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**UN Seminar on
The role of Regional Financial Arrangement**

The Arab experience
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INTRODUCTION

The Arab region has a very rich and diversified experience in regional economic cooperation that began in 1944 with the creation of the League of Arab States. The League was among the first official regional institution to be created after World War II. The aim of the League was to develop cooperation between Arab countries in all fields, including trade, finance and defence.

Unfortunately, the League was not very successful in securing an Arab common stand in international affairs due to different political and economic factors that cannot be studied here. It also failed in different endeavours to develop Arab economic integration. In this respect, some Arab sub-regional economic cooperation and integration agreements were signed, but only the **Gulf Cooperation Council (GCC)** created in 1981 between the oil rich Arabian Peninsula countries was successful (Saudi Arabia, Kuwait, Oman, United Arab Emirates, Bahrain, Qatar). **The Union of Arab Maghreb** created in 1989 and regrouping Tunisia, Algeria, Morocco, Libya and Mauritania has been weakened by political tensions between some of its member countries, while the **Arab Cooperation Council** created the same year between Egypt, Jordan, Iraq and Yemen was dissolved in 1991.

As will be seen in the first part of this study, many inter-Arab agreements in the field of economic and financial arrangements have been signed between Arab League member countries, but implementation of such agreements has remained very limited.

However, substantial progresses have been made since the early seventies in the field of regional financial cooperation through the creation of different financial institutions to provide needy Arab countries with low cost official regional lending. This successful experience was quickly expanded to countries outside the region through the creation in 1974 of both the Islamic Development Bank and the Arab Bank for the Development of Africa together with the Special Arab Aid Fund for Africa.

Low cost official financing was also made available to Arab and non-Arab countries in the developing world by national financial institutions created by the Arab oil exporting countries. In fact, as will be seen in this study, substantial amount of financing originating from the region has been made available through various pan Arab institutions and the Islamic Development Bank to Arab countries in priority, but also to other developing countries belonging to the Organisation of the Islamic Countries or not.

In fact, since the increase in oil prices, the Arab region has seen a mushrooming of financial institutions, including large commercial institutions in the field of Banking and Finance created by Arab Governments or Arab Government owned banks (Arab Banking Corporation - ABC, Gulf Investment Bank - GIB, Arab Investment Company - AIC, Gulf Investment Company - GIC), in addition to numerous private Islamic banking and financial institutions.

Banking institutions were also created as consortium banks between the main Arab banks (private and Government) and large Banks in Europe or in other countries (Union of French and Arab Banks, Banque Arabe et Internationale d'Investissement, Paris, European Arab Bank, Arab Malaysian Bank). Some of these banks have disappeared to day together with other large consortium banks that were created on international capital markets during the seventies.

This study we will only be concerned with official financial institutions and arrangements existing in the Arab region and supplying concessional financing or facilities and grants. As will be seen, and due to the specific regional economic and financial circumstances, most of these institutions extend development financial facilities to countries outside the region.

Another specific feature of these institutions is that they do not have any shareholding by OECD countries nor do they tap the international financial markets or the domestic Arab capital markets to finance their operations. Funding of activities originates exclusively from the contribution of shareholders' countries, the bulk of such contribution coming from the Arab Peninsula oil exporting countries. This is not the case for other large regional financial institutions in Africa, Latin America and Asia.

In fact, as will be seen in part I of this study, the Arab experience in regional official funding has developed successfully in the very specific circumstances of the boom in oil prices that occurred in the early seventies of last century. But it has survived the sharp decline in oil prices during the eighties and the nineties and maintained their operations even at reduced levels from the seventies. To day, a large pool of expertise in development finance has accumulated in the region and most institutions have adapted their operations to new emerging needs of their countries (equity investment, micro-credit, aid to SMEs, etc.). However, financing infrastructure remains the largest user of available resources.

Statistical aggregates available are not always detailed or presented in a way that would ease adequate analysis. But annual reports produced by some of these institutions are quite detailed. Aggregate figures from Arab sources are different from statistics to be found in the DAC Committee annual report. We believe that OECD statistics do not have the adequate coverage of all Arab institutions and financial arrangements, but we will use both statistical sources to analyse the different ODA flows originating in the region on in which Arab countries plays a major role.

It is also worthwhile to note that the institutional set-up of the region suffers from the fact that the Arab countries, but also other Middle Eastern countries, belongs to different regions as defined by the United Nations system. There is no Arab region as such recognized by the UN system. Thus, the Economic and Social Commission for Western Asia (ESCWA) includes only part of the Arab countries (Arabian Peninsula countries including Yemen, Iraq, Jordan, Egypt, Lebanon and Syria); other Arab countries situated in Africa (Morocco, Algeria, Mauritania, Tunis, Libya, Sudan, in addition to Egypt who

is member of the two commissions) are members of the UN Economic Commission for Africa (ECA). Turkey belongs to the UN Economic Commission for Europe (ECE).

As for the large multilateral funding institutions like the World Bank or the IMF, there is also no Arab region, but a Middle East and North Africa region (MENA), including all the Arab countries to the exception of Sudan and Mauritania together with Iran, Afghanistan and Pakistan. Turkey which is a key Middle Eastern country is always included in Europe in regional groups at the UN or other sister institutions.

This represents an additional complication when looking at the Arab region.

<p>I</p> <p>ECONOMIC AND POLITICAL BACKGROUND TO THE CREATION AND DEVELOPMENT OF ARAB DEVELOPMENT AGENCIES</p>
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The Arab League had promoted since its creation several schemes to induce member countries into developing regional economic integration. The basis of this cooperation was the Treaty of Common Defence and Economic cooperation signed by Arab League member countries in 1950. Two collective bodies were successively created to promote economic cooperation and integration: first, in 1953, the Economic Council (to become in 1977 an **Economic and Social Council**); then, in 1957 a decision was taken to create the **Council for Arab Economic Unity** which was signed by Iraq, Yemen, Kuwait and Egypt and was implemented only in 1964. In 1964, a decision was taken by this Council to create an **Arab Common Market** to which also only a few Arab countries adhered; in 1996 a **Greater Arab Free Trade Zone (GAFTA)** has been created to which 17 Arab countries (on 21) have now adhered. Tariff reductions on goods have reached 60% at the end of 2003. The GCC member countries signed a custom union in this same year setting a common tariff ceiling of 5%.

Since 1991, Lebanon and Syria has signed different treaties for economic cooperation, including an agreement to suppress custom duties for their trade of goods. More recently Egypt, Jordan, Morocco and Tunisia signed an agreement called the “**Aghadeer Declaration**” for launching a free trade area between themselves to be fully implemented by the end of 2012.

