

## MENABANK:

### Would U.S. Membership Help the Peace Process?

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Brief Analysis

**W**hat Is MENABANK? The idea for a regional development bank in the Middle East has been around for years. However, practical work for creation of a bank only began when the four core peace process parties—Israel, the Palestinian Authority, Jordan, and Egypt—jointly proposed the creation of the Bank in 1995. Subsequently, a charter for the Bank was developed.

The Bank has a private-sector focus, including authority to lend to borrowers without a sovereign guarantee, i.e., without any guarantee that the loan will be repaid if necessary by the government of the country in which the borrower is located. MENABANK is the only multilateral development bank, other than the International Finance Corporation (a World Bank affiliate) that can make loans without sovereign guarantee. MENABANK's proposed capital base is \$5 billion, of which members would contribute a small portion while guaranteeing the rest.

The United States is proposed to be the largest shareholder with 21 percent. The regional members include the three Maghreb countries of Algeria, Morocco, and Tunisia, as well as the four core peace process parties which would each hold 4 percent. Other members include Russia, Japan, Italy, Netherlands, Canada, Turkey, and Greece. Twenty-five percent of the capital is being reserved for countries that may join once the Bank begins operations. There is expectation of sufficient interest to take up the open shares, especially from West European countries but also from China. Membership by Persian Gulf states may not come as quickly.

Although the United States has been interested in a Middle East development bank since the days of President Carter and has strongly supported MENABANK, it is now a laggard in ratifying the MENABANK charter. Part of the reason for congressional reluctance was concern about whether the Bank had a role to fill, but that issue seems to have been addressed. The remaining issue is budgetary, that is, finding the money needed for the capital subscription (the United States is providing the funding for the transition team). In the absence of such funding, the transition team has been able to start the ball rolling, but it will be difficult to sustain the momentum unless funding is approved soon.

**The Transition Team:** Transition team members come from eight different countries: the United States; Japan (Yukimasa Fukuda); Egypt (Wafik Grais); Canada (Norman Riddell); the Netherlands (Wim Ritzerfeld); Italy (Lorenzo Savorelli); Israel (Daniel Yariv); and Jordan (Iyad Ahmad). The team has laid the groundwork for the functioning of the Bank, from by-laws to treasury-related issues, organizational structure, personnel and operations policy. The plan is for the Bank to have a small staff (a total of 150 personnel) with a low managerial overhead (the board of directors would neither be full-time nor resident in Cairo). The team has also drafted a headquarters agreement with the Egyptian government regarding the MENABANK's location in Cairo. In addition, the team has developed a web site ([menabank.org](http://menabank.org)).

**The Peace Process:** In the Middle East almost everything is political, and the MENABANK is no exception. The MENABANK is a child of the peace process, and with the difficulties in the process over the past year, the

MENABANK has not had the full cooperation from the region for which it had hoped and which would let it play more of a role. Although the MENABANK tries to be as apolitical as possible, clearly, the transition team could be making swifter progress if the peace process was faring better.

Proposed Projects: One of the goals for the MENABANK is to promote peace by building regional stability through improved regional economic ties. To achieve this goal, the MENABANK will focus on projects with a regional aspect. This will include many projects with the involvement of both Arabs and Israelis.

The transition team is working on a pipeline of projects before the MENABANK opens. The proposed projects vary in size from \$10 million to \$1 billion in all sectors, including finance, infrastructure, energy, tourism, telecom, and agro-industry. One project is the establishment of a deep sea port at Port Said, Egypt. This project will cost an initial investment of \$80 million with an additional \$400 million to support the access channels. This is a build-operate-transfer (BOT) project, to be done by a private firm which, after running the facility for many years, will hand it over to the government. The port will be used for transshipping containers; for instance, a ship from Japan might offload containers destined for various destinations in the eastern Mediterranean which would then be sorted and combined with containers from other ships and reloaded onto separate ships headed to each of the destination ports.

Another project the transition team is currently working on is the Dead Sea Water Treatment and Production Facility. This project, a joint Israeli-Jordanian venture, strives to make use of the water entering the Dead Sea from the Jordan River by increasing the quality of water and diverting it to the two countries' chemical industries along the Dead Sea shore. The cost of investment will be \$100 million. A third project is the Wadi Araba/Arava Wind Power Project (Joint Rift Valley Program). The MENABANK will help this joint wind farm located across Israel and Jordan to produce electricity in both countries. This environmentally-friendly project is expected to cost \$85 million. An additional project that the MENABANK hopes to fund is the Middle East Credit Reporting Company in Egypt. Presently, Israel is the only country in the Middle East that has a credit reporting agency; without access to accurate credit records, banks are reluctant to lend to smaller firms. The initial \$10 million project is for Egypt but the MENABANK is looking to help other countries establish this type of agency. The MENABANK is working on several other projects, including an Egypt turnaround fund for privatization, an Egypt-Jordan gas pipeline, a Red Sea Water Desalination Plant in Egypt, a private tourism promotion facility in Israel and Jordan, and a toll bridge linking Amman, Jordan to Nablus, West Bank.

How will the United States benefit? As the largest shareholder, the United States will have full opportunity to participate in procurement activities. In addition, the Bank is sure to expand opportunities for U.S. investment in the region. Moreover, as an institution designed to promote peace, perhaps the most compelling rationale for the United States to support the Bank is that it will contribute to economic stability in a region that, unfortunately, lacks stability.

◆ This Special Policy Forum Report was prepared by Elyse Aronson.

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