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Background Note

FDI in fragile and conflict affected economies in the Middle East and North Africa: trends and policies

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Background note for the MENA-OECD Economic Resilience Task Force

This background note analyses FDI trends in fragile and conflict-affected economies in the Middle East and North Africa, and outlines some mechanisms governments and other actors can leverage to attract more sustainable investments. The note was prepared as analytical material for the MENA-OECD Economic Resilience Task Force, launched in July 2017, which is part of the MENA-OECD Competitiveness Programme.

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FDI in fragile and conflict-affected economies in the Middle East and North Africa: trends and policies

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What are the FDI trends in fragile and conflict-affected economies in the Middle East and North Africa and what risk mitigation tools can lead to increased and more resilient flows?

Political instability, conflicts and large-scale flows of refugees since 2011 have considerably slowed down the economic prospects of several countries in the MENA region. In Particular, the Syrian refugee crisis continues to have far-reaching consequences of an unprecedented magnitude. Women and youth make up more than half of refugees; thus, they deserve special attention to mitigate the long-lasting negative impact of their displacement. The impact of the crisis underlines the structural factors that were already impeding MENA countries to generate high growth and create jobs at a large scale. This challenging situation calls for a concerted and urgent response by the international community connected to long-term social and economic development policies from MENA countries.

The international community has taken significant steps to address the shocks originated from the Syria crisis and suffered by countries in the region. The London Conference "Supporting Syria and the Region" (February 2016), resulted in "Compacts" or commitments from the international community and Syria's neighbours to meet the immediate and longer-term needs of people affected by the crisis. The Compacts included commitments to support livelihood opportunities for Syrian refugees and host communities in Turkey, Lebanon, Jordan, Iraq and Egypt. The subsequent Brussels Conferences, "Supporting the Future of Syria and the Region" (April 2017 and April 2018), aimed to assess where the international community stands in fulfilling these commitments.[1]

The CEDRE conference for the development of Lebanon, hosted by the French government on April 6, 2018, further reflected the Lebanese government's commitment to a reform agenda and the country's continued benefit from strong international support.[2] Commitments to fund the government's Capital Investment Programme reached USD 11 billion, paving the road for infrastructure development and economic transformation. The donor community is also being mobilised to support other countries in the region. The EU co-chaired the International Conference for Reconstruction of Iraq, which was held in Kuwait (February 2018) and mobilized about USD 30 billion of additional international support to the country following the defeat of the Islamic State of Iraq and the Levant (ISIL; Islamic State) in 2017. A main outcome of these exercises has been the mutual agreement on the importance of bringing in the private sector to support economic resilience in the region.

It is widely acknowledged that private sector development can build economic resilience in MENA countries. A vibrant private sector requires attracting international firms by

ensuring that foreign direct investment finds an enabling environment. To compensate for risks faced by investors, governments in the region should strengthen investment policy frameworks, but regulatory reforms take time to be implemented and to show an impact. In the short term, investment promotion agencies can develop targeted approaches to identify and reach out to adequate potential investors. Risk mitigation mechanisms are needed to attract investors. Promoting a responsible business conduct of the private sector and focusing on priority sectors can contribute to having a better and greater impact in the medium to long term.

This note aims to provide some basis for discussion on how governments can attract and retain foreign direct investment (FDI) in contexts of fragility. It starts by looking at the general conceptual framework which outlines the main benefits from FDI and its specific challenges in fragile contexts. The second section of the report reviews FDI trends in the MENA region, focusing on six primary economies: Egypt, Jordan, Iraq, Lebanon, Libya, and the West Bank and Gaza Strip. The note does not cover Syria or Yemen given that the intensity of ongoing conflicts is much higher and there is not enough data available for the analysis. The third section of the report considers various policies and tools to attract and retain sustainable investment to fragile and conflict-affected states.

1. FDI in fragile and conflict-affected states: challenges and opportunities

Fragile states are characterised by environments with a heightened exposure for investors to risk combined with a low capacity of governments to mitigate, manage or absorb these risks

Fragility can lead to negative outcomes including violence, the breakdown of institutions, displacement, humanitarian crises or other emergencies. Fragile states tend to be particularly vulnerable to conflict, chronic underdevelopment and protracted political crises.

The OECD's Fragility Framework perceives fragility as a multi-dimensional concept with economic, environmental, political, security and societal dimensions (OECD, 2018). Each of these dimensions poses a source of risks which, if left unmitigated, can result in crises and negative development outcomes. Contexts can, therefore, be characterised as fragile depending on their level of exposure to risks and their ability to cope with them. In 2018, the OECD identified 58 countries or territories that have contexts that correspond to this definition of fragility.

Among the focus economies for this note, Libya, Egypt, and the West Bank and Gaza Strip feature contexts that are considered "fragile" within the OECD framework, while Iraq is considered "extremely fragile". Though neither Lebanon nor Jordan are considered fragile based on the OECD fragility framework, they are strongly affected by the Syrian civil war, the large presence of refugees on their territories, and, in the case of Lebanon, the sudden isolation by land from other countries.

The business climate in these economies is not particularly enabling, although there are clear differences between them. On the 2019 *Doing Business* report, Jordan ranked 104th out of 190 economies, whereas Libya was 186th (Table 1). In fact, Libya scored poorly across all indicators, as it not only lacks many of the basic regulations and institutional mechanisms usually supporting the creation and operation of private firms, but also many others are frozen since the 2014 relapse in conflict. For instance, no construction permits are being issued following the full approval process, meaning that technically all ongoing construction is informal or illegal. On the other hand, the West Bank and Gaza Strip is

among the top economies globally on the getting credit indicators, which reflects recent legislation on secured transactions as well as credit information infrastructure and a new online collateral assets registry.

Table 1. 2019 Doing Business ranking globally and by indicator

Economy	Global rank	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting minority investors	Paying taxes	Trading across borders	Enforcing contract	Resolving insolvency
Jordan	104	106	139	62	72	134	125	95	74	108	150
West Bank & Gaza	116	171	157	85	84	22	161	107	54	123	168
Egypt, Arab Rep.	120	109	68	96	125	60	72	159	171	160	101
Lebanon	142	146	170	124	105	124	140	113	150	135	151
Iraq	171	155	103	126	113	186	125	129	181	143	168
Libya	186	160	186	136	187	186	185	128	128	141	168

Source: Doing Business 2019, World Bank Group.

External financial flows represent a particularly important source of financing for fragile states

Weak economic foundations such as structural economic imbalances, unequal growth, excessive resource dependence and high levels of youth unemployment are key sources of economic fragility. Fragile contexts can also exacerbate volatile economic conditions thereby leading to a downward spiral from which it may be difficult to escape (OECD, 2016a).

Fragile states often suffer from a poor capacity to mobilise domestic revenue sources. Increasing financial flows to fragile and conflict-affected states is critical to building resilience by both cushioning the impact of conflict and poverty, as well as addressing the underlying causes of fragility.

The three principal sources of external financial flows to fragile states are remittances, Official Development Assistance (ODA) and foreign direct investment (FDI). According to the OECD's classification of fragile states, between 2014 and 2016, remittances represented the largest source of external financing, accounting for 45% of total external flows; ODA amounted to 28% of financial flows while FDI accounted for 22% (OECD, 2018).[3] Remittances were also the fastest growing source of financial flows, while FDI has been more volatile over the past years. Not surprisingly, when looking at the mix of external financial flows to fragile countries globally, the more economically fragile attract less FDI, indicating that a minimum level of stability is needed to attract foreign investors.

In the case of the economies covered by this note, the outlook is quite diverse. Remittances play a significant role across the board; except in Libya and Iraq where remittances are marginal and FDI, on the other hand, constitutes the largest source of external financial sources. Furthermore, FDI flows vary significantly: whereas countries like Libya or Egypt witnessed strong disinvestment in 2011, Lebanon has maintained constant levels over the past years.

Each source of finance performs important and complementary roles, yet they also have their own advantages and drawbacks. While remittances are the largest source and most stable source of financing, they can represent a positive source of income but they also present some risks. On one hand, remittances offer an economic buffer for a population that is poorly protected by social safety nets and they can smooth consumption during periods of macroeconomic shocks. On the other, they can contribute to income inequality and hinder competitiveness through exchange rate appreciation.

Fragile contexts are particularly dependent on development assistance, receiving 64% of total ODA from 2011-14. However, ODA is often focused on responding to emergencies and crises rather than addressing the long-term drivers of insecurity and underdevelopment. FDI is perhaps the most effective at contributing to a country's productive potential and long-term economic resilience, yet it can be highly volatile, particularly in fragile contexts.

Foreign direct investment can increase resilience in fragile and conflict-affected states

Foreign direct investment can mobilise and transfer resources and expertise that, where harnessed properly, can contribute to reducing fragility and strengthening an economy's resilience to shocks. For economies that are highly dependent on a single commodity or sector, foreign investment can enhance resilience by supporting economic diversification. FDI's role in supporting knowledge and technology transfer can promote progression up the value chain, and thereby potentially reduce an economy's sensitivity to fluctuations in global commodity prices (Borensztein et al, 1998).

Foreign investment can also be a powerful mechanism for driving structural transformation by increasing productivity and linking the local economy into global production chains (Harding and Javorcik, 2012). When foreign investment is embedded in the local economy, it can support the development of SMEs, promote skills development and generate youth employment. Finally, foreign investment in infrastructure can enable the delivery of crucial services such as electricity, water and telecommunications, without which economic development remains elusive.

However, not all foreign investment is equal in terms of its resilience dividend. Investment in manufacturing provides the greatest benefits in terms of economic growth, job creation, skills development and local supply chains development. On the other hand, foreign investments in the primary sector, such as oil and gas, tend to have a negative effect on growth (Alfaro, 2003). The local economy receives limited spill-overs – whether in terms of employment, skills development or the injection of funds into the local economy – from investments in the export-oriented resources sector.

Investors in fragile and conflict-affected states face numerous challenges

While fragile and conflict-affected states can benefit greatly from FDI that strengthens an economy's resilience, their contexts can also represent extremely challenging environments for foreign investors to operate in. The six focus economies of this report present many of the challenges that characterise fragile states and which act as deterrents to foreign investors:

- Some of the countries (Iraq and Libya) are experiencing **civil strife, political violence and/or terrorism which create risks to in-country staff, assets and equipment.** Moreover, in such contexts, it can be difficult to transfer the highly-skilled expatriate staff which are necessary to build and operate facilities and manage business operations.

- In Libya, Iraq and the West Bank and Gaza Strip, **the authority of the central governments does not extend throughout the entire territory.** This can limit the investor's operating arena to a portion of the territory, create confusion over the legal framework which governs investments and lead to uncertainty over the authority with ultimate control in a jurisdiction.
- **Conflict in neighbouring states can be a source of instability.** Lebanon and Jordan, through their proximity to Syria, host large populations of refugees and are exposed to the flow of fighters and weapons. Hezbollah's military wing is engaged in the Syrian civil war, which endangers the stability of Lebanon and creates external pressures on the government.
- **Countries that are emerging from conflict, such as Libya and Iraq, face a high degree of political instability.** In Libya, the Government of National Accord, the interim government endorsed by the UN Security Council, is only recognised by a limited proportion of Libya's polity and faces ongoing deadlock in negotiating with rival sources of power. Future political stability in Iraq will depend on whether the central government is willing and able to govern in the name of all Iraqis, Sunni and Kurds as well as Shia, while simultaneously fighting terrorism and armed insurgencies.
- **Uprisings in 2011 generated political turmoil in a number of MENA countries, including Egypt, which delayed or undermined economic reforms necessary to support foreign investment.** Egypt is in the process of stabilising its governance and macroeconomic management following the revolution and its aftermath.
- **Political instability and unrest undermine the administrative capacity of governments.** A number of the countries have weak legal and institutional frameworks, unreliable judicial systems, and inadequate contract enforcement mechanisms. Furthermore, years of conflict in Iraq and Libya have undermined the administrative capacity of the state to enact reforms and enforce laws and regulations.
- **A number of fragile states lack the basic infrastructure in terms of electricity and water** required to support higher value-added manufacturing activities.

Investment patterns in fragile reflect companies response to higher levels of risk

Investors are more cautious when they enter fragile and conflict-affected states. They tend to concentrate geographically, limit the number of people they hire – in part due to difficulties in recruiting skilled expatriates or local staff–, and develop smaller projects (World Bank Group, 2017).

Foreign investors tend to concentrate in sectors where there are high returns and low levels of domestic competition. The level of risk aversion/tolerance of investors varies by sector. Manufacturing and services tend to be more embedded in the local economy, which increases their vulnerability (World Bank, 2013). Similarly, investments in infrastructure are also highly exposed to political risks given their dependence on local demand, regulation, and, oftentimes, contracts with public entities. Paradoxically, the resource sector, which contributes less to growth and employment, appears relatively protected from political instability. Investments in the export-oriented resources sectors can often be isolated physically and financially from the domestic economy.