Arab league members signed many other specific agreements during the fifties and the sixties in the field of customs harmonization, facilitation of trade and transit, facilitation of payments and capital movements.

In spite of these efforts, inter-Arab trade has not developed remaining at the level of 6% to 8% of total Arab foreign trade.

We will not discuss here the problems affecting the lack of progress in Arab regional economic integration, but it is worth noting that economic cooperation between Arab countries have developed substantially during the last twenty years in the field of inter-Arab private investment and in the field of official development assistance both on a bilateral level and on a regional level.

The development of this cooperation can be attributed to the sudden increase in oil receipts by Arab oil exporting countries when oil prices exploded during the seventies of last century. These countries at that time did not have the capacity to absorb in their domestic economies the new financial flows that was accruing to them. Some of these countries with small population (Kuwait, United Arab Emirates, Qatar, Oman, Libya) could not find enough domestic needs to absorb the enormous financial surpluses that began to accumulate from the oil sector.

On the other hand, many Arab non-oil exporting countries had very large population (Egypt, Yemen, Syria, Sudan, Morocco) with rather low income per capita and great needs for more State spending on infrastructure. Other small size Arab economies like Lebanon, Jordan and Tunis had also important financial needs to increase State investment in infrastructure, health and education.

As official efforts by the Arab League to promote economic cooperation and regional integration were not successful and as a small group of Arab countries became very rich financially, a consensus emerged that building regional financial institutions to provide the poorer Arab countries with concessional loans and grants should become a priority.

In fact, this trend has begun since the end of the sixties when the Arab Fund for Economic and Social Development (AFESD) was created on paper in 1968, but began operation only in 1972. The trend was thus accelerated when oil prices began to increase in 1971.

One other factor contributing to the trend was of more political nature. It is linked to the Arab-Israeli war of 1967 when Arab Gulf countries who did not participate in the war, but were beginning to become richer through the increase in their oil production, accepted to extend financial help to the countries that participated in the war and had to support heavy economic losses (Jordan, Egypt and Syria). Bilateral loans or grants were extended to these three countries to rebuild their armies and contribute to compensate them for their economic losses.

As the Arab oil exporting countries became richer in the wake of the fourfold increase in the prices of oil and the 1973 Arab Israeli war, the trend was reinforced. "Rich" Arab countries were stimulated at this time to promote Arab regional financial agencies and supply them with adequate resources so that they could decrease bilateral lending that was now being extended not only to other Arab countries, but also to other developing countries that were suffering from the rise of oil prices. This was also the rationale behind creating the Islamic Development Bank (ISDB) in 1974 as another big financial

institution with a larger geographical scope than the Arab world. The same thing could be said about the Arab Bank for the Development of Africa (ABDA) created in 1972.

Other pan-Arab institutions were also created in the same economic context as the Arab Monetary Fund, the Arab Petroleum Investment Corporation (APICORP), the Arab Authority for Agricultural Investment and Development (AAAID) and the Inter-Arab Investment Guarantee Corporation (IIGC).

In this respect, it is also worth mentioning that Arab oil exporting countries created in 1972 an organisation of their own, called Organisation of Arab oil exporting countries (OAPEC). This organisation was not intended to be a substitute to OPEC regrouping Arab and non Arab oil exporters, but rather to be a forum for Arab oil exporting countries to discuss and study the evolution of Arab oil policies and arrive at a common stand inside OPEC or in the relations between OPEC and consumer countries.

It is also to be mentioned that the Arab oil exporting countries were have been strong promoters and founders with very sizeable financial contributions of other lending institutions created at the same period as the International Fund for Agriculture Development (IFAD) and the OPEC Development Fund.

The oil exporting countries did also create national lending agencies to provide soft loans and grants to Arab countries and to other developing countries. Saudi Arabia, United Arab Emirates, Kuwait and Iraq created National agencies (called Fund) to grant soft loans to Arab and non-Arab developing countries. In this respect, one should also note that Venezuela did also create at the same period a Venezuelan External Fund to supply soft loans to developing countries.

This was the time in fact when developing countries began to be classified into two categories: oil exporting and non-oil exporting countries. Arab development agencies (ADA) did also divide Arab countries into these two same categories.

As regional ADA and National External Funds became operational, bilateral lending and grants by Arab oil exporting countries began to decline, although it was used once more substantially in the context of the First Gulf War (namely for Morocco, Egypt and Syria who participated in the coalition to liberate Kuwait from Iraqi occupation).

In fact, as will be seen from this study, Arab oil exporting countries have devoted a substantial percentage of their GDP to foreign aid since the middle of the seventies and the ADA, as well as the ISDB have developed an in-depth expertise in development lending and support to public and private sector. As will be seen in this study, amounts of ODA extended by Arab oil exporting countries bilaterally or trough their funding of regional institutions - have been dependent on the level of oil prices, with aid increasing when prices go up and decreasing with downturn in prices. However, the level of aid extended by the oil exporting countries belonging to the Arab Region, inside and outside the region, remains quite substantial and at a higher level in relation to GDP than aid extended by OECD members of the Development Aid Committee (DAC).

All Arab regional institutions do meet each year to review policies and programs and discuss progresses in Arab economic cooperation. Ministers of Finance or of National Economy sitting on the Board of these institutions attend regularly this important yearly gathering taking place in Kuwait who host the head offices of many of these institutions that are regrouped in one building with a magnificent architectural style (combining modern forms with traditional Arabic internal decoration). In addition Arab Central Governors meet on annual basis on the occasion of the General Assembly of the AMF.

As already stated in the introduction, we will restrict our analysis to official Arab institutions or official institutions based in the Arab World (like the Islamic Development Bank) and which mission is to supply development finance and grants under different forms. We will review also official financial facilities existing to encourage the development of inter-trade inside the region or between Islamic countries and that these institutions manage.

<p>II</p> <p>AN ANALYSIS OF THE REGIONAL FINANCIAL INSTITUTIONS AND THEIR ACTIVITIES: THE GLOBAL VIEW</p>

It is not easy to analyse the statistics available on Arab institutional aid.

Although this study is mainly concerned with Regional development lending institutions, it is useful to look at the main channels through which Official Aid is being disbursed. The following four main channels could be identified:

- Bilateral Official Aid to Arab and non Arab developing countries
- Aid from national Aid Funds to Arab and non Arab developing countries
- Aid from regional Arab lending institutions to Arab countries
- Aid from multilateral lending institutions with geographical specialisation, namely the Islamic Development Bank and the Arab Bank for the Development of Africa.

The main statistical sources concerning these channels are gathered by the AFESD and published each year in the Arab Unified Economic Report (AUER). This document is prepared by AFESD but published jointly by the General Secretariat of the Arab League, AFESD, the Arab Monetary Fund and OAPEC.

