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# RSIS COMMENTARIES

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## **An Arab Development Bank: Institutionalising Change in Middle East**

By James M. Dorsey

### **Synopsis**

*Autocratic regimes and pro-democracy protesters in the Middle East and North Africa agree on the need for sustainable economic growth and integration into a globalised world. To achieve that, the region needs an Arab Development Bank like the development engines in Asia, Africa and Latin America.*

### **Commentary**

TEN MONTHS into a wave of popular protests that are reordering the Middle East and North Africa, the international community has yet to formulate a coherent, region-wide response to the shaping of the new realities that have buried long-standing assumptions and certainties. With the overthrow of three autocratic leaders in Tunisia, Egypt and Libya this year and the embattled presidents of Syria and Yemen teetering on the brink of demise, almost every other country in the region has been swept along by the tidal wave of protests.

Foreign powers – the United States, Europe, China and Russia – have responded ad hoc to the succession of crises rather than viewing them as a groundswell of demand for change that will shape the region's political map for a decade to come.

To be sure, the world's powers have different perspectives on the popular push for greater freedom and more economic opportunity. Moreover, the situation differs from country to country. Nonetheless, if there is one thing all, including the protesters, agree on, it is the need for development that promotes sustainable economic growth, creates jobs for the region's huge youth bulge, strengthens the private sector and particularly small and medium enterprises, and integrates the region into an increasingly globalised world.

### **A regional engine for development**

To do so, the region needs an Arab Development Bank much like the engines of growth in Asia, Africa and Latin America that function as coordinating operation centres and knowledge hubs. Creation of such an institution may be one of the few things that all parties – world powers with mutually exclusive agendas, embattled Arab leaders and emerging post-revolt governments – can agree on.

The region has the necessary building blocks: funding from the oil-rich Gulf states, a pool of indigenous talent and institutional models like the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD) and the International Finance Corporation (IFC).

Cooperation in the creation of an Arab Development Bank could help shift the basis on which world powers seek to find common ground on ways to halt the bloodshed in countries like Syria and Yemen and respond to the likely eruption of violence elsewhere in the region as the popular revolts spread.

Fuelling the popular revolts is the fact that two thirds of the Arab world's 300 million people are under the age of 29 in a region with an average youth unemployment rate of 40 per cent. According to the World Bank, Arab nations need to create some 100 million jobs in the next eight years. However Arab governments have not demonstrated vision or leadership to tackle the problem let alone displayed creativity and innovation in devising their policies.

### **A development bank to seek solutions**

Creating an Arab Development Bank would help to break the log jam and create a basis for tackling the most pressing problem in the Middle East and North Africa. It would provide a vehicle for Arab governments to seek solutions and provide a framework for necessary reform, for example, the way membership of the World Trade Organisation forced Saudi Arabia to take a hard look at parts of its legal system.

It would also streamline efforts to cater to post-revolt expectations of a better life and increased opportunity that run high in Egypt, Tunisia and Libya in the wake of the fall of their erstwhile leaders, Hosni Mubarak, Zine El Abedine Ben Ali and Moammar Ghaddafi.

An Arab Development Bank would give the region ownership of its transition at a time that post-revolt governments are sensitive about ensuring their country's sovereignty. Egypt, for example, cancelled in June plans to borrow US\$3 billion from the International Monetary Fund and the World Bank because the terms of the loan allegedly violated the country's sovereignty and would invite public protests.

### **International community takes first step**

The international community took a first step in the direction of the development bank model when the G-8 that groups the world's biggest economies recently mandated the EBRD to assist the post-revolt governments of Egypt, Tunisia and Libya as well as Jordan and Morocco, whose monarchs have initiated a process of change. The EBRD is waiting for the 63 countries and institutions that are its shareholders to ratify the expansion of its mandate. The G-8 countries have pledged US\$38 billion in new loans to support the region's transition to democracy.

The EBRD is the world's one financial institution whose *raison d'être* is and was transition. Created in 1991, its task was to assist eastern and central Europe in building market economies and ensuring growth and development in the wake of the demise of communism. The EBRD has much to offer the Middle East and North Africa, yet it remains a Europe-based, Europe-focused organisation rather than one that is oriented to the Middle East and North Africa.

Similarly, the IFC, the World Bank's private sector development arm, could serve the Arab bank as an example of how to turn a profit on investments in risky markets and become a beacon that gives private sector investors the confidence to follow suit. This is particularly relevant to the Middle East and North Africa where the state dominates the economy.

Finally, the ADB has demonstrated in the Asia-Pacific that youth bulges are as much an asset as they are a challenge. ADB's focus on promoting education, the development of small and medium enterprises and regional integration ensured that economic growth was driven by a young population that was gainfully employed.

The wave of popular revolts sweeping the Middle East and North Africa feed on indigenous determination to force change despite the high price in blood that protesters are paying. They demand to be part of the post-revolt transition after the demolition of the old regimes. By giving Arabs ownership of the process, the Arab Development Bank would function as a catalyst and a bridge in an increasingly polarised part of the world.

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