Investment patterns to fragile and conflict affected states vary throughout the conflict-cycle both in terms of amount and sectoral concentration. FDI increases dramatically in post-

conflict periods, with inflows up to doubling three years after the end of conflict (World Bank Group, 2017). Investments during this period tend to particularly increase in the construction and services sector responding to a higher demand driven by reconstruction efforts and increased stability. Manufacturing sectors take more time to attract increased investment given that the conditions for the sector to develop require more time. Given that activities related to natural resources are more resilient during conflict, it is not surprising that they witness a smaller increase in post-conflict periods.

Notes

[1] http://www.consilium.europa.eu/es/press/press-releases/2018/04/25/brussels-ii-conference-on-supporting-the-future-of-syria-and-the-region-co-chairs-declaration/

[2] https://www.diplomatie.gouv.fr/en/country-files/lebanon/events/article/lebanon-cedre-conference-06-04-18

[3] Other financial flows represented 5% of total external flows.

2. Analysis of FDI flows in selected MENA economies

This section reviews FDI trends in the MENA region and in the six focus economies. The analysis for each economy begins with a review of overall direct investment which includes greenfield investment, mergers and acquisition and intra-corporate loans (Box 1). The analysis then focuses on greenfield investment, the dominant form of FDI for the six focus economies. Greenfield FDI data is broken down by sector and economy of origin to provide a more granular view of trends. The third level of analysis focuses on foreign direct investment in infrastructure which often represents large capital expenditures and is a critical enabler of other productive activities such as manufacturing.

Box 1. FDI concepts and data sources used in the analysis

Foreign direct investment (FDI): Direct investment is a category of cross-border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor. The motivation of the direct investor is a strategic long-term relationship with the direct investment enterprise to ensure a significant degree of influence by the direct investor in the management of the direct investment enterprise. The "lasting interest" is evidenced when the direct investor owns at least 10% of the voting power of the direct investment enterprise. Direct investment financial transactions (flows) and positions comprise mainly three types of financing: i) acquisition or disposal of equity capital; ii) reinvestment of earnings which are not distributed as dividends; and iii) inter-company debt (payables and receivables, loans, debt securities). FDI flows consist of various types of investments including greenfield investments, mergers and acquisitions, and intra-corporate loans. Data on FDI inflows for each country are drawn from IMF and OECD balance of payments data.

Greenfield FDI: Greenfield investments are a category of FDI in which direct investors typically establish new enterprises in the host country. Greenfield investment therefore involves the provision of fresh capital as opposed to reflecting a transfer in ownership of existing assets (mergers and acquisitions). Data on greenfield investment transactions used in the reportis note originates from fDi Markets which sources its data from corporate announcements and news reports.
Figures on greenfield investment do not necessarily reflect equity investment alone and may also contain debt financing. Because of the different sources and methodology used for overall FDI and greenfield FDI, the figures for the two categories are not comparable.

FDI in infrastructure: Figures on cross-border investment in infrastructure were obtained from the World Bank Private Participation in Infrastructure (PPI) database which provides data at a project level. For each project, the PPI database provides information on the total investment amount, the sector and the home countries of the equity investors.

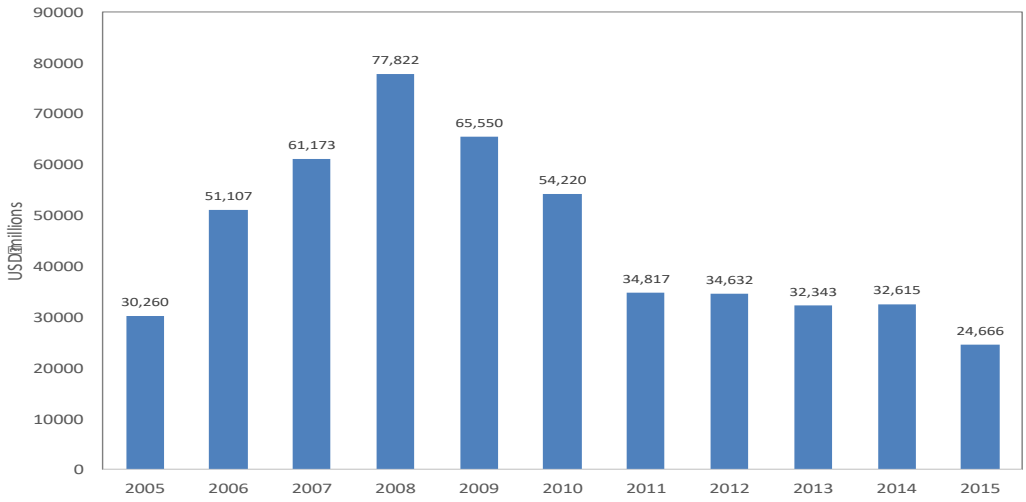
Source: OECD Benchmark Definition of Foreign Direct Investment (Fourth Edition 2008).

The MENA region performed strongly in terms of attracting FDI inflows before the onset of the global financial crisis. In 2005, MENA FDI inflows relative to GDP surpassed the average for other emerging and developing economies (Figure 2b). In 2008, FDI inflows peaked at USD 78 billion (Figure 2a). Following the global financial crisis, FDI inflows into MENA started down a path of decline followed by stagnation.

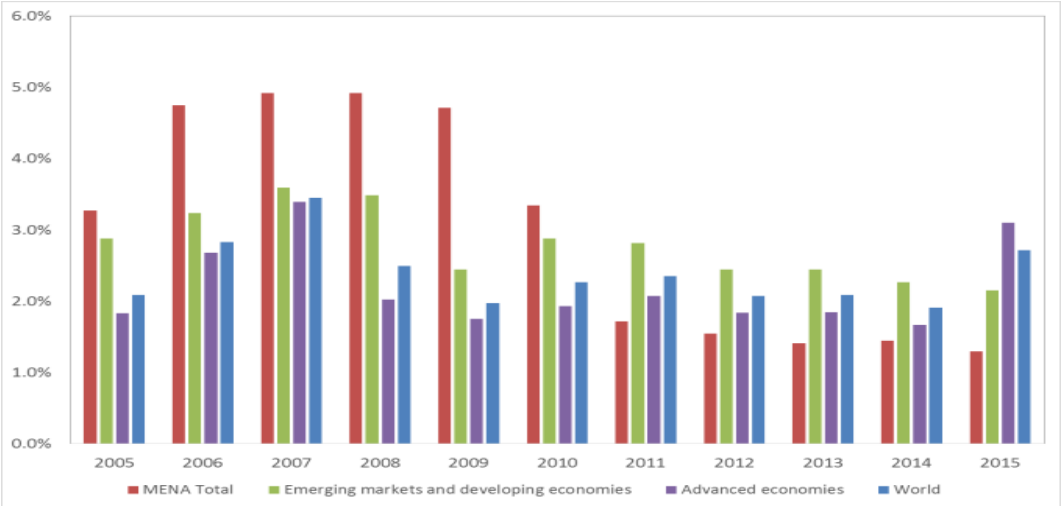
Political developments in the region since the 2011 uprisings and the subsequent civil conflict in a number of countries (Syria, Yemen and Libya) contributed to suppressing foreign investment. In 2015, FDI hit an all-time low of USD 25 billion, down 68% from its peak. As a proportion of GDP, FDI inflows into MENA over the past 10 years have underperformed the average for both emerging markets and developing economies, and advanced economies.

Figure 2. MENA FDI inflows 2005-15

a. MENA



b. Comparison by region (% of GDP)



Source: OECD Foreign Direct Investment statistics database, IMF Balance of Payments database, and OECD staff calculations.

2.1. Egypt

FDI inflows

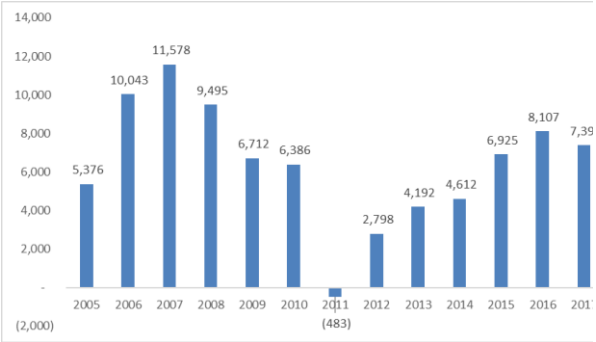
Egypt has experienced considerable volatility in its FDI inflows over the past decade. Nominal FDI flows peaked in 2007 at USD 11.6 billion, equivalent to 8.4% of GDP, before declining in the wake of the global financial crisis (Figure 3a). The Egyptian revolution in 2011 resulted in an even more precipitous drop in FDI inflows, which hit a negative USD 482.7 million. Flows then recovered gradually, reaching USD 8.1 billion in 2016.

When considering only greenfield FDI, flows have exhibited a similar volatility, combining peaks (2009 and 2014) and troughs (2004, 2011 and 2013), sometimes following in quick succession (Figure 4). The movements in Egypt's inflows have been considerably more

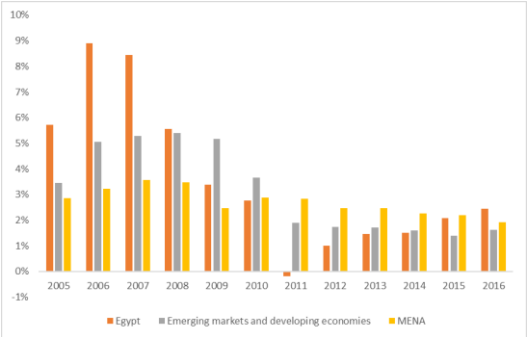
pronounced than those experienced by the MENA region as a whole, which have fluctuated between a peak of 3.3% of GDP in 2005 and a trough of 1.3% in 2014. A similar comparison can be made with other developing economies in which FDI inflows have remained remarkably steady as a percentage of GDP since 2005.

Figure 3. Egypt FDI inflows 2005-2016/7

a. Egypt



b. Comparison by region (% of GDP)

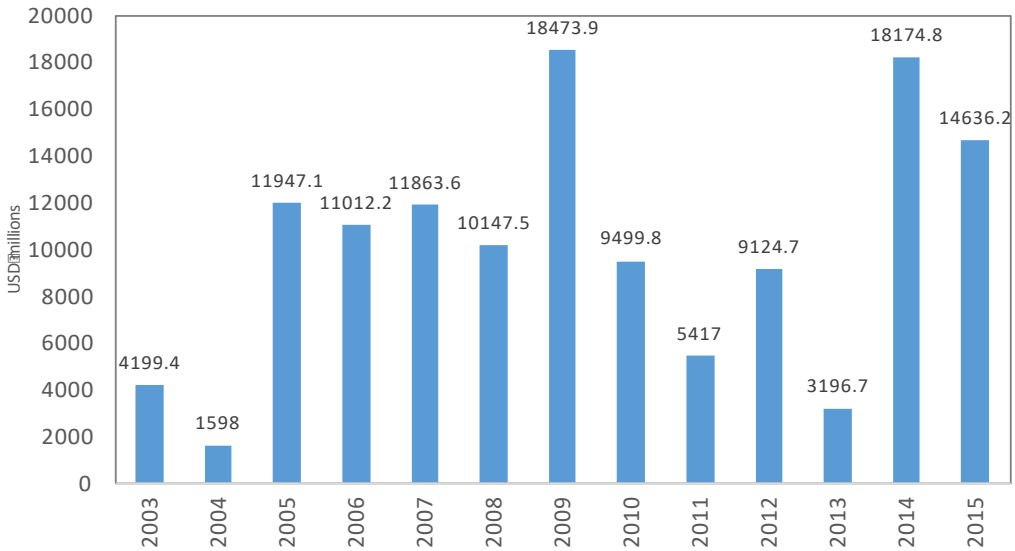


Source: OECD Foreign Direct Investment statistics database, IMF Balance of Payments database, and OECD staff calculations.

Greenfield FDI

The largest sources of greenfield FDI in Egypt between 2003 and 2015 have been GCC countries, primarily the United Arab Emirates (27%) and Qatar (12%). In total, GCC countries accounted for almost 50% of total greenfield FDI in Egypt over the period. European nations accounted for over 25% of total greenfield capital expenditure, with Greece (9%), the United Kingdom (6%), France (4%), Germany (3%) and Italy (3%) having made significant greenfield investments in Egypt.