Tables and graphs of this part of the report are based either on data taken from the last annual AUEF or from the on line electronic database of the OECD concerning flows of ODA to developing countries.

Aggregated Arab ODA according to Arab official source

According to the 2003 annual AUER, global Arab official development assistance has reached the amount of 117.5 billion US \$ for the period 1970-2002, as is shown by the Table 1 here under.

It is to be noted that the OECD online database on ODA flows reports a total of 91.3 billion US \$ for the same period, as shown in Table 2. We believe that the difference might be due to the fact that the coverage of the AUER might be wider than the OECD coverage.

Table I. Global Official Development Assistance from Arab countries 1970-2002

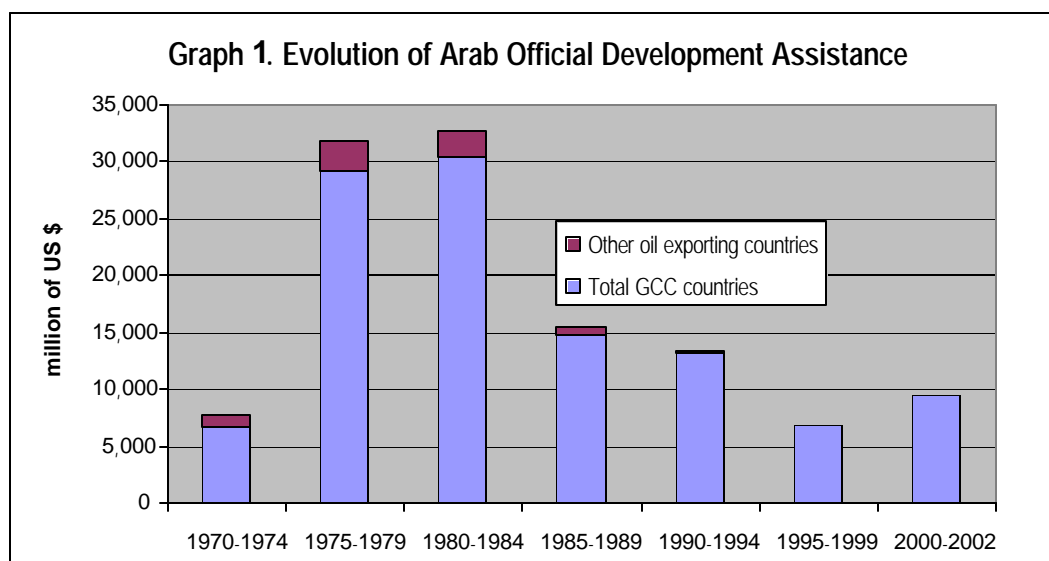
In million of US \$	1970-1974	1975-1979	1980-1984	1985-1989	1990-1994	1995-1999	2000	2001	2002	TOTAL	(%)
United Arab Emirates	923	4,857	2,768	272	1,957	482	216	208	219	11,902	10.1%
Saudi Arabia	4,013	18,515	21,503	12,253	8,698	4,359	2,505	2,455	2,674	76,975	65.5%
Oman			6	198	189	77	24	24	24	542	0.5%
Quatar	279	1,076	692	28	44	187	94	129	73	2,602	2.2%
Kuwait	1,396	4,682	5,481	2,080	2,302	1,706	173	225	408	18,453	15.7%
Total Gulf Cooperation Council	6,611	29,130	30,450	14,831	13,190	6,811	3,012	3,041	3,398	110,474	94.0%
Algeria	73	449	354	262	45					1,183	1.0%
Iraq	453	1,577	1,091	-76	76					3,121	2.7%
Libya	559	714	846	498	118					2,735	2.3%
Total other Arab countries	1,085	2,740	2,291	684	239					7,039	6.0%
Total Arab Region	7,696	31,870	32,741	15,515	13,429	6,811	3,012	3,041	3,398	117,513	100%

Source: Arab Economic Unified Report for year 2003

The main features of this ODA are the following.

1. The aid is massively supplied by the GCC countries (94%).
2. Other Arab oil exporting countries shown in the Table have also been donors, but their contribution stopped after the first Gulf War. Iraq contribution stopped even before due to its war with Iran that depleted its financial resources.
3. Inside the GCC, Saudi Arabia is by far the largest donor (65.5% of the total). It is followed by Kuwait (15.7%) and the UAE (10.1%). Other GCC donors are marginal.
4. The aid has jumped from 7.7 billion US \$ for the period 1970-1974 to a peak of 32.7 billion US \$ during the 1980-1984 period. It then declined to a low of 6.8 billion \$ during the period of 1995-1999. However, with the upward trend in the prices of oil since 1999, we can see that amounts disbursed have substantially increased during the last three years (2000-2002) reaching 9.5 billion US \$.

The following graph shows very clearly this evolution and its links with the sharp fluctuations of oil prices.



Source: Arab Economic Unified Report for year 2003

The following table shows the importance of Arab assistance in relation to the GDP of the donor countries during the last thirteen years.

Table 2. ODA amount in percentage of GDP of Arab donors

	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
UAE	0.5	2.7	1.7	0.5	0.7	0.3	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.3
Saudi Arabia	2.9	4.2	1.5	0.7	0.7	0.5	0.5	0.4	0.3	0.7	1.0	1.3	1.3	1.4
Kuwait	3.0	5.0	2.4	0.8	1.4	0.1	0.1	1.1	0.6	0.8	1.1	0.4	0.6	1.0
Total Gulf Cooperation Council	2.5	4.0	1.6	0.7	0.8	0.4	0.6	0.4	0.3	0.6	0.8	1.0	1.0	1.0

Source: Arab Economic Unified Report for year 2003

As it can be seen, the percentage of GDP devoted to ODA by the GCC countries after peaking at 4% in 1990, a considerable figure, declined to 0.3% in 1997, but increased to the stable level of 1% during the last three years.

The evolution of Arab share in ODA by all donors according to OECD source

The OECD on line data base allow us to compare the evolution of ODA by DAC member countries and by Arab donors; it also allows us to make the same comparison between total ODA by multilateral agencies and by Arab agencies.

Table 3 here under gives the yearly evolution of ODA since 1970 when Arab ODA began to be included in the OECD database.

The following remarks could be formulated.

