second cluster include: maintaining MIGA's financial soundness and improving its financial resilience. Principles under the third cluster include: becoming more responsive to clients' risk mitigation needs in terms of its products, pricing, and delivery timing; and developing a comprehensive marketing/communication strategy. Principles under the fourth cluster include: seeking further partnership with Multilateral Development Banks (MDBs), national insurers, private sector entities, civil society and international development agencies; and continuing its effective mitigation services in investment disputes.

Overall, WBG activities have been designed to complement and support private investors rather than displacing them. For IBRD countries, World Bank loans are falling rapidly as a share of total private lending to such countries. At the same time, IFC and MIGA have helped catalyse private investment in more risky environments. There may have been cases where the Group has lent or invested in countries or firms that might have had access to commercial markets, or had written political risk insurance that might have been provided by private insurers. However, overall, the World Bank Group appears to have supported the development of cross-border private investment and has crowded in private investment rather than crowding it out.

## **B. European Bank for Reconstruction and Development**

The European Bank for Reconstruction and Development (EBRD) was established in 1991 with a unique mandate to foster the transition to open market economies and to promote private and entrepreneurial initiatives in the Central and Eastern European countries committed to the principles of market economics, thereby assisting their economies to integrate into the international economy. EBRD seeks to help countries strengthen their financial institutions and legal systems, implement restructuring and privatisation, create modern infrastructure, and develop the local private sector.

Currently, its strategy is to focus on the following: (i) helping create a sound financial sector by supporting banks and other financial institutions; (ii) providing a full range of financing structures in infrastructure operations including private, sovereign, subsovereign, and public-private partnerships; (iii) restructuring potentially viable large

enterprises; (iv) taking active approach in equity investment; and (v) promoting a sound investment climate and stronger institutions that are important for the functioning of markets, by working closely with its foreign investment advisory councils. An important criterion adhered to by EBRD is that all of its projects must be self-sustaining and, over time, the project revenues must be able to service the debt.

In order to implement them, the EBRD 1) adopts a strategic approach to portfolio management in its work to foster the transition; 2) pursues partnership with other institutions; and 3) strengthens its presence in countries of operations.

### **C. African Development Bank (AfDB)**

Private enterprise plays an important role in economic development. African Development Bank's role in promoting private sector is to catalyse the flow of domestic and external resources to private enterprises and help them undertake environmental, technically-, financially- and economically-viable projects. The African Development Bank focuses on areas which portend the long term development prospects for the private sector in Africa. When considering traditional project financing, AfDB gives priority to those projects that generate foreign exchange earnings and/or transfer technology. In addition, it provides financial and technical assistance to privatisation efforts and SME development.

### **D. Asian Development Bank**

Private Sector Development is a key to sustainable and rapid economic growth, which is the most powerful weapon in the fight against poverty. Thus, the Asian Development Bank gives special priority to PSD. The three thrusts of the ADB's PSD Strategy are: 1) creating enabling conditions through public sector operations; 2) generating business opportunities by ensuring that ADB's public sector operations do not result in crowding out of private sector; and 3) catalysing private investments, mainly in infrastructure and finance sectors.

The pursuit of the three thrusts is focused on the following four operational priorities: (i) Governance (public sector governance, commercialisation and privatisation, and corporate governance);

(ii) Financial intermediation (policy reform and institutional capacity building in financial institutions and markets, local currency financing, investment funds, and SMEs); (iii) Public-private partnership (physical infrastructure, social infrastructure, and agriculture and rural sector development); and (iv) Regional and subregional cooperation.