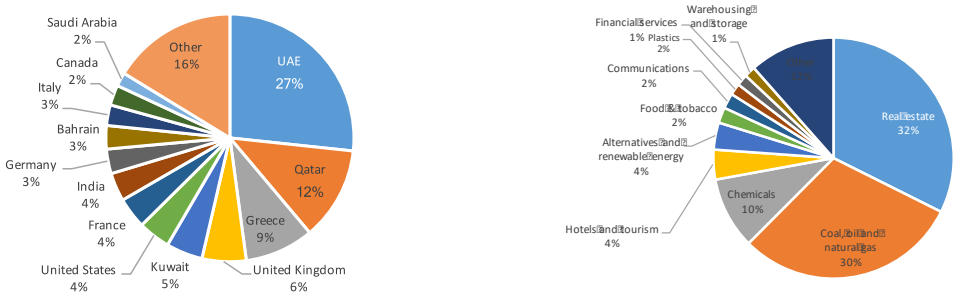
Figure 4. Greenfield FDI, 2003 – 2015, Capex (USD millions)



Source: The Arab Investment and Export Credit Guarantee Corporation and fDi Markets.

Figure 5. Distribution of greenfield FDI, 2003-15

a. Country of origin b. Sectors



Source: The Arab Investment and Export Credit Guarantee Corporation and fDi Markets.

The real estate sector has been the largest beneficiary of greenfield FDI in Egypt, having attracted over USD 39 billion between 2003 and 2015, equivalent to 32% of total capital expenditure. The largest single greenfield investor is Barwa Real Estate, a Qatari real estate company with approximately USD 10 billion of investment. More generally, GCC investors have played an important role in the new urban developments such as New Cairo City. The oil and gas sector accounts for 30% of greenfield FDI. The sector has attracted large capital expenditures from overseas investors such as Dana Gas (United Arab Emirates) and British Gas (United Kingdom). The chemicals sector follows in distant third with 10% of greenfield capex.

The pattern of greenfield FDI in Egypt is not particularly conducive to job creation, productivity growth and skills development. The sectors that accounted for the largest amounts of FDI, real estate and oil and gas, generate relatively limited long-term local employment, beyond the initial construction boom. Moreover, they are not tightly integrated into global production chains, and therefore do little to support the technological and skills upgrading of Egyptian workers and companies.

Foreign investment in infrastructure

In the past decade, foreign investment has supported the development of Egypt's telecommunications, network, its electricity supply and its ports. In terms of infrastructure, between 2006 and 2016, the telecoms sector has been the largest recipient of foreign investment (Table 2). Etisalat, the Emirati telecoms operator, invested a total of USD 7.2 billion in acquiring a 3G mobile license and in building a wireless network. In 2017, a large number of projects were initiated on green energy production, worth in total US$2.9 billion for that year. This was a result of national policy (in the form of tariff rate guarantees for eight of those projects) encouraging investment in renewables, and almost all projects were part of the Benban Solar Park, which is expected to become the largest solar installation in the world. International institutions, mainly the IFC and the EBRD, with the support of international actors such as the Japanese Bank for International Cooperation and the French Agency for Development finance most of those projects.

Table 2. FDI in infrastructure in Egypt, 2005-16

Project	Investment year	Sector	Total investment (USD million)a	Foreign investors (% ownership, country of origin)
Etilsalat Misr	2006	ICT	3075	Etilsalat (66%, United Arab Emirates)
Etilsalat Misr	2007	ICT	350	Etilsalat (66%, United Arab Emirates)
Suez Canal Container Terminal	2007	Ports	730	COSCO Group (20%, China), AP Moller - Maersk Group (55%, Denmark)
East Mediterranean Gas Pipeline Company (EMG)	2007	Energy	469	Merhav Group (25%, Israel), PTT Public Company Ltd. (25%, Thailand)
Etisalat Misr	2008	ICT	85	Etilsalat (66%, United Arab Emirates)
Damietta port	2008	Ports	640	Kuwait and Gulf Link Holding Company (30%, Kuwait), China Shipping Group Company (20%, China)
Etisalat Misr	2009	ICT	845	Etilsalat (66%, United Arab Emirates)
Kuraymat Solar/CCNG Plant	2010	Electricity generation	314.7	Solar Millennium (Germany)
New Cairo Wastewater Treatment Plant	2010	Wastewater treatment	475	Fomento de Construcciones y Contratas SA (FCC) (50%, Spain)
Etilsalat Misr	2010	ICT	1326	Etilsalat (66%, United Arab Emirates)
Etisalat Misr	2011	ICT	322.6	Etilsalat (66%, United Arab Emirates)
Gamesa Gabal el Zeit Wind Farm	2012	Electricity generation	276	Gamesa (100%, Spain)
Etisalat Misr	2012	ICT	320	Etilsalat (66%, United Arab Emirates)
Etisalat Misr	2013	ICT	335	Etilsalat (66%, United Arab Emirates)
Etisalat Misr	2014	ICT	280	Etilsalat (66%, United Arab Emirates)
Etisalat Misr	2015	ICT	310	Etilsalat (66%, United Arab Emirates)
Benban Solar PV Plant	2016	Electricity generation	100	Infinity Energy Holding (52%, Germany)
Access Power and Eren Solar PV Complex	2017	Energy	154.6	Access Power MEA (50%), Eren Holding (50%)
Acciona Benban Rising Sun Energy & Sunrise Energy	2017	Energy	132	Swicorp (13%), KCC Buildcon Private Limited (13%), Acciona (38%), Others (37%)
ACWA Benban Solar PV I/II/III	2017	Energy	187.7	ACWA Power (51%), Chint Group (17%), Al-Tawakol Electrical Group (17%), Hassan Allam Holding (17%)
Al Subh Solar PV Plant	2017	Energy	66	Swicorp (50%), Acciona (50%)
Alcazar Energy Solar Plant	2017	Energy	68.7	Alcazar Capital Limited (100%), Small local investors (1%)
Alfa Solar Binban Plant	2017	Energy	74	Alfanar Energy (100%)
ARC Benban Solar Plant	2017	Energy	74	Desert Technologies (50%), Maccaferri Industrial Group (50%)
Arinna Benban Solar Plant	2017	Energy	28.8	Desert Technologies (15%), Maccaferri Industrial Group (25%), Albilal Group for General Contracts Co (51%), Small international investors (9%)
Aten Solar PV Plant	2017	Energy	68.67	Alcazar Capital Limited (100%), Small local investors (1%)
Delta Solar PV Plant	2017	Energy	66.4	Alcazar Capital Limited (75%), Others (25%)
EDF EN Benban PV plant	2017	Energy	74	EDF Energies Nouvelles SA (50%), Elsewedy Cables (50%)
Elsewedy Benban Solar Plant	2017	Energy	74	EDF Energies Nouvelles SA (50%), Others (50%)
Horus Solar PV Plant	2017	Energy	68.67	Alcazar Capital Limited (100%), Small local investors (1%)
Infinity Solar Portfolio	2017	Energy	115.7	Infinity Energy Holding (50%), Others (50%)
Phoenix Benban Solar Plant	2017	Energy	73.74	Infinity Energy Holding (24%), Vogt Solar (24%), Cedrus Enterprises Holding (2%), Phoenix (51%)
Ra Solar Plant	2017	Energy	33.3	Voltalia (100%)

Ras Ghareb Wind Farm	2017	Energy	400	Toyota Tsusho Corp. (40%), Orascom (20%), SUEZ (40%)
Scatec Solar Portfolio	2017	Energy	450	Scatec (34%), Norfund (34%), Africa 50 (34%)
Shapoorji Energy Benban Solar Plant	2017	Energy	73	Shapoorji Pallonji Group (100%)
Sokhna Port Bunkering Phase III	2017	Transport	504	Amiral Holdings Limited (63%)
Taqa Arabia Benban Solar Plant	2017	Energy	74.1	QALAA holdings (63%)
Winnergy Benban Solar Plant	2017	Energy	29	Spectrum Group (9%), Desert Technologies (15%), Al-Tawakol Electrical Group (51%), Maccaferri Industrial Group (25%), Small international investors (1%)

Source: World Bank Private Participation in Infrastructure (PPI) database.
Note: Total investment includes equity and debt from all sources, both private and public, domestic as well as foreign. The PPI database does not provide a breakdown of investment sources for all projects.

Foreign investment in infrastructure requires an enabling legal, regulatory and institutional framework that can provide predictability and stability for long-term investments. Public-private partnerships (PPP) have been widely adopted across many developed and developing economies as a means of supporting private investment in infrastructure. In 2006, a dedicated PPP unit was established within the Egyptian Ministry of Finance. The principal role of the PPP unit is to support contracting authorities in preparing, implementing and monitoring PPP projects. In 2010, Egypt enacted a PPP law which formalised the institutional and regulatory framework for PPPs. Two PPP projects have been delivered to date, including a wastewater treatment plant and a university hospital. In addition, Egypt has launched a feed-in-tariff (FiT) programme which aims to attract foreign investment into solar and wind energy projects.[4] These institutional and legal elements represent a solid foundation on which to expand the role of foreign investment in developing infrastructure in Egypt.

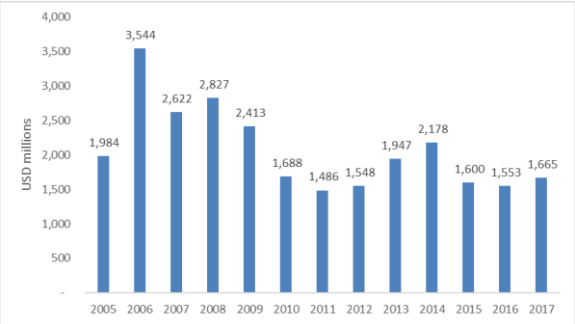
2.2. Jordan

FDI inflows

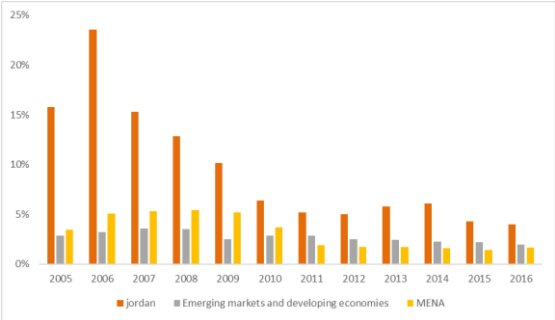
Jordan has benefited from high levels of FDI inflows over the past decade. Inflows were exceptionally high in the mid-2000s, reaching USD 3.5 billion in 2006, equivalent to 23.5% of GDP. As with most other developing economies, levels declined in the aftermath of the global financial crisis. Nevertheless, inflows have remained very high relative to the size of its economy and in comparison with the average for MENA and other developing economies. In 2015, inflows dropped to USD 1.27 billion, their lowest level in a decade.

Figure 6. Jordan FDI inflows 2005-16/7

a. Jordan



b. Comparison by region (% of GDP)



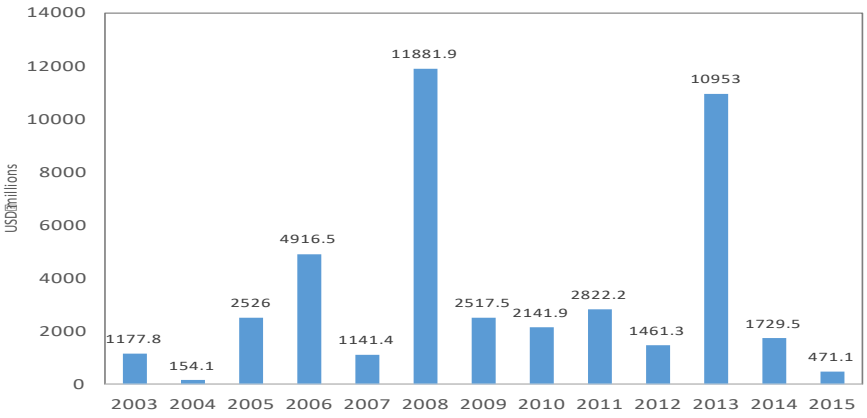
Source: OECD Foreign Direct Investment statistics database, IMF Balance of Payments database, and OECD staff calculations.

Nevertheless, at 3.4% of Jordan's GDP, FDI remained considerably higher than the average for the MENA region (1.6%). In addition to sustaining high levels of FDI, Jordan has not experienced the same level of volatility as other countries in the region. This is relatively surprising given the country's geographic proximity to conflict zones, its exposure to high-levels of refugee flows from Syria and the wave of political instability that has swept through the region in recent years.

Greenfield FDI

Greenfield FDI investment has exhibited large fluctuations as a consequence of two mega-projects. The peak in 2008 is the result of a USD 10 billion investment by Al Maabar International, an Abu Dhabi-based company, in a massive real estate development in Aqaba on the Red Sea. In 2013, the Jordan Atomic Energy Commission (JAEC) announced an agreement with Russian state-owned nuclear power company, Rosatom, to supply and operate a nuclear power station at a cost of USD 10 billion. The top sources of greenfield FDI in Jordan are therefore United Arab Emirates (36%) and Russia (23%). The United States and Saudi Arabia are also large investors in Jordan. Overall, investors from the GCC account for a dominant 50% of total greenfield FDI in Jordan. Surprisingly, given the country's relative stability and investor-friendly policies, European companies have been relatively minor investors in Jordan.