Table 3. Share of Arab donors and Arab Agencies in total ODA 1970-2002
(in million of US \$)

year	ALL Donors	Arab Agencies	Arab Countries	DAC Countries	Multilateral	Non-DAC Bilateral Donors	Arab Countries to DAC countries	Arab Countries to all donors	Arab Agencies to Multilateral	Arab countries to Non Dac bilat. Donors
1970	6,869		382	5,421	1,067	382	7.0%	5.6%		100%
1971	7,765		436	6,034	1,295	436	7.2%	5.6%		100%
1972	8,224		604	6,247	1,373	604	9.7%	7.3%		100%
1973	10,686		2,058	6,675	1,953	2,058	30.8%	19.3%		100%
1974	14,234	117	3,641	7,784	2,808	3,641	46.8%	25.6%	4.2%	100%
1975	17,908	159	4,904	9,180	3,792	4,936	53.4%	27.4%	4.2%	99.3%
1976	16,884	412	4,231	8,779	3,842	4,263	48.2%	25.1%	10.7%	99.3%
1977	18,099	1,101	3,978	9,276	4,824	3,999	42.9%	22.0%	22.8%	99.5%
1978	24,756	963	6,505	12,238	5,985	6,532	53.2%	26.3%	16.1%	99.6%
1979	28,136	256	6,572	15,305	6,229	6,602	42.9%	23.4%	4.1%	99.5%
1980	33,594	280	8,808	16,979	7,766	8,849	51.9%	26.2%	3.6%	99.5%
1981	32,675	400	7,576	17,198	7,895	7,582	44.1%	23.2%	5.1%	99.9%
1982	29,850	388	4,652	17,625	7,570	4,655	26.4%	15.6%	5.1%	99.9%
1983	29,080	313	3,863	17,780	7,435	3,865	21.7%	13.3%	4.2%	100%
1984	30,286	146	3,654	19,041	7,586	3,658	19.2%	12.1%	1.9%	99.9%
1985	32,262	127	2,975	21,185	8,083	2,994	14.0%	9.2%	1.6%	99.4%
1986	37,830	143	3,855	25,210	8,749	3,872	15.3%	10.2%	1.6%	99.6%
1987	41,686	72	2,931	28,877	9,866	2,943	10.2%	7.0%	0.7%	99.6%
1988	45,005	60	1,889	31,946	11,124	1,935	5.9%	4.2%	0.5%	97.6%
1989	46,814	138	1,440	32,923	12,401	1,490	4.4%	3.1%	1.1%	96.7%
1990	57,629	75	5,833	38,462	13,292	5,876	15.2%	10.1%	0.6%	99.3%
1991	61,529	153	2,406	42,991	15,905	2,632	5.6%	3.9%	1.0%	91.4%
1992	61,070	283	774	42,773	17,238	1,059	1.8%	1.3%	1.6%	73.1%
1993	56,560	184	910	39,018	16,279	1,263	2.3%	1.6%	1.1%	72.0%
1994	60,490	257	764	40,970	18,583	937	1.9%	1.3%	1.4%	81.5%
1995	59,697	-21	527	40,481	18,455	761	1.3%	0.9%	-0.1%	69.3%
1996	56,636	-36	573	39,088	16,709	839	1.5%	1.0%	-0.2%	68.2%
1997	48,686	-37	549	32,394	15,435	857	1.7%	1.1%	-0.2%	64.0%
1998	51,353	-8	434	35,207	15,418	728	1.2%	0.8%	-0.1%	59.6%
1999	52,691	37	238	37,830	14,326	535	0.6%	0.5%	0.3%	44.4%
2000	50,385	35	443	36,064	13,537	783	1.2%	0.9%	0.3%	56.6%
2001	52,097	145	595	35,124	16,064	909	1.7%	1.1%	0.9%	65.5%
2002	61,959	139	2,321	40,734	18,513	2,712	5.7%	3.7%	0.8%	85.6%
Grand Total	1,243,423	6,281	91,323	816,837	331,397	95,189	11.2%	7.3%	1.9%	95.9%

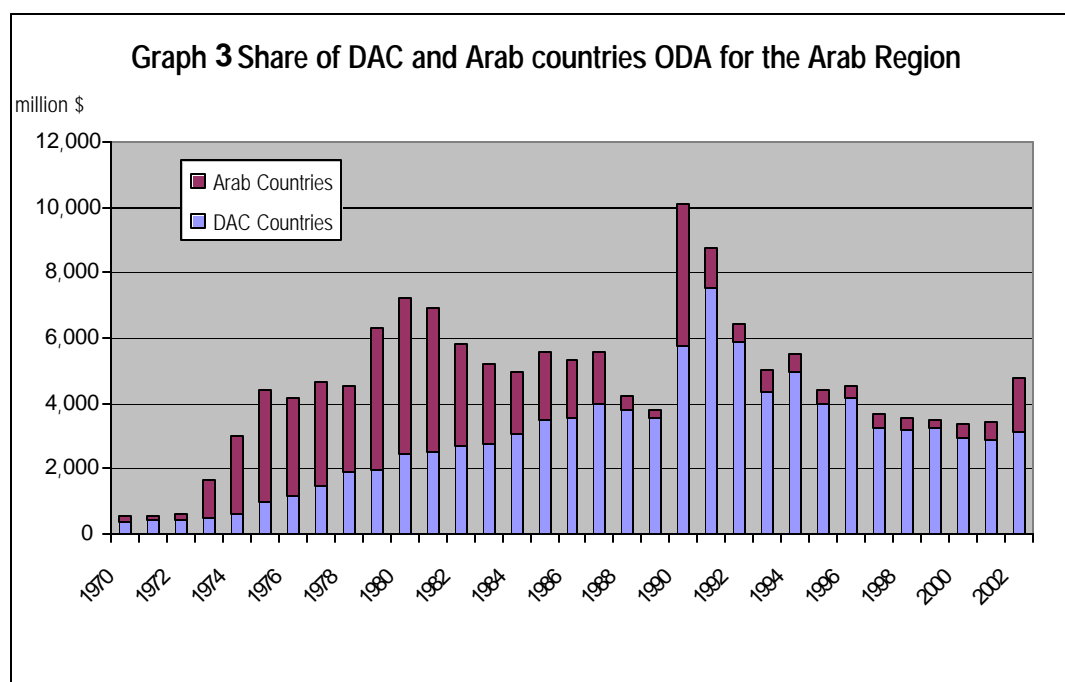
Source: OECD on line database

1. Arab ODA during this period (US \$ 91.3 billion) has been equivalent to 11.2% of ODA supplied by DAC countries (1 243.4 billion).
2. Between 1973 when oil price went up four times and 1981 when oil prices began their decline, Arab bilateral ODA was equivalent to a range of 31% to 53% of DAC countries' ODA. After 1981, Arab ODA began to decline and during the last ten years

its amount represented between 2.3% and 0.6% of DAC countries ODA. In 2002, however, due to a substantial increase in oil prices, the share of Arab ODA reached 5.7%.

