

# Collective healing: Opinion piece in Gulf Business, Sep 2013

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It's time to set up an Arab bank for reconstruction and development.

The MENA region is a land of contrasts and contradictions. The region is one of the richest in terms of energy and natural resources, resulting in high per capita incomes in the GCC countries while other countries are mired in poverty and underdevelopment. Per capita annual income in 2012 varied from a miserly \$862 in South Sudan to \$3,187 in Egypt, while Qatar towered at \$90,524. While the MENA region has grown, it has underperformed other emerging economies, with most of the growth accounted for by more inputs but little productivity, growth or innovation. Youth unemployment rates are the highest in the world. We should jettison outdated development models based on large public sectors that have failed to generate sustained growth, productivity gains, inclusiveness, or pulled people out of poverty. We should focus on supporting job-creating private business.

Growth has also been volatile, punctuated by wars, violence and destruction – notably in Palestine, Iraq, Sudan, Syria, Libya, Lebanon and Yemen with human capital and infrastructure destroyed. The cost of reconstruction exceeds \$1.1 trillion: \$700 billion for Iraq, \$250 billion and counting for Syria, and \$150 billion for the other countries. The Arab firestorm is now in its third year and has generated yet more violence and signalled the need for deep reforms.

In addition to reconstruction investment and finance, rapid

population growth, the Arab 'youth bulge' and urbanisation require massive infrastructure investment. Instead there has been severe underinvestment in the region's infrastructure despite the high economic and social returns. The World Bank estimates MENA's infrastructure investment and maintenance needs through 2020 at \$106 billion per year or seven per cent of the annual regional GDP. But there is a \$60 billion financing gap. Infrastructure investment is a job creating – each \$10 billion invested can lead to one million new jobs – and “growth-lifting” strategy, but it is not happening.

Reconstruction, infrastructure investment and financing 'transition countries' requires a multi-year sustained effort, regional cooperation and institution building. The international financial institutions recognise the need for financing in the region, but have continued to underinvest: less than eight per cent of their portfolios are in this region. Similarly, the MENA Transition Fund set up under the Deauville Partnership to support economic and political transitions in the firestorm countries has delivered meetings but little funding.

The time has come to set-up an Arab Bank for Reconstruction and Development (ABRD) to address these multiple challenges. We are the only region without a dedicated development bank. It would be a vehicle for change and transformation and for collective action. If there is one important lesson of the Arab firestorm, it is that the region needs to own its transformation and countries need to develop their own roadmaps. But as in post-Berlin Wall Europe, countries need assistance and a vision.

The ABRD would focus on: (a) Reconstruction and infrastructure finance, including regional and cross-border projects and investments that promote regional economies and integration; (b) Finance and promote private participation in infrastructure (PPI); (c) Development of financial markets in the region; and (d) Financing and promoting private sector

activity.

The ABRD would be a multilateral institution owned by the Arab countries and capitalised at \$100 billion, largely subscribed by the GCC (current account surplus of \$311 billion in 2013) and their aid agencies, along with the G20 countries. The EIB/EBRD, the Islamic Development Bank and other international financial institutions (IFIs) would participate and provide management expertise. With the global economy languishing in the Great Contraction, the GCC and the G20 would directly benefit from massive infrastructure spending across MENA.

The Arab firestorm is a defining moment for the GCC countries that should take the leadership in setting up the ABRD and provide a new vision and hope. They have a direct geo-strategic interest in the economic development, social and political stability of the Arab firestorm countries, in a smooth transition and breakaway from the current cycle of violence.