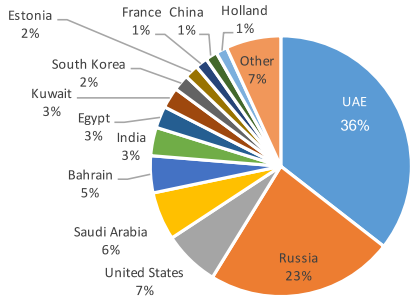
Figure 7. Greenfield FDI, 2003-15, Capex (USD millions)



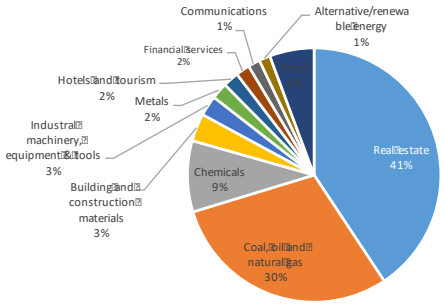
Source: The Arab Investment and Export Credit Guarantee Corporation and fDi Markets.

Figure 8. Distribution of greenfield FDI, 2003-15

a. Country of origin



b. Sectors



Source: The Arab Investment and Export Credit Guarantee Corporation and fDi Markets.

As a consequence of the two mega-projects, the leading sectors in terms of greenfield FDI are real estate (41%) and energy (30%).[5] Real estate investment is largely driven by GCC investors. The chemical sector (9%) also accounts for a significant proportion of FDI. Manufacturing has received a comparatively minor share of greenfield FDI with building and construction materials, industrial equipment, and metals combined barely reaching over 8%.

Foreign investment in infrastructure

Jordan has been successful in attracting foreign investment into the electricity sector, particularly in renewable power generation. Between 2013 and 2016, a total of nearly USD 1.4 billion[6] was invested in over 500 MW of renewable energy generation capacity, including 12 solar power projects and three wind power projects (Table 3). In 2017, a large number of new projects were also developed in the renewables sector for a total amount of USD 2.75 billion. Foreign investors contributed the majority of this investment. Investment originated from a wide range of countries from across North America, East Asia, Europe and the Middle East. In addition to renewable energy infrastructure, foreign investment has contributed to building gas and diesel-fired power plants, water supply infrastructure, and the mobile telecoms network.

Table 3. FDI in infrastructure in Jordan, 2004-16

Project	Investment year	Sector	Total investment (USD million)[a]	Foreign investors (% ownership, country of origin)
Umniah Mobile Company	2004-2015	ICT	Not available	Bahrain Telecommunications Company (96%, Bahrain)
Amman East Power Project	2007	Electricity generation (natural gas)	300	Qatar Electricity & Water Company (QEWC) (23%, Qatar), AES Corporation (37%, United States)
Al-Qatrana Power Project	2009	Electricity generation (natural gas)	465	Korea Electric Power Company (KEPCO) (65%, Korea, Rep.), Xenel Industries Ltd (35%, Saudi Arabia)
Disi-Amman water conveyor	2009	Water supply	951	Gama Holding (50%, Turkey), General Electric (50%, United States)
AES - Diesel IPP	2012	Electricity generation (diesel)	350	AES Corporation (60%, United States), Mitsui (40%, Japan)
Al Manakher Tri-Fuel Power Plant (IPP3)	2013	Electricity generation (diesel)	812	Korea Electric Power Company (KEPCO) (60%, Korea, Rep.), Mitsubishi (35%,Japan)

Tafila Wind Farm	2013	Electricity generation (wind)	290	EP Global Energy (19%, Cyprus), InfraMed (50%, France)
EJRE Solar PV Plant	2014	Electricity generation (solar)	65	Scatec (40%, Norway)
Oryx Solar PV Plant	2014	Electricity generation (solar)	30	Scatec (70%, Norway)
SunEdison Ma'an Solar Power Project	2014	Electricity generation (solar)	66	SunEdison LLC (100%, United States)
Al Ward Al Joury Solar PV Plant	2015	Electricity generation (solar)	30	Adenium Energy Capital (100%, Cayman Islands)
Al Zahrat Al Salam Solar PV Plant	2015	Electricity generation (solar)	30	Adenium Energy Capital (100%, Cayman Islands)
Al Zanbaq Solar PV Plant	2015	Electricity generation (solar)	30	Adenium Energy Capital (100%, Cayman Islands)
Arabia One Solar PV Power Plant	2015	Electricity generation (solar)	30	Hanwha E&C (30%, Korea, Rep.), Construcciones y Auxiliar de Ferrocarriles (CAF) SA (40%, Spain)
Falcon Ma'an Solar PV Plant	2015	Electricity generation (solar)	50	Gruppo Maccaferri (25%, Italy), Desert Technologies (25%, Saudi Arabia)
Jordan Solar One PV Power Plant	2015	Electricity generation (solar)	70	AMP Solar Group (67%, Canada), Evolution Solar Group (17%, United States), RAI Energy International (13%, United States)
Shams Ma'an PV Solar Power Plant	2015	Electricity generation (solar)	168	Qatar Electricity & Water Company (QEWC) (35%, Qatar), Mitsubishi (35%, Japan)
Shamsuna Solar PV Power Plant	2015	Electricity generation (solar)	20	Foursan Group (85%, Jordan)
Al Rajef Wind Farm	2016	Electricity generation (wind)	185.1	Alcazar Capital Limited (100% / ..)
Fujeij Wind Farm	2016	Electricity generation (wind)	197	Korea Electric Power Company (KEPCO) (100%, Korea, Rep.)
Mafraq FRV Solar Plant	2016	Electricity generation (solar)	129.3	Others (100% / ..)
Zarqa CCGT power plant	2016	Electricity generation (natural gas)	475	ACWA Power (85% / ..), Others (15% / ..)
Attarat Oil Shale-Fired Power Plant	2017	Electricity generation (oil/shale)	2109	Eesti Energia (10%), Yudean Group (45%), YTL Corporation (45%)
Baynouna Solar PV Plant	2017	Electricity generation (solar)	280	Mubadala Development Company (100%)
Empire Solar PV Plant	2017	Electricity generation (solar)	98.4	Fotowatio Renewable Ventures (FRV) (100%)
Risha Solar Plant	2017	Electricity generation (solar)	69	ACWA Power (100%)
Safawi Solar Plant	2017	Electricity generation (solar)	93.3	Fotowatio Renewable Ventures (FRV) (100%)
Shobak Wind Farm	2017	Electricity generation (wind)	104	Alcazar Capital Limited (90%), Hecate Energy (10%)

Source: World Bank Private Participation in Infrastructure (PPI) database.
Note: Total investment includes equity and debt from all sources, both private and public, domestic as well as foreign. The PPI database does not provide a breakdown of investment sources for all projects.

Investment in renewable energy in Jordan is underpinned by a robust legal framework – following the legislation of a Renewable Energy and Energy Efficiency Law in 2012 – and strong incentives including feed-in-tariffs, net metering and wheeling arrangements for small producers, and tax exemptions for renewable energy systems and equipment. As a result, Jordan has one of the most advanced regulatory and policy frameworks for renewable-power investment in the MENA region (OECD, 2016d).

Future foreign investment in infrastructure in Jordan should be encouraged by the establishment of a PPP unit in 2013 within the Ministry of Finance, followed by the 2014 ratification of a PPP law. The PPP unit is working with different sectoral ministries to establish a pipeline of PPP projects.[7]

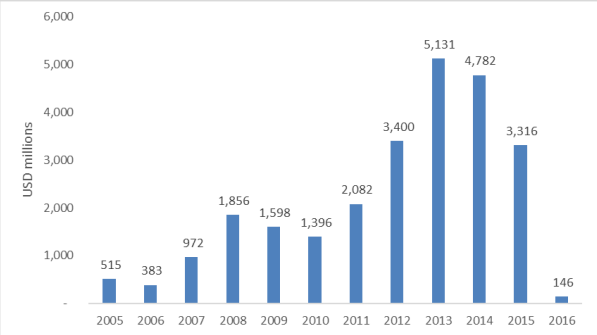
2.3. Iraq

FDI inflows

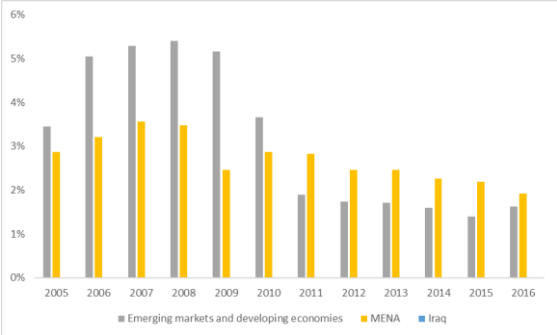
Foreign direct investment in Iraq was heavily affected by the Iraq war and its fallout, hitting a low of USD 383 million in 2006. Following 5 years of low-level stagnation, FDI inflows began accelerating in 2011, reaching their peak of USD 5.1 billion in 2013. In relation to GDP, inflows remained below the average for MENA countries from 2005 until 2012. Between 2013 and 2015, inflows picked up, approaching the average level for emerging markets and developing economies. However, in 2016 FDI plummeted to a meagre USD 146 million – its lowest level in a decade. This decline was driven undoubtedly to a considerable extent by the violence resulting from the occupation of significant swathes of territory by the so-called Islamic State group in addition to efforts by the Iraqi government and international partners to drive them out.

Figure 9. Iraq FDI inflows 2005-16

a. Iraq



b. Comparison by region (% of GDP)



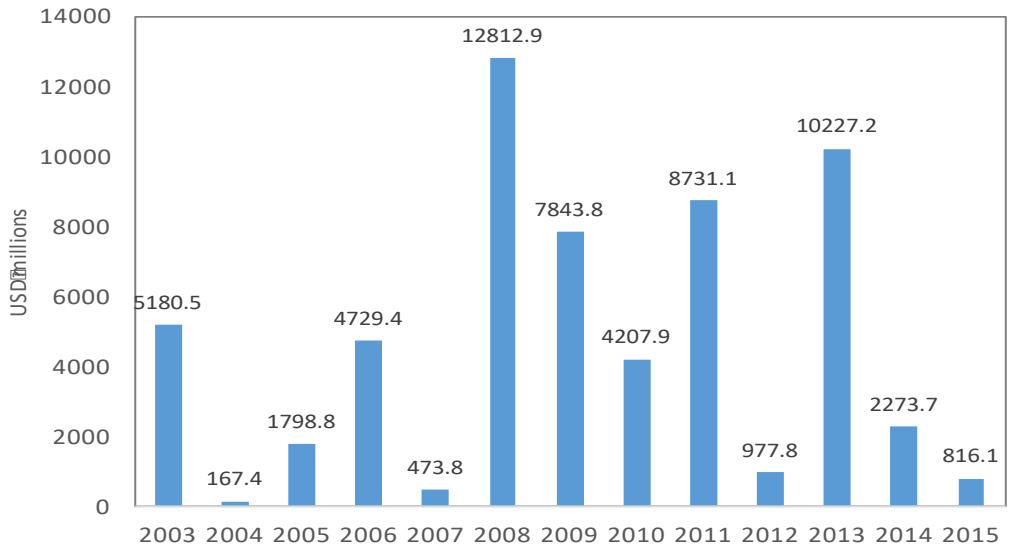
Source: OECD Foreign Direct Investment statistics database, IMF Balance of Payments database, and OECD staff calculations.

While the high level of internal violence associated with the war against the Islamic State may have deterred investors, the Iraqi government has made significant progress in institutional and legal reform in the areas of investment policy and promotion.

Greenfield FDI

For obvious reasons, investors were hesitant to make major new greenfield FDI investments in the aftermath of the invasion of Iraq by the US-led coalition. However, in 2008, investment jumped from USD 473 million to a peak of USD 12.8 billion. Unsurprisingly given Iraq's oil resources, 43% of investment was concentrated in the oil and gas sector. The presence of US oil majors such as Chevron and Exxon Mobil explains the significant contribution of investors originating from the United States. Anglo-Dutch (Royal Dutch Shell Plc) and Russian (Gazprom and Lukoil) oil companies also made significant investments in Iraq.