3. Share of Arab ODA in total ODA (DAC and non-DAC) represented 7.3%, but 95.9% of non-DAC ODA. During the years of the oil boom (1974-1981), the share of Arab ODA to total ODA fluctuated between 22% and 25%.
4. Arab ODA from Arab Development Agencies seems to be underestimated according to OECD statistical system; statistics from the AUER show a much higher figure as will be seen here under.

The following graph shows the compared evolution of bilateral ODA between Arab donors and DAC donors. One can see that the first peak during the period 1974-1984 in the share of Arab ODA is linked to the oil price increase, while for the second peak in 1991-1992 is linked to assistance extended in the context of the first Gulf war. The new increase in 2003 is again linked to increase in oil prices.



Source: OECD on line database

Share of Arab donors in total bilateral ODA to Arab countries according to OECD statistics

Table 4 analyses the share of Arab donor countries in total ODA received by Arab countries. It appears from this table the following main features:

1. Arab share of total ODA to Arab beneficiaries have reached 29.2% during the period.
2. For certain Arab countries, this share has reached 94.4% in the case of Bahrain, 50% in the case of Jordan, 40.6% in the case of Lebanon, 78% in the case of Oman, 77.9%

in the case of Syria and 44% in the case of Yemen. Thus, almost all ODA to countries belonging to the GCC is from Arab origin, while a very substantial part of ODA to countries suffering from the Arab Israeli conflict (Lebanon, Jordan and Syria) comes from Arab donors (between 40% and 80%).

3. The Arab donors' share in ODA to Arab countries is equivalent to 57% of DAC amount of ODA to the same countries.
4. Share of Arab Agencies represents 12% of ODA supplied by all multilateral institutions to the Arab region. We believe however that the coverage of Arab Agencies by the OECD database might not be exhaustive and probably excludes National Funds (that might be included in the bilateral aid) as well as the Islamic Development Bank and the Arab Bank for the Development of Africa.
5. It is important to note that ODA to the Arab region has been heavily concentrated on a few countries (Egypt, Jordan, Morocco, Syria). Bilateral Arab ODA has been more evenly distributed although we find that Egypt, Syria, Jordan and Morocco have also been very important beneficiaries of Arab aid.

Table 4 Distribution of aid to Arab countries according to different donors 1970-2002

<i>in million US \$</i>	All Donors	Beneficiary country to Total	DAC Countries	Non-DAC Bilateral Donors	Arab Countries	% Arab Donors to all Donors	Multilateral	Arab Agencies	% Arab Agencies to Multilateral
Algeria	6,209	3.3%	4,400	581	548	8.8%	1,229	38	3.1%
Bahrain	2,206	1.2%	37	2,088	2,083	94.4%	82	49	59.6%
Djibouti	2,478	1.3%	1,622	376	374	15.1%	480	30	6.3%
Egypt	61,102	32.4%	43,093	10,954	10,942	17.9%	7,055	2,128	30.2%
Iraq	3,150	1.7%	2,172	148	114	3.6%	829	38	4.5%
Jordan	17,505	9.3%	6,387	8,808	8,769	50.1%	2,310	116	5.0%
Kuwait	121	0.1%	75	0	0	0.0%	47	5	10.2%
Lebanon	5,098	2.7%	1,709	2,070	2,069	40.6%	1,318	57	4.3%
Libya	312	0.2%	141	3	0	0.0%	167	3	1.7%
Mauritania	6,205	3.3%	2,526	971	969	15.6%	2,708	202	7.5%
Morocco	17,329	9.2%	9,166	4,803	4,788	27.6%	3,360	372	11.1%
Oman	2,165	1.1%	358	1,710	1,707	78.8%	97	37	37.5%
Palestinian adm.areas	6,537	3.5%	2,622	1,314	1,298	19.8%	2,601	32	1.2%
Qatar	51	0.0%	32	0	0	0.0%	19	0	0.3%
Saudi Arabia	762	0.4%	423	10	5	0.6%	328	2	0.6%
Somalia	9,119	4.8%	5,080	1,070	1,064	11.7%	2,970	141	4.7%
Sudan	15,278	8.1%	7,049	2,894	2,888	18.9%	5,335	304	5.7%
Syria	17,267	9.2%	2,560	13,484	13,459	77.9%	1,223	170	13.9%
Tunisia	7,466	4.0%	4,842	472	447	6.0%	2,152	231	10.7%
United Arab Emirates	225	0.1%	135	53	53	23.6%	36	0	0.5%
Yemen	8,008	4.2%	2,504	3,571	3,571	44.6%	2,180	393	18.0%
Grand Total	188,593	100%	96,933	55,379	55,148	29.2%	36,527	4,347	11.9%

Source: OECD on line database

Thus, according to OECD database on aid flow and to the main ODA aggregate as shown in Table 5, we can draw the following conclusions.

**Table 5 Arab share in the distribution of overall ODA
1970-2002**

<i>- in billion of US \$ -</i>	Amount	Share
Total aid by all donors to all countries	1,243	100%
DAC countries ODA to all countries	817	66%
Multilateral Agencies	332	27%
Non-Dac ODA to all beneficiaries	95	8%
<i>Arab Donors' ODA to all beneficiaries</i>	91	7%
<i>Arab donors' share to non-DAC ODA</i>		96%
Total aid by all donors to Arab countries	189	15%
<i>Arab Donors' share of ODA to Arab countries</i>	55	29%
<i>Arab countries share of Arab ODA</i>		60%

1. Arab ODA has played an important role in the flows of resources to developing countries. During the period 1970-2002 its share of total ODA disbursed has represented 7%, although during the years of the oil boom this share has reached almost 30%.
2. In fact, ODA from Arab countries has represented 96% of ODA not granted by DAC countries.
3. As for ODA granted to Arab countries, the share of Arab donors has reached 60% of all ODA disbursed to these countries.
4. According to the same OECD statistics, ODA disbursed by Arab Agencies has only represented 1.9% of total ODA disbursed by multilateral institutions. As already mentioned, we believe that OECD coverage might be strictly restricted to the two main exclusively Arab institutions and has not been extended to other institutions where Arab funding is predominant.

The following part based on statistics from the main Arab official sources gives a different picture of the size of Arab funding through different regional institutions.

ODA through Arab Development lending institutions according to Arab official source

Amounts disbursed through national, regional and multilateral lending institutions with a majority of Arab shareholding is estimated by the AUER at 64.3 billion US \$ for the period 1970-2002 (instead of \$ 6.3 billion as in OECD data base. This amount represents 55% of total ODA disbursed by Arab donors since 1970 as shown in Table 1 here above.

Table 6 here under describes the geographical distribution of aid by these different institutions.

From this Table we can draw the following conclusions.

1. The largest portfolio of loans and aid is that of the multilateral Arab institutions or institutions not exclusively Arab. This portfolio represents 37.4% of total aid disbursed by all institutions.