Figure 10. Greenfield FDI, 2003-15, Capex (USD millions)

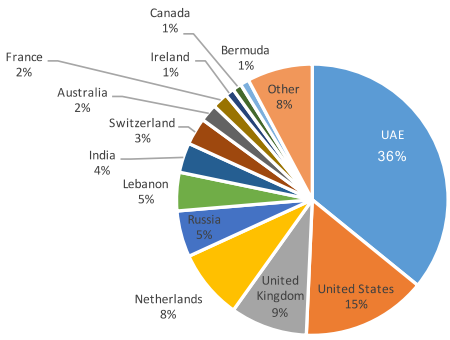


Source: The Arab Investment and Export Credit Guarantee Corporation and fDi Markets.

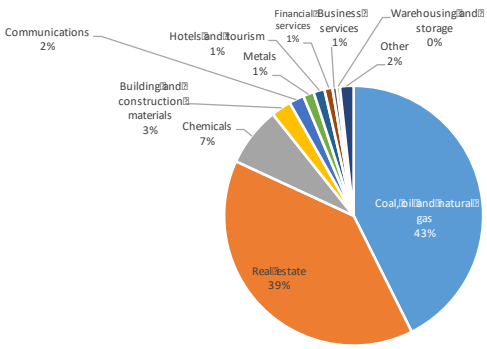
A significant proportion (39%) of greenfield investment took place in the real estate sector, much of it originating from United Arab Emirates. Chemicals (7%) was the third largest sector in terms of capital expenditure for greenfield projects. All other sectors combined, which include building and construction materials, communications and metals, played a marginal role, accounting for 11% of the total.

Figure 11. Distribution of greenfield FDI, 2003-15

a. Country of origin



b. Sectors



Source: The Arab Investment and Export Credit Guarantee Corporation and fDi Markets.

Foreign investment in infrastructure

Foreign investment in infrastructure in Iraq has been focused on the telecoms and electricity generation sectors. Between 2003 and 2015, foreign investors injected over USD 7.1 billion into the Iraqi telecoms sector (Table 4). With the exception of Alcatel, that developed a 4G LTE network in Iraqi Kurdistan, most investors are from the region, particularly from the GCC countries, Egypt and Jordan.

Table 4. FDI in infrastructure in Iraq, 2003-15

Project	Investment year	Sector	Total investment (USD million)[a]	Foreign investors (% ownership, country of origin)
Asia Cell	2003-2015	ICT	3773	United Gulf Bank of Bahrain (Bahrain), Qatar Telecom (30% / Qatar)
Iraqna Telecom	2003-2006	ICT	404	Orascom (100%, Egypt, Arab Rep.)
Zain Iraq (former Atheer Telecom)	2003-2015	ICT	2941	Dijla Telecommunications Corp., Kharafi National (Kuwait)
Erbil Power Plant	2007	Electricity generation (natural gas)	240	Mass Jordan Trading Company (100%, Jordan)
FastLink (Regional Telecom)	2007-2013	ICT	Not available	Alcatel (100%, France)
Sulaymaniya Gas Power Station SGPS	2008-2013	Electricity generation (natural gas	1000	Abu Dhabi National Energy Company (TAQA) (50%, United Arab Emirates), Mass Jordan Trading Company (50%, Jordan)

Source: World Bank Private Participation in Infrastructure (PPI) database.

Note: Total investment includes equity and debt from all sources, both private and public, domestic as well as foreign. The PPI database does not provide a breakdown of investment sources for all projects.

Infrastructure investments have, for the most part, been concentrated in Iraqi Kurdistan. Kurdistan has successfully procured power plants in Erbil and Sulaymaniya using the independent power producer (IPP) model. Iraq's ongoing sectarian conflicts and the conquest of significant Iraqi territory by the Islamic State have no doubt discouraged foreign companies from investing in infrastructure in central and southern Iraq. Furthermore, Iraq lacks an institutional and legal framework that is supportive of private sector participation in infrastructure, a basic pre-condition for attracting foreign investment in infrastructure. A PPP law was drafted in 2011, but it has yet to be passed.

2.4. Lebanon

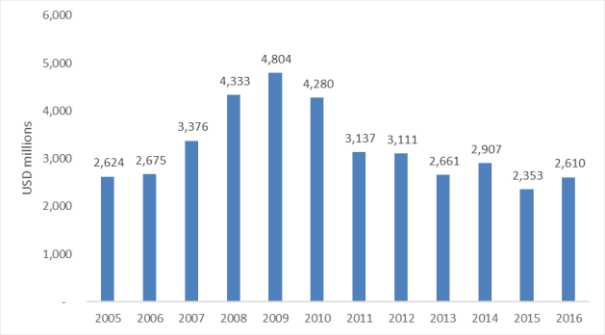
FDI inflows

Lebanon's FDI performance is impressive in terms of not only the level of inflows but also for their regularity and resilience. FDI increased after the onset of the global financial crisis, reaching a peak of USD 4.8 billion in 2009 before gradually decreasing to pre-crisis levels. In 2015, inflows dropped to USD 2.3 billion their lowest level in a decade, down 50% from their peak. However, given the civil war in neighbouring Syria and the general turmoil in the region, FDI inflows have held up remarkably well.

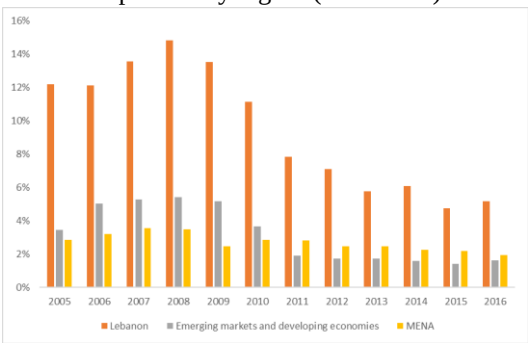
FDI still represented 4.6% of GDP in 2015, well above the average for MENA (1.6%) and other emerging markets and developing countries (2.1%). At its peak in 2009, FDI represented 13.7% of Lebanon's GDP. The surge in FDI between 2007-2009 could be partly a result of the reconstruction efforts following the 2006 war between Israel and Hezbollah. The stability of FDI inflows into Lebanon indicates that it may be performing a role of relative safe haven for investors in the region.

Figure 12. Lebanon FDI inflows 2005-16

a. Lebanon



b. Comparison by region (% of GDP)



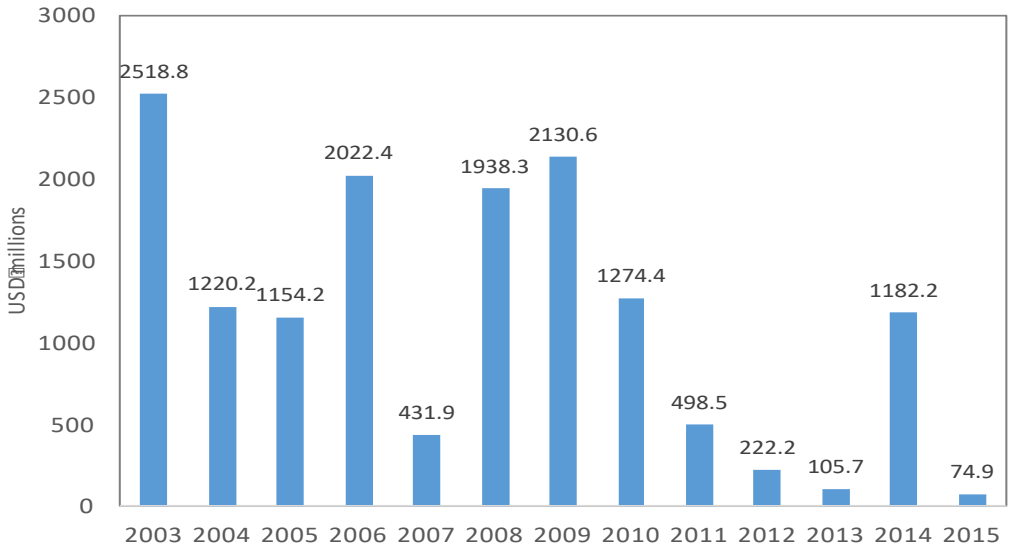
Source: OECD Foreign Direct Investment statistics database, IMF Balance of Payments database, and OECD staff calculations.

Greenfield FDI

Greenfield investments in Lebanon exhibit a greater degree of variability than data on FDI inflows. Nevertheless, the broad trend appears to be one of gradual decline, interspersed with some peaks and troughs. The decline in greenfield capital expenditure by foreign companies has been particularly notable since 2010 which may indicate that the Syrian conflict is making investors reluctant to commit money to bricks and mortar projects in Lebanon.

Foreign investments in Lebanon are heavily skewed towards real estate, hotels and tourism, which together accounted for an overwhelming 82% of capital expenditure between 2003 and 2015. A large proportion of greenfield investment originates from GCC countries, with the United Arab Emirates responsible for 50% of the total.

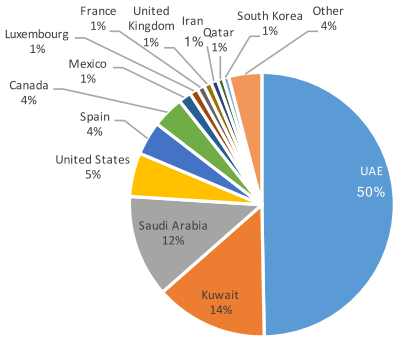
Figure 13. Greenfield FDI, 2003-15, Capex (USD millions)



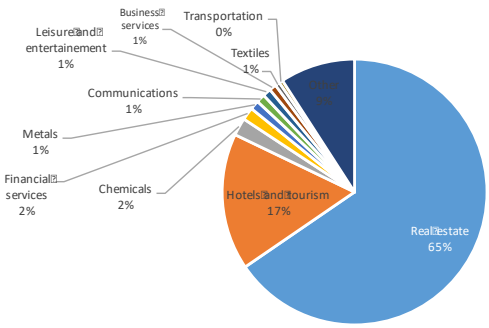
Source: The Arab Investment and Export Credit Guarantee Corporation and fDi Markets.

Figure 14. Distribution of greenfield FDI, 2003-15

a. Country of origin



b. Sectors



Source: The Arab Investment and Export Credit Guarantee Corporation and fDi Markets.

Lebanon has barely exploited foreign investment to develop its infrastructure over the past decade. Only one greenfield infrastructure project involving a foreign investor has been recorded. In 2013, Turkish power company Karadeniz supplied a floating power station with a capacity of 203 MW to provide electricity to Lebanon's grid. The situation might change given the new "Vision for stabilization, growth and employment" announced in April 2018 at the CEDRE conference for the development of Lebanon, which is accompanied by a Capital Investment Programme (CIP) laying out an ambitious agenda on infrastructure development and economic transformation. Furthermore, Lebanon recently approved a new PPP Law in September 2017, providing a legal framework for investors for public-private partnership that could be catalytic in the implementation of the CIP.

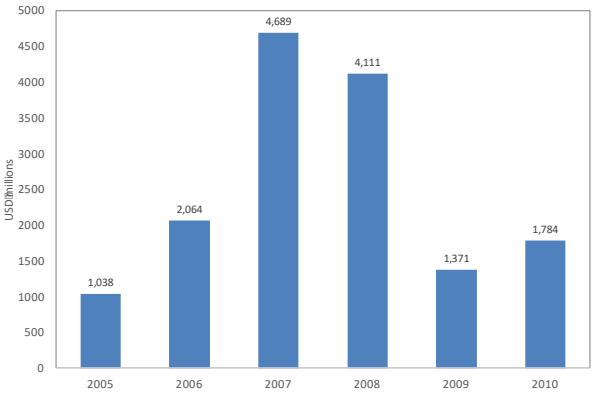
2.5. Libya

FDI inflows

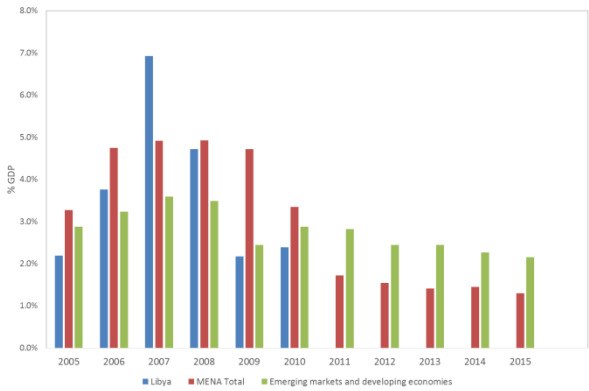
Between 2005 and 2010, FDI inflows into Libya were roughly consistent with levels in the MENA region. In 2007 inflows peaked at USD 4.7 billion, equivalent to 7% of GDP, and well above the average for MENA and other developing economies. No FDI data is available for the period following the NATO-led intervention to oust Gaddafi in 2011 under the IMF Balance of Payments database. However, UNCTAD data shows that FDI inflows reached a bottom low in 2014 and have barely recovered since then.[8]