2. In this group of institutions, the Islamic Development Bank is by far the most active (26.7% of total lending by all institutions); however 51% of its lending goes to the Arab region. But the Arab region receives 39.8% of total lending by this group of institutions.
3. National Institutions are the second largest distributors of development assistance (35.1% of total). It is to be noted that only 55% of their lending goes to the Arab region.
4. Purely regional Arab institutions have extended 27.5% off all loans. Their operations are exclusively concerned with Arab countries.

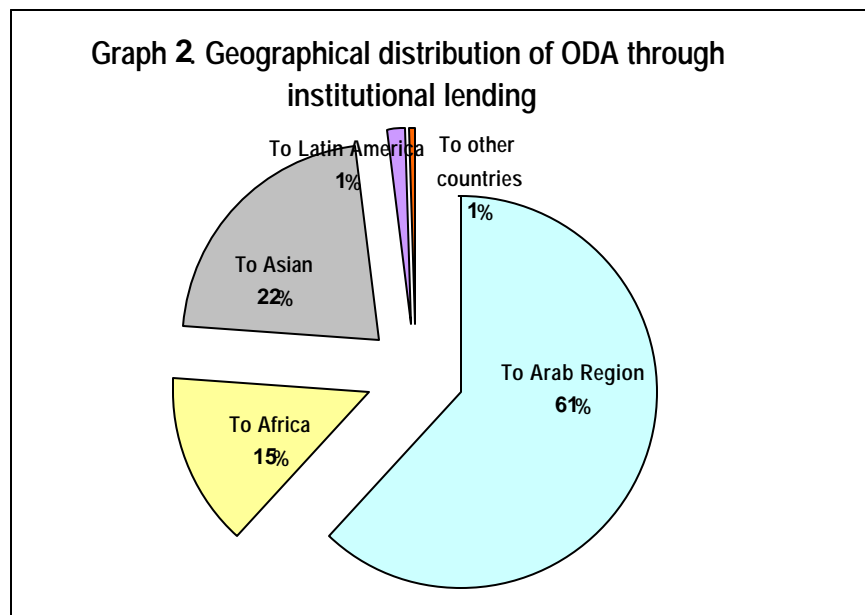
**Table 6. Arab based National, Regional and Multilateral ODA:
Total ODA extended**

In million of US \$	Total Aid extended since creation						Share of each institution
		To Arab Region	To Africa	To Asia	To Latin America	To other countries	
<i>Regional Arab Institutions</i>							
Arab Fund (AFESD)	13,844	13,844	0	0	0	0	21.5%
Arab Monetary Fund	3,815	3,815	0	0	0	0	5.9%
<i>Sub-Total</i>	<i>17,660</i>	<i>17,660</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>27.5%</i>
<i>National Institutions for ODA</i>							
Abu Dabi Fund	3,129	2,418	147	557	0	7	4.9%
Saudi Fund	7,221	3,427	1,406	2,234	60	94	11.2%
Kuwait Fund	12,243	6,573	2,147	3,002	271	250	19.0%
<i>Sub-Total</i>	<i>22,594</i>	<i>12,418</i>	<i>3,701</i>	<i>5,793</i>	<i>331</i>	<i>351</i>	<i>35.1%</i>
Share of each beneficiary region	100%	55.0%	16.4%	25.6%	1.5%	1.6%	
<i>Non exclusively Arab institutions</i>							
Islamic Bank	17,177	8,759	1,628	6,754	11	24	26.7%
Arab Bank for the Dev. of Africa	2,078	10	2,068	0	0	0	3.2%
OPEC Fund	4,823	806	1,964	1,448	566	38	7.5%
<i>Sub-Total</i>	<i>24,077</i>	<i>9,575</i>	<i>5,661</i>	<i>8,202</i>	<i>577</i>	<i>63</i>	<i>37.4%</i>
Share of each beneficiary region	100%	39.8%	23.5%	34.1%	2.4%	0.3%	
Total Arab and associated Funds	64,331	39,653	9,362	13,995	908	414	100%
<i>Total share of each beneficiary region</i>	<i>100%</i>	<i>61.6%</i>	<i>14.6%</i>	<i>21.8%</i>	<i>1.4%</i>	<i>0.6%</i>	

Source: Arab Economic Unified Report for year 2003

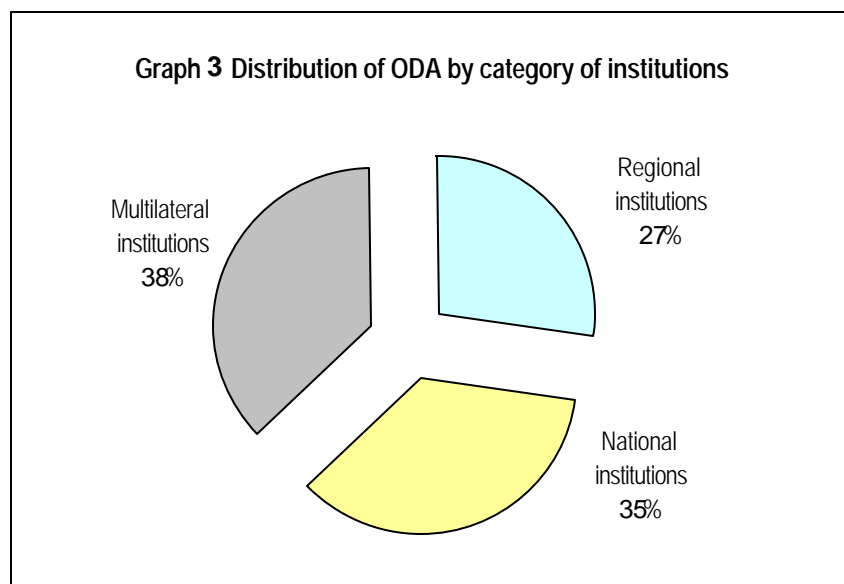
5. There is no doubt that the Arab region is the largest beneficiary of the activities of all these institutions (61.6% of amounts extended). However, Asia (21.8%) and Sub-Saharan Africa (14.6%) have also been beneficiaries of their operations. The Latin American region is only a marginal beneficiary (1.4%).

Graph 2 shows the geographical distribution of lending by all institutions to beneficiary regions.



Source: Arab Economic Unified Report for year 2003

Graph 3 shows the respective importance of each category in Arab ODA.



Source: Arab Economic Unified Report for year 2003

Identification of individual beneficiary countries of total ODA is not possible through existing statistics from the AUER.

Distribution of ODA by economic sector according to AEUR

Available statistics allow analysing the distribution of Arab ODA to different economic sectors. Table 7 here under describes this distribution for year 2002.

Table 7. Distribution of ODA by economic sector and region - 2002

<i>In million of US \$</i>	Arab countries	Sector share	African countries	Sector share	Asian countries	Sector share	Latin American countries	Sector share	Other countries	TOTAL	Sector share all regions
Transportation & communication	353	13.2%	273	43.2%	133	20.1%	27	46.3%	-	785	19.5%
Power (electricity, oil, gaz)	1,015	38.1%	21	3.4%	189	28.7%	-	0.0%	-	1,226	30.5%
Water and water drainage	499	18.7%	22	3.5%	31	4.7%	17	28.2%	3	571	14.2%
Agriculture and cattling	133	5.0%	66	10.4%	32	4.8%	-	0.0%	5	235	5.8%
Industry and Metallurgy	85	3.2%	-	0.0%	156	23.7%	-	0.0%	-	241	6.0%
Others	582	21.8%	250	39.6%	120	18.2%	15	25.5%	-	967	24.0%
TOTAL	2,667	100%	631	100%	660	100%	59	100%	8	4,025	100%
<i>Share of each region (%)</i>	<i>66.3%</i>		<i>15.7%</i>		<i>16.4%</i>		<i>1.5%</i>		<i>0.2%</i>	<i>100%</i>	

Source: Arab Economic Unified Report for year 2003

From this Table we can draw the following conclusions.

1. There is a huge concentration of assistance in two main sectors: Power and transportation and communication. For the Arab region, more than 50% of lending has been extended to these two sectors; for Africa, the transportation and communication sector has benefited up to 43% of all lending.
2. It is noticeable that agriculture and cattle breeding, in spite of the huge needs, has only been attributed 5.8% of total assistance.
3. The table however relates to only one year.

Table 8 hereunder gives the cumulated distribution of assistance by sector, which shows a more balanced distribution.

Table 8. Distribution of ODA by economic sector and region - up to the en of 1999

<i>In million of US \$</i>	Arab countries	Sector share	African countries	Sector share	Asian countries	Sector share	Latin American countries	Sector share	Other countries	TOTAL	Sector share all regions
Transportation & communication	5,375	16.5%	2,968	34.8%	1,964	18.1%	240	31.2%	158	10,705	20.2%
Power (electricity, oil, gas)	8,148	25.0%	1,192	14.0%	3,966	36.5%	121	15.7%	40	13,467	25.4%
Water and water drainage	2,477	7.6%	688	8.1%	279	2.6%	49	6.4%	61	3,554	6.7%
Agriculture and cattle breeding	5,337	16.4%	1,669	19.6%	1,598	14.7%	111	14.4%	40	8,755	16.5%
Industry and Metallurgy	5,434	16.7%	523	6.1%	2,014	18.5%	-	0.0%	-	7,971	15.0%
Others	5,761	17.7%	1,495	17.5%	1,055	9.7%	248	32.2%	86	8,645	16.3%
TOTAL	32,532	100%	8,535	100%	10,876	100%	769	100%	385	53,097	100%
<i>Share of each region (%)</i>	<i>61.3%</i>		<i>16.1%</i>		<i>20.5%</i>		<i>1.4%</i>		<i>0.7%</i>	<i>100%</i>	

Source: Arab Economic Unified Report for year 1999

It can be seen from this table that although agriculture received 16.5% of total Arab ODA, the power and transportation and communication sectors received respectively 20% and 25% of total assistance.

<p>III</p> <p>DESCRIPTION OF THE MAIN ARAB REGIONAL AND MULTILATERAL INSTITUTIONS</p>

The Arab Fund for Economic and Social Development

The AFSD is the oldest institution created by the Arab countries. The decision to create the Fund was taken by the Economic and Social Council of the League of Arab States in 1968, but the first meeting of the Board of Governors was convened three years later in February 1972; activities began effectively only at the beginning of 1974. The Fund is located in Kuwait, a country that created the first National Fund as soon as 1962. The basic activities of this institution are to provide soft lending to Arab League countries for infrastructure projects.

Members of the AFSD includes all 21 Arab countries that are members of the League of Arab states: Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, United Arab Emirates, Yemen.

Many prominent Arab economists have been staff members or Head of the Fund. Most of these economists have also played a role in their own country at a later stage as ministers of economy or Prime ministers.

The Funds' total loan commitments since the beginning of its operations until the end of 2002 has reached 4 146 million Kuwaiti Dinar (or 13.7 billion US dollars). Outstanding loans have reached 1.6 million KD (or 5.3 billion US \$) at the end of 2002.

Resources of the Fund are constituted by its share capital of 663 million KD (authorized 800 million) and by reserves of 1.3 billion K.D.

In recent years the Fund has developed considerably Technical assistance activities under the form of grants. These grants are either devoted to support inter-Arab activities (Arab research, training and education centres, support for pan-Arab seminars on economic and social issues, feasibility studies) or are specific to assist member countries. The total amount of the first type of grants has reached 93 million K.D. for 708 operations at the end of 2002, while the specific-country grants totalled 60 million K.D. for 360 operations.

The Fund is putting special emphasis on supporting regional projects. During the period 1974-2002 it has extended 64 pan-Arab loans for a total value of KD 321.1 million to assist in implementing 29 regional projects in the field of infrastructure. In particular, it has been promoting successfully the inter-Arab grid to connect national electricity systems.

Since a few years, the Fund has developed activities in favour of the private sector through loans or equity participation.

The Arab Monetary Fund and the Arab Trade Financing Program (ATFP)

AMF was created in 1976 by a decision of Arab Central Banks. It began operations in 1978. The capital of the Fund is denominated in Arab Accounting Dinar (AAD)¹ equivalent to three SDRs and different from the Islamic Dinar (see below). The paid-up capital in convertible currencies is AAD 318.8 million.

Annual operations of the AMF are similar to the IMF operations. However, conditionality is much milder than that of the IMF and adapted to the specificity of each beneficiary economic conditions. Its total operations since the beginning of its activities have reached the equivalent of US \$ 3.8 billion at the end of 2002. Outstanding loans have reached the amount of AAD 278.1 million at the end of the same year.

Its technical assistance grants disbursed in 2002 were the equivalent of AAD 994 000 and the number of trainees that participated in 98 Training courses organised by the Fund have reached 3024 participants for the period 1981-2002.

The Fund is also taking deposits from Arab central banks and monetary agencies. The amount of such deposits has reached \$ 972 million at the end of 2002.

The Fund is also supporting the development of Arab Capital Markets through its database and the publishing of a specialized quarterly bulletin.