Figure 15. Libya FDI inflows 2005-15

a. Libya



b. Regional comparison (% of GDP)

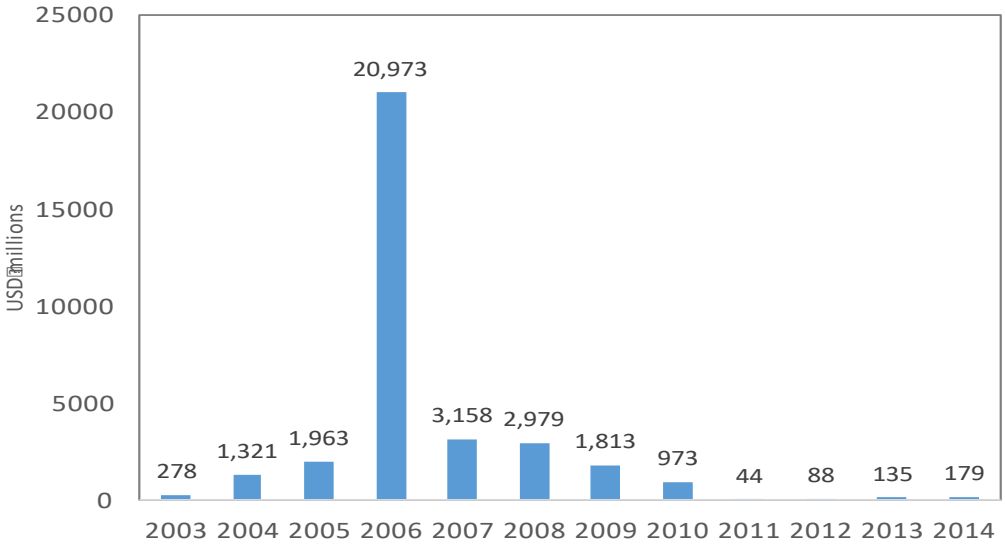


Source: OECD Foreign Direct Investment statistics database, IMF Balance of Payments database, and OECD staff calculations.

Greenfield FDI

Greenfield FDI in Libya is heavily concentrated in the real estate and oil and gas sectors which, taken together, account for 87% of investment. Up until the NATO-led intervention, Libya's oil sector benefited from significant investment from Indonesian (Pertamina), British (BP), Australian (Woodside Petroleum), and Norwegian (Norsk Hydro) oil and gas companies. Post the 2011 intervention, political instability and civil strife have deterred any meaningful foreign investment.

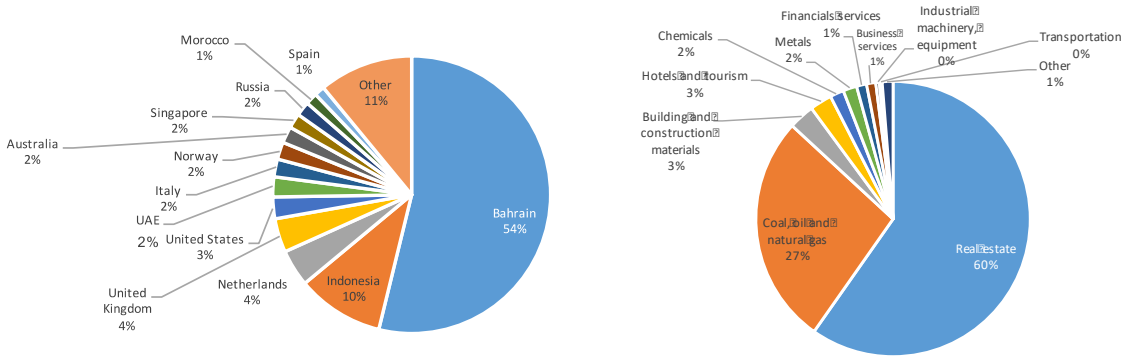
Figure 16. Greenfield FDI, 2003-14, Capex (USD millions)



Source: The Arab Investment and Export Credit Guarantee Corporation and fDi Markets.

Figure 17. Distribution of greenfield FDI, 2003 - 2015

a. Country of origin b. Sectors



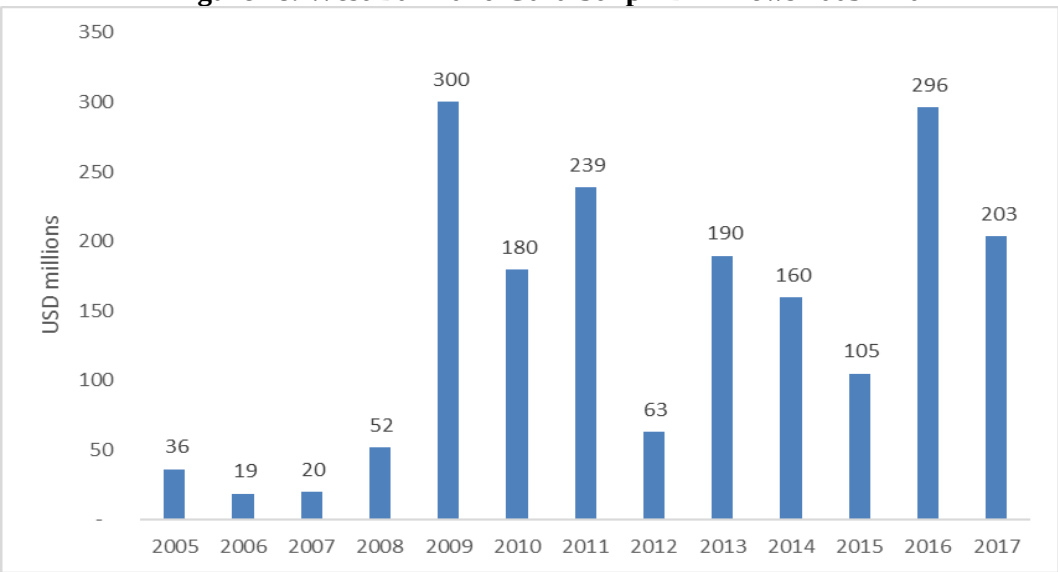
Source: The Arab Investment and Export Credit Guarantee Corporation and fDi Markets.

The largest investor in Libya by a large margin was not an oil and gas major, but a Bahrain-based real estate company that invested in a new city development on the coast near Tripoli. The total cost of the development was valued at USD 20 billion, and that single project accounts for 50% of total amount of recorded greenfield investment in the country since 2003.[9]

2.6. West Bank and Gaza Strip

FDI inflows

Figure 18. West Bank and Gaza Strip FDI inflows 2005 – 2017

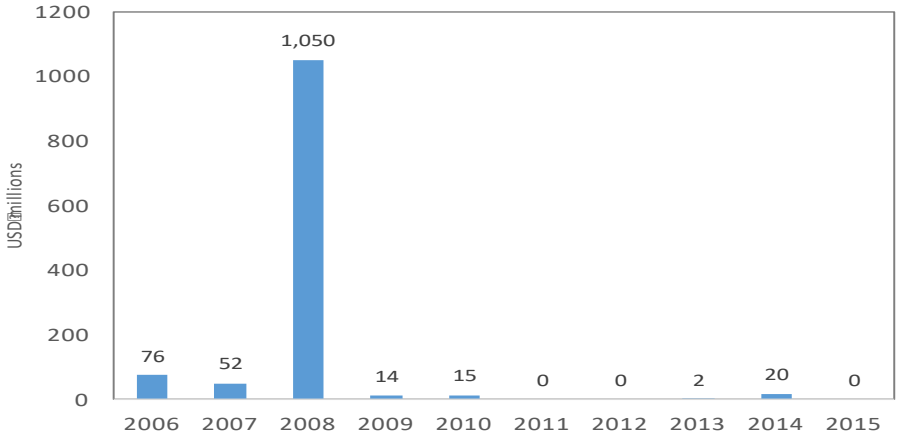


Source: OECD Foreign Direct Investment statistics database, IMF Balance of Payments database, and OECD staff calculations.

Greenfield FDI

Total FDI inflows into the West Bank and Gaza Strip were negligible until 2009. The step increase in FDI levels corresponds to a large greenfield investment in the telecoms sector by a Qatari company announced in 2008. Overall, Qatari investors are responsible for the vast majority of greenfield FDI in the West Bank and Gaza Strip. A Qatari investor also led the development of a USD 350 million new urban development in the West Bank.

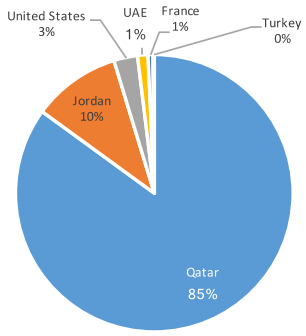
Figure 19. Greenfield FDI, 2006 – 2015, Capex, USD millions



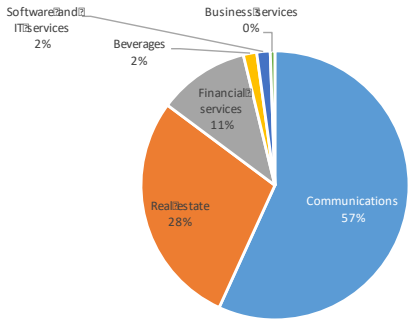
Source: The Arab Investment and Export Credit Guarantee Corporation and fDi Markets.

Figure 20. Distribution of greenfield FDI, 2003 - 2015

a. Country of origin



b. Sectors



Source: The Arab Investment and Export Credit Guarantee Corporation and fDi Markets.

The West Bank and Gaza Strip is unique among the six economies analysed in that **the sector with the largest level FDI inflows is neither real estate nor oil and gas, but communications with a 57% of all greenfield FDI between 2003 and 2015.** Real estate features nevertheless in second place with a 28% share of greenfield investment. The beverages sector features in the top 5 as a result of a USD 20 million investment from Coca Cola.

Electricity and water infrastructure in the West Bank and Gaza is severly underdeveloped. Nevertheless, with the exception of mobile telecommunications, infrastructure has not benefited from foreign investment.

Summary and analysis

FDI is heavily concentrated in the real estate and oil and gas sectors

In all six countries, with the exception of the West Bank and Gaza Strip, the leading sector in terms of attracting greenfield FDI is either oil and gas or real estate. In addition, the large investment figures for real estate often reflect the impact of one or two megaprojects. While these sectors might provide short-term economic stimulus, they contribute less to promoting long-term sustainable and inclusive economic development. Sectors that create long-term employment, promote the development of skills and contribute most to productivity such as manufacturing, services and infrastructure receive much lower levels of foreign investment.

However, there are a few positive examples of using foreign investment to promote long-term development. Jordan has been very succesful in attracting foreign investment to develop its renewable generation capacity, thereby reducing its dependence on costly oil imports and strengthening its security of supply. Iraqi Kurdistan has leveraged foreign investment to build two gas-fired power plants, which generate a large proportion of the region's electricity.

GCC investors are the dominant sources of greenfield investment

In all of the countries surveyed, GCC countries have been the main source of foreign investment, investing in sectors ranging from real estate to telecommunications and energy. Nevertheless, in terms of amount, investments from the GCC are heavily concentrated in the real estate sector. The West Bank and Gaza Strip and Lebanon have the highest exposure to GCC investors at 86% and 77%, respectively. Such an excessive dependence on a single region creates vulnerabilities in the event of political or economic crises which could shut down investment flows.

Foreign investment inflows are highly volatile

For most of the countries surveyed, FDI inflows have been very volatile compared to other regions. A large part of this volatility is a consequence of the political instability experienced by these countries since the Arab Spring in 2011. High volatility in investment flows can complicate macroeconomic management and be detrimental macroeconomic stability (World Bank, 2013).

Limited foreign investment in infrastructure

Compared to other regions of the world, foreign investment has played a very limited role in developing infrastructure in the focus countries. Infrastructure sectors that have benefited most from FDI are mobile telecommunications and energy. Other than a few port terminals, the transport and water sectors have only witnessed a handful of projects with foreign participation.

[4] The programme conditions stipulate that a majority of the financing must be from foreign sources (60% in the case of wind and 70% for solar).

[5] The nuclear power project is captured in the category 'Coal, oil and natural gas'.

[6] This figure includes both equity and debt. Based on average debt/equity ratio of 75/25, the total amount of equity invested in these projects amounts to approximately USD 350 million.

[7] PPP Knowledge Lab, World Bank, https://pppknowledgelab.org/countries/jordan

[8] https://unctad.org/sections/dite_dir/docs/wir2018/wir18_fs_ly_en.pdf

[9] The USD 20 billion figure represents the total announced value of the project. It does not reflect the actual amount of direct investment which is likely to lower given the NATO-led intervention in 2011.