The Fund is also managing the very successful funding programme (ATFP) to stimulate inter-Arab trade. This program was established in 1989 with a paid-up capital of \$ 500 million contributed by 44 shareholders including Arab banking and financial institutions, as well as Arab central banks. It has extended 273 Credit lines to banks in member countries for a cumulated value of 2.5 billion US \$ and an outstanding balance of US \$ 336.3 at the end of 2002.

¹ The value of this unit should not have been determined by a fixed parity between it and the SDR, but by a basket included all Arab currencies weighted according to the GDP and the external trade of the respective Arab countries. However, member countries never adopted the basket as defined by a special technical Committee of which the author of this paper was a member.

The Islamic Development Bank

This institution is by far the largest multilateral Arab/Moslem countries' financial institution. Its cumulated approved operations at the end of financial year 2002/2003 reached the equivalent of 34.6 billion US \$ on a gross basis and 30.4 billion on a net basis, while cumulated disbursements since its creation stood at the equivalent of 21.3 billion US \$.² This amount has been used up to 63% for trade financing, while 34.6% went to project and technical assistance and 2% to the Wakf Fund (see below).³

The capital of the Bank have been subscribed by 55 countries of which 21 Arab countries which subscriptions represent 69.21% of the capital, the largest contributor by far being Saudi Arabia with a participation of 27.33%, followed by Libya (10.96%), Egypt (9.48%) and the United Arab Emirates (7.76%).

The initial capital of the Bank was 2 billion ID. It now stands at ID 15 billion (authorized) and ID 8.1 billion (disbursed).

IDB has approved 1134 financing operations since 1976 when it started its activities. Its ten largest beneficiaries have been the following countries:

- Turkey: \$ 574.5 million
- Egypt: \$ 445.3 million
- Jordan: \$ 378.2 million
- Malaysia: \$ 374.3 million
- Oman: \$ 357.5 million
- Pakistan: \$ 353.3 million
- Lebanon: \$ 340.4 million
- Indonesia: \$ 310.1 million
- Iran: \$ 280.4 million
- Morocco: \$ 277.1 million

Technical Assistance grants reached 122 million US \$ and Trade financing 14.8 billion.

The Bank has a variety of operations and activities, some of which have been decentralized to specialized affiliate institutions and namely:

- The **IDB** Infrastructure Fund to contribute to raise private capital to finance the development of infrastructure in its member countries; committed investments amount to US \$ 980.5 million.

² It is to be noted that the accounts of the ISDB are maintained in Islamic Dinar (ID) used as a unit of account, one dinar being equivalent to one SDR.

³ Intra-trade between member countries of the Bank is quite low standing in 2001 at 11% of total exports and 14% for imports; however, this level is higher than the one existing between Arab countries (6% to 8% as already mentioned).

- The World Waqf Foundation⁴;
- The Islamic Corporation for the Development of the Private Sector established in 2001 with a capital of US \$ 1 billion; 11 projects for a value of US \$ 60.5 have been approved.
- The Islamic Corporation for Insurance of Investment and Export Credit (ICIEC);
- The Islamic Research and Training Institute

The ISDB is also encouraging the development of other Islamic financial institutions and the promotion of funding technique in accordance with the principle of Islamic law. This is why it has also created in 1989 a Unit Investment Fund to provide private or public Islamic institutions with a vehicle to invest resources according to these principles.

The Arab Bank for the Development of Africa

ABDA cumulative disbursements from 1974 to 2003 have reached 1.4 billion dollars; in addition to SAAFA commitments of 212.2 million US \$. Annual commitments during the last years are on the increase from 95.6 million dollars in 1997 to 140 million in 2003.

Sectoral distribution of lending is as follows:

- Infrastructure: 51.7%
- Agricultural and rural development: 28.4%
- Energy: 6.91%
- Technical assistance: 2.94%
- Social sector: 3.78%
- Private sector: 2.95%
- Industry: 2.67%
- Emergency aid: 0.65%

The Arab Authority for Agricultural Investment and Development (AAAID) and the Arab Organization for Agricultural Development (AOAD)

The Arab League has created two specialized agricultural institutions. AAAID was created in 1974. Its mission is to promote investment in the agricultural sector. Its paid-up capital is US \$ 340 million. It has invested \$ 383 million in the sector through \$ 226 million of lending and \$ 157 million by equity participation.

AOD was created in 1972. Its mission is to provide technical assistance, database information and scientific knowledge about Arab agricultural sectors.

Inter-Arab Investment Guarantee Institution

The decision to create this institution was taken in 1970, but operations began only in 1975.

⁴ The term “Waqf” applies to properties put in trust according to Islamic law for charitable purposes. Wakfs in Islamic and Arab countries are important economic institutions.

Its paid-up capital at the end of 2003 was US \$ 86.04 million and its reserves US \$ 172.5 million. The institution provides insurance coverage for inter-Arab investment and export credits. In spite of its small resources, this institution is quite efficient.

In 2003 the total value of guarantee contracts signed by the institution reached US \$ 129 million. It has a portfolio of current contracts reaching US \$ 255.5 million at the end of 2003 of which 49.9% for investment guarantee and 51.1% for export credit guarantee.

It has several annual publications, among which an annual report on “Investment climate in the Arab countries”. This report includes a detailed review of investment evolution in each Arab country and of any new legal or institutional change affecting positively or negatively the investment climate. It also monitors inter-Arab investments.

Other Institutions

There are many other Arab regional institutions that we cannot review here. Some of these institutions are of sectoral or technical nature (Aviation, Education and Culture, Labour, Norms and specification, Desert and dry areas, Industrial development, Tourism, Mining, etc.).

There are also pan-Arab joint stock companies like in the pharmaceutical sector.

ESCWA role in the region

One should not conclude this part of the analysis of Arab regional institutions without mentioning the role ESCWA is playing. Although its members do not include Arab countries situated in Africa (to the exception of Egypt), it plays a key role in assisting both Arab economic integration efforts and Arab attempts at stimulating more sustainable growth.

In addition to its role in monitoring Arab economic and social development, ESCWA is particularly active in assisting its member countries in liberalizing their trade and investment legislation and preparing for WTO membership.

It is also active in studying and promoting pan-Arab infrastructure in transportation, energy, water, and electricity. It is devoting many efforts in the field of technology and environment.

It organizes seminars on different topics of importance to the Arab region and has several key useful publications for economists and social specialists in the Arab World.

CONCLUSION: INCREASING THE EFFICIENCY OF REGIONAL ARAB ARRANGEMENTS AND INSTITUTIONS

The Arab region is not suffering from a lack of arrangements and institutions to stimulate regional cooperation and support improved efficiency of the Arab economies in the context of globalisation. Rather there has been a scattering of efforts on two many different institutions with duplication of mandate and different regional scope of activities. This was the result of the very specific economic and political circumstances that affected the region. However, economic performance of the