3. Policy tools to attract investment to fragile and conflict-affected contexts

Governments can attract investment even in fragile and conflict-affected situations, but it cannot be done à la "business as usual". Reconstruction needs can present significant opportunities for domestic and foreign investors. However, difficulties related to perceptions, risks or security concerns impede these opportunities from being duly exploited. Thus, efforts need to be directed at how to reduce or mitigate risks for investors, and to promote and facilitate investment. There is also a need to attract not only more investment, but also high quality investment to foster development.

While certain types of foreign direct investment can contribute to building resilience in fragile and conflict-affected countries, for investments to have a long-lasting beneficial impact they themselves need to be resilient. From the perspective of investors, resilient investments have to generate adequate risk-adjusted returns over the lifetime of the investment. In fragile and conflict-affected environments, this means overcoming a unique set of challenges and obstacles, and withstanding a high degree of volatility.

Moreover, those investments that are most likely to contribute to enhancing economic resilience are those that are most integrated into the local economy, relying on the local labour market to provide workers, local SMEs to provide inputs, and local customers to purchase their products and services. However, this very integration is also what makes an investment particularly vulnerable to events and changes in the local conditions. For investments to be successful and resilient in such environments, investors need a holistic approach to managing risks drawing on both legal and relational approaches.

Governments in fragile and conflict situations can and must take a broad set of measures to attract investment, and to ensure it is sustainable and that has positive economic impact. Governments can: 1) strengthen their investment legal framework to reduce uncertainty and mitigate risks for investors; 2) adapt investment promotion policies to attract and retain private investment; 3) improve and expand risk mitigation tools; 4) promote a responsible conduct by the private sector; and 5) enable investments in the infrastructure sector.

These measures need to be embedded in a comprehensive framework to improve economic governance. Investment climate reforms are necessary to create a business friendly environment, including simplifying regulations, cutting down on red tape, fighting corruption, tackling informality, etc. Needless to say, one of the most critical aspects is to find and secure financing for investment projects, but its realm is beyond the scope of this note.

3.1. Ensuring sound legal frameworks

The foundation for investor confidence is a sound, transparent and predictable legal framework regulating and protecting investment. This is particularly the case for fragile and conflict-affected states where investors are already confronted with a host of political and security challenges. To trigger investment, the regulatory framework, which includes both the national legal framework of the host county and the international legal framework (consisting of international treaties), needs to be clear and coherent, open to foreign direct

investment and provide for effective investment protection standards and legal stability (OECD, 2018).

Investors are looking for transparency and legal predictability with respect to issues like entry regulations, investor guarantees, and administrative and legal procedures, as well as for legal coherence among all regulations composing the investment framework In countries affected by political instability, investors will check whether domestic laws and international investment instruments provide fundamental guarantees for investors, namely: provision of fair and equitable compensation for expropriation; granting of fair and equitable treatment to foreign investments; intangibility of the law; guarantee of transfer of fund, right to repatriate profits and to liquidate the investment; or access to international settlement of investment disputes.

Most of the governments in the economies analysed have recently reformed their legal investment frameworks. New investment laws were approved in Jordan (2014) and Egypt (2017) aiming at strengthening of the institutional framework and more efficient investment promotion agencies (Table 5). Additionally, both the Palestinian Authority and the Iraqi government have recently introduced some amendments to their investment legislation.

Table 5. Investment legislation and recent reforms

Country	Investment legislation	Recent investment-related reforms
Egypt	- New Investment Law No. 72 of May 2017 - Executive regulations of the investment law (October 2017) - Presidential Decree Regarding the Establishment of the Supreme Council for Investment No 478/2016 of 16 October 2016	- Egypt's first bankruptcy law approved in January 2017 - New executive regulations of the movable collateral law of 22 December 2016 - New value-added tax (VAT) Law no. 67 of 2016 of 6 September 2016 - New Industrial Licensing Law - Amendments to the Companies Act no. 159 of 1998 (approved by the Parliament in 2017)
Jordan	- New Investment Law No. 30 of October 2014 - Regulation for Organising Non-Jordanian Investments No 77 of 2016 - Regulation on Investment incentives system No. 33 of 2015 - Regulation on Investment window system No. 32 of 2015	- On-going revision of the arbitration law - Public-Private Partnership Law No 31 of 2014
Iraq	- 2016 Amendment of Investment Law	
Lebanon	- Investment Development Law No.360 of 16 August 2001	- New PPP Law no. 48 on September 7, 2017 - Pending amendments to the Commercial Code

Libya	- Law No. 9/2010 on the Encouragement of both National and Foreign Investment - Executive decrees of 2012 and 2013 on foreign direct investments (Decree 22 of 2013, Decree 207 of 2012, Decree 103 of 2012, Decree 186 of 2012)	
West Bar and Ga Strip	- 2014 amendments to the Law on the Encouragement of Investment of 1998 (Law No.1 of 1998, amended by Presidential Decree n°2 of 2011 and Presidential Decree n°7 of 2014)	

In Jordan, the 2014 new Investment Law sets the foundations for a streamlined, strengthened and more transparent institutional and legal framework for both foreign and domestic investment. It provides for a rationalised institutional framework for investment, merging existing institutions involved in investment protection into one umbrella body – the Investment Commission– and establishing a one-stop-shop investment window within the commission. It contains lengthy provisions on incentives and advantages, as well as a chapter which provides for investment protection and guarantees.

Egypt enacted a new Investment Law in May 2017 (Investment Law No. 72 of 31 May 2017) after several months of consultations. The new law repeals the Investment Guarantees and Incentives Law No. 8 of 1997 and its successive amendments, including the 2015 one. The new law aims to promote foreign investments by offering further incentives, reducing bureaucracy, and simplifying and enhancing processes, in particular through the creation of an investors' service centre that will act as a one-stop shop for issuing all licences. Executive regulations of the law have been passed in October 2017.

The 2014 Amendment to the Palestinian Investment law contains a whole chapter on investment guarantees, including non-discrimination of investors, guarantee against expropriation, nationalisation and confiscation of investment, and guarantee of free transfer of funds.

In Iraq, the 2016 Amendment to the Investment Law sought to streamline procedures including licensing and granting incentives, strengthen decentralisation, address specific constraints facing investors in Iraq, in particular land allocation and ownership (Box 2). In addition, The Government of Iraq ratified the Convention on the Settlement of Investment Disputes (ICSID) in 2015 providing access to international arbitration for investors facing disputes with the State.

Box 2. OECD Iraq Project

Between 2007 and 2016, the OECD worked with the Government of Iraq to boost private investment and improve the business environment. During this time, the government enacted the second amendment to the 2006 Investment Law, integrating OECD recommendations. Over 60 Iraqi officials were trained in developing investment marketing material, handling investor inquiries, presenting material to investors, and preparing investment files to formulate and market investment opportunities in Iraq. The project also provided a unique platform for stakeholders from the Government of Iraq, business associations and the private sector to engage in policy dialogue. See: The OECD Project Insights: "Promoting Investment in a Fragile Context: the OECD Iraq Project".

See: The OECD Project Insights: "Promoting Investment in a Fragile Context: the OECD Iraq Project".

Beyond legal frameworks, authorities need to take further concrete measures to ensure the effective implementation of the law and due enforcement of the rights and guarantees provided in the regulations. This notably involve an accessible, efficient and fair system of justice, as well as a modern and sound administration.

3.2. Developing proactive and tailored investment promotion policies

Governments need to put in place proactive and tailored investment promotion policies that identify and attract the right types of investors. For FDI to contribute to strengthening resilience and avoid introducing new stresses into fragile settings, investments will need to be targeted at sectors that can generate spill-overs for the local economy whether in terms of jobs, skills, technology or access to basic services. Investments will also need to yield tangible benefits for local communities and safeguard environmental resources.

Investment Promotion Agencies (IPAs) can play an important role addressing the information gap by identifying sectors and geographical areas with potential for investment. Better targeting is needed to identify investors from neighbouring countries who are abreast of the situation and know how to do business in that context, investors who traditionally invest in fragile contexts, diaspora investors, and institutional investors such as state-owned enterprises s or sovereign wealth funds. IPAs can develop tailored strategies or programmes to attract diaspora investors and to forge linkages with local suppliers.

Considering industrial parks and special economic zones to provide security pockets for businesses and investors. Nevertheless, this type of initiatives needs to be accompanied by strong frameworks and be integrated in the domestic economy, and they might have to be phased out when situation returns to normal to avoid creating dichotomy in the economy with different regimes.

3.3. Improving and expanding risk mitigation tools

Political instability constitutes a major deterrent to FDI in fragile contexts, particularly for investments in the manufacturing, services and infrastructure sectors that are highly

embedded in the local economy. Breach of contract and regulatory unpredictability are listed as the biggest obstacles for investors in developing countries (MIGA, 2012). Political instability has a negative direct effect on FDI inflows into the MENA region. Foreign investment in vulnerable sectors will therefore be contingent on the ability of the investor to manage or transfer political risks, which can take multiple forms (Box 3).

Box 3. Major political perils

Transfer restriction and inconvertibility – provides coverage for the risk of inconvertibility of local currency into foreign exchange for transfer outside the host country. Currency depreciation is not covered.

Expropriation – covers the risk of partial or total loss of the insured investment as a result of acts by the host government that may reduce or eliminate ownership of, control over, or rights to the insured investment.

War and civil disturbance – covers the risk of damage to, or the destruction or disappearance of, tangible covered assets caused by politically motivated acts of war or civil disturbance in the host country, including revolution, insurrection, coups d'état, sabotage and terrorism.

Breach of contract – covers the risk of being unable to obtain or enforce an arbitral or judicial decision recognising the breach of an obligation by the host government or a state-owned enterprise.

Source: MIGA, World Bank Group.

Because many political risks lie outside the control of investors, the classic approach for managing political risks involves transferring them to a third-party. This approach to managing risks is grounded in the use of contractual and legal mechanims that allocate risks to a third-party that is both willing and capable of managing them. Instruments for transferring political risk, such as insurance and guarantees, can be purchased by investors from providers of insurance cover.

Political risk insurance in fragile contexts is limited, but different providers are active in these markets

Political risk insurance (PRI) cover for perils including political violence, expropriation, currency inconvertibility and breach of contract can be obtained from either public entities – such as multilateral development banks (MDBs), regional banks or export credit agencies (ECAs) – or private insurance companies. Availability and pricing for insurance cover will depend on the country, the characteristics of the projects, the identity of the sponsor, the perceived level of risk, the tenor, and the capacity of the market.

Capacity in the private market for fragile and conflict-affected states is likely to be limited. Moreover, cover in these countries tends to be concentrated in activities related to the extractive sectors (MIGA, 2011). Obtaining adequate cover for infrastructure projects involving large capital expenditures and long payback periods can thus be particularly challenging.

Multilateral Development Banks

MDBs present several advantages in fragile contexts when it comes to PRI. They can extend insurance cover for longer durations than other issuers, up to 15 years and sometimes longer. As international organisations with political clout and lending operations, they can also help to mitigate political risks by facilitating dispute resolution. Furthermore, because of their mandate to support low-income countries, MDBs are more tolerant of the risk levels exhibited in fragile and conflict-affected states.

The World Bank Group's Multilateral Investment Guarantee Agency (MIGA) is the main multilateral institution dedicated to issuing guarantees. In 2017, 21% of MIGA's political risk insurance operations were in countries affected by conflict and fragility (MIGA, 2017). In order to be eligible for MIGA guarantees, investors need to be nationals of a MIGA member making an investment in a developing MIGA member; the host country must possess the appropriate legal framework (for example, bilateral investment treaty, investment law or a protection agreement with MIGA); and the investment is expected to fulfil social and environmental development goals.

Regional Banks

Middle-income countries are increasingly becoming an important source of FDI to other developing countries. This has led to the creation of indigenous PRI providers such as the "Sinosure" in China as well as regional banks such as the African Trade Insurance, the Islamic Corporation for Insurance of Investment and Export Credit (ICIEC), the Inter-Arab Investment Guarantee Corporation and the Asian and African Development Bank

Smaller and arguably more flexible, public regional PRI providers might be better equipped to deal with fragile contexts (Meyer, 2018). Regional banks tend to be more knowledgeable about the context in their regional surroundings. Some institutions, such as the ICIEC, have partnerships with member countries' ECAs and hence possess the political access necessary to resolve disputes by appealing to governments. On the other hand, regional banks may lack the sufficient financial capacity in order to meet the high costs entailed by investment in countries that are exposed to a high political risk.

Export Credit Agencies

The largest providers of political risk insurance cover are ECAs. They accompany home country exporters and investors, providing trade credit, payment protection and political risk insurance. ECA's are managed as public entities in the United States (Ex-Im Bank) or Japan (NEXI) while others in France (Bpifrance Assurance Export) and Germany (Euler Hermes) are delegated to private entities. Between 2006 and 2017, only 1% of global transactions involved the six economies covered in this note, and most of them were in Egypt. These numbers reflect very limited appetite by ECAs for these countries.

Fragile countries can better benefit from PRI by seeking coinsurance with ECAs and multilateral banks. In fact, cooperation between the private sector and the public ECA's and MDB's is increasing through coinsurance and reinsurance between private and public insurers, providing more insurance capacity in fragile countries and increasing investors' confidence (Box 4).

Box 4. Arrangement on Officially Supported Export Credits

The OECD provides a forum for exchanging information on its members' export credits systems and business activities and for discussing and co-ordinating national export credits policies. Nine countries* have signed the Arrangement on Officially Supported Export Credits, a soft law agreement establishing disciplines on the provision of official support to export credits and to tied aid. The country eligibility criterion for tied aid is built on existing World Bank per capita GNI data: once a country's per capita GNI has been above the upper limit for lower middle income countries for two consecutive years, it becomes ineligible for tied aid.

ECAs make decisions regarding cover and premium rates using a common country risk classification developed by the OECD. The OECD country risk ratings are based primarily on an assessment of the ability of a country to service its external debt. Because fragile and conflict-affected states typically receive poor ratings, coverage from ECAs may be severely limited for some countries, or only offered on a very restrictive basis (MIGA, 2011).

OECD country risk classification, valid as of 23 June 2017

Country	OECD risk rating[1]
Egypt	6
Iraq	7
Lebanon	7
Libya	7

Note: (1) From zero (least risky) to seven (riskiest).

*Australia, Canada, the European Union, Japan, Korea, New Zealand, Norway, the United States and Switzerland.

Private sector

Due to growing global uncertainties and instabilities, the private market for PRI is growing. Total exposure by organisations providing investment insurance (including PRI) increased by 22% between 2012 and 2016 (Berne Union, 2017). Many private providers of PRI are members of the Berne Union, a transnational network composed of more than 80 companies that provide export credit and investment insurance. However, they provide limited PRI cover. Insurers need to hold high amounts of equity in case they would face losses which restricts PRI supply to large insurance companies (Hamdani, 2005).

Coverage offered by those firms is minimal and relatively expensive due to high risks, lack of data about the countries involved and improbability concerning the support of host state actors. Insurance policies offered by private PRI providers tend to be less significant and cover a shorter term than public agencies. Most private players insure investment for periods below seven years, which can rise up to 15 or 20 years when supported by an MDB or an ECA (Gallagher, 2018).

With limited protection offered by political risk insurance, new partnerships and innovative solutions are being developed

Overall, only 18% of multinational companies investing in fragile countries sought PRI in 2011 (MIGA, 2012). Investors generally prefer alternative methods such as forming joint

ventures with local partners, engaging with political leaders, promoting participation with local communities, and conducting scenario planning (MIGA, 2011).

For that reason, investments in fragile contexts will most likely require support from MDBs and, to a certain extent, ECAs whether in the form of direct insurance or reinsurance. Because of their mandate, MBDs and ECAs may be willing to provide cover in contexts where supply from the private market is insufficient. For example, in spite of a poor country risk rating, a number of new power plants in Egypt that are being financed with loans from international commercial banks are benefiting from insurance or debt guarantees from ECAs such as NEXI (Japan), SACE (Italy), and Hermes (Germany) among others.

Credit awards for bonds are "coupled" to sovereign rating, hence increasing investors' risk perception. Moody's sovereign debts ratings of the countries analysed range from "highly speculative" for Egypt, Jordan and Lebanon to "substantial risk" for Iraq.[10] Innovative structures are appearing on the PRI market that involve co-operation between international banks and MDB's in order to decouple project ratings from country risk ratings. An interesting example is the recently developed PPP project to build a public health facility in Gaziantep, Turkey.[11] The project was guaranteed up to USD 60 million against transfer restriction, expropriation, war and civil disturbance, and breach of contract. This arrangement allowed Turkey to decouple its sovereign debt rating from the project's debt rating and hence to borrow at more advantageous terms.

However, political risk insurance will continue to be limited in reach and coverage. Certain risks resulting from political actions such as adverse regulatory changes or changes to taxation are normally excluded from political risk insurance policies. Some forms of cover involve long delays before the policy eventually pays out. In the case of breach of contract, for example, insurers often do not cover the breach of contract event itself – they cover the failure of the government to pay arbitration awards following a dispute resolution process or attempts by the government to frustrate arbitration proceedings. Finally, PRI policies only provide protection against actions that are politically motivated. Thus, policies do not provide compensation when the cause of non-payment is strictly commercial or when the counterpart is a private entity.

Traditional risk management approaches involving the allocation of risks through contracts and the transfer of risks using insurance are necessary but not sufficient, particularly in the case of fragile or conflict-affected states where insurance may be excessively costly or simply unavailable. Many of the challenges facing investors in these contexts simply cannot be addressed by purely contractual and legal techniques and instruments. For example, the general legal uncertainty resulting from political instability, a weak central government or an unreliable judiciary cannot be resolved solely by well-drafted contracts and insurance policies. If the state's authority does not extend throughout the territory, agreements with the central government may not carry much weight with regional or local authorities.

3.4. Promoting and enabling responsible conduct

Responsible business conduct (RBC) principles and standards set out an expectation that all businesses – regardless of their legal status, size, ownership structure or sector – contribute to sustainable development and avoid and address adverse impacts of their operations. This encompasses impacts beyond the company itself and entails integrating and considering environmental and social issues within core business activities, including in the supply chain and business relationships. Although the term RBC is sometimes used

interchangeably with that of corporate social responsibility (CSR), it is understood to be more comprehensive and integral to core business than what is traditionally considered CSR, mainly philanthropy.

Policy-makers wishing to attract and keep quality investment and to ensure that business activity contributes to broader value creation and sustainable development have a central interest in promoting and enabling responsible business conduct. The rapid rise of global value chains presents a major development opportunity and is changing the way countries think about the competitiveness of their economies. Value chain activity is sensitive to the quality of the business environment, which, in addition to the development of human capital, infrastructure, availability of capital and quality of institutions, has been identified as one of the most important factors for enabling integration into global value chains (OECD, 2015a).

RBC expectations have been included in numerous high-level international commitments in addition to the main international instruments on RBC. It will be increasingly difficult for countries to attract quality investment and maximise its benefits without addressing RBC-related risks present in the business environment. For example, the 48 countries adhering to the OECD Guidelines expect companies based in their territories to implement the Guidelines wherever they operate. Similarly, businesses that want to access markets of these 48 countries are also subject to the Guidelines, and, in some cases, regulation related to RBC.

The OECD has developed a number of guidelines for encouraging responsible business conduct in fragile environments. Key among these are the OECD Guidelines for Multinational Enterprises (MNEs) for responsible business conduct complemented by sector-specific guidance on RBC due diligence as well as tools such as the OECD Risk Awareness Tool for Multinational Enterprises in Weak Governance Zones, which provides guidance for companies operating in zones of weak governance.

The sector guidance provide practical support to businesses on RBC and provide plain language explanations of RBC due diligence recommendations and associated provisions. This includes the including the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High Risk Areas. This guidance aims to help companies respect human rights, observe applicable rules of international humanitarian law in situations of armed conflict, avoid contributing to conflict and cultivate transparent mineral supply chains (including oil and gas) and sustainable corporate engagement in the minerals sector.

Other applicable and relevant sectorial guidance include the OECD-FAO Guidance for Responsible Agricultural Supply Chains; the OECD Due Diligence Guidance for Meaningful Stakeholder Engagement in the Extractive Sector; and the OECD due diligence guidance targeting the garment and footwear sector. OECD instruments align with the UN Guiding Principles on Business and Human Rights.

3.5. Enabling investments in the infrastructure sector

Given the different sectorial patterns of investment, and taking into account the different impact of sectors, governments should focus on reforms that target high growth potential sectors. In particular, infrastructure projects, whether in the transportation, energy, water or telecommunications sectors, are central in a post-crisis context to address reconstruction and rehabilitation needs, provide basic services to refugee and support the resilience of host communities through economic development and job creation (OECD, 2016, and Rubaba

et al., 2015). They are also instrumental in ensuring the continuity and viability of trade routes connecting countries to regional and global markets.

Yet infrastructure investment involves contracts that are by nature complex and of long duration, and that must ensure financial sustainability while meeting user needs and social objectives. Higher transaction costs, information asymmetries and continued political instability undermine both predictability and investor confidence. The challenges are more acute when foreign investors are involved, as is often the case where the infrastructure project exceeds a certain size. In addition, private infrastructure investment has become increasingly scarce, due to the global economic crisis, leading to tightened bank prudential regulations and commercial bank deleveraging, as well as perceived increased political risk in the MENA region.

To restore investor confidence and encourage infrastructure investments, governments need to address those hindrances together with ground-level barriers to private sector participation. Some mechanisms through which governments can support infrastructure projects include (OECD, 2015b):

- **Ensuring legal security and regulatory quality** through sound policy, legal and institutional frameworks, including specific frameworks to establish public-private partnerships;
- **Reinforcing leadership and professional expertise** in order to mobilise the right legal, financial and technical capacities in the public sector to design and execute complex contracts with private sector counterparts; and
- **Focusing on project selection and preparation** in order to develop a robust pipeline of bankable projects, identifying the risk allocation and delivery modes required for value-for-money and effective project delivery.

Public-private partnerships (PPP) have become a preferred modality for delivering infrastructure using private financing around the world. Because of the long-term nature of infrastructure investments and the high-level of risks associated with such investments, private participation in infrastructure needs to be underpinned by an institutional and legal framework that clarifies responsibilities of both public and private partners, specifies procurement processes for PPPs, allocates risks among different parties, and establishes a clear basis for resolving disputes, among other things.

Dedicated PPP laws and PPP units that can support contracting authorities help to provide the necessary reassurance and predictability for investors in infrastructure. Egypt, Jordan and Lebanon have recently established PPP frameworks.[12] The other countries should consider establishing similar frameworks, adapted to their specific needs, in order to create an enabling environment for infrastructure investment.

The electricity sector seems to have significant potential in the economies analysed, particularly renewable energies. The development of renewable energy using private financing also requires an institutional and legal framework that provides the necessary incentives, security and stability for foreign investors. Jordan has created a framework for renewable energy investment that has facilitated substantial foreign investment in solar and wind generation capacity.

4. Conclusion

FDI can bring many benefits to fragile contexts in the MENA region, but the risks faced by investors are high, and therefore tailored policies are needed. FDI to the six economies analysed in this note is an important source of revenue. Although the investment landscape is very different among these economies, many common patterns are observed. Concentration in a few sectors –sectors that do not particularly benefit sustainability or job creation in the long term– and in a few countries of origin make these economies highly exposed to volatility and therefore vulnerable.

Attracting and retaining sustainable FDI to fragile situations requires a comprehensive policy framework. It also entailes taking into account the role each stakeholder can play and developing proactive and relational approaches. A comprehensive policy should include strengthening the legal and institutional framework, developing tailored investment policies, leveraging risk mitigation mechanisms, promoting a responsible business conduct of the private sector, and targeting priority sectors.

This note points to some of the tools and mechanisms for the way forward, but further discussion is needed. There is much to be learned from sharing experiences and lessons learned about ongoing initiatives. The MENA-OECD Economic Resilience Task Force aims to serve as dialogue platform to identify the main gaps and potential policies that can contribute to increasing FDI to economies most strained by political instability, conflict or fragility. The task force aims to build bridges and understanding between governments, the private sector, as well as civil society and trade unions.

In order to move forward in the implementation of the key policy recommendations identified, the MENA-OECD Economic Resilience Task Force proposes to work on the following during 2019:

Policy area	Activity
Strengthen the investment legal framework	• EU-OECD Investment Programme in the Mediterranean (Egypt, Jordan, Lebanon, Libya) • GIZ-OECD Iraq investment and integrity initiative • Review of Lebanon's investment law
Adapt investment promotion policies	• Investment Promotion Agency (IPAs) network
Improving and expanding risk mitigation tools	• Focus topic for 2019 annual regional conference
Promoting a responsible conduct by the private sector	• Capacity building for the private sector • Awareness on the OECD Guidelines for MNEs and OECD Due Diligence Guidance
Enabling investments in the infrastructure sector	• Regional conference on quality infrastructure (Cairo)

[10] Libya and the West Bank and Gaza Strip are not included in the ratings.

[11]"Bolstered by MIGA, Turkey Hospital Project Draws Large Institutional Investors," https://www.miga.org/press-release/bolstered-miga-turkey-hospital-project-draws-large-institutional-investors.

[12] Both Egypt and Jordan have procured projects through private financing, but most of these were prior to the adoption of a PPP law, and were subject to sectoral laws or, in the case of Jordan, a Privatisation Law passed in 2000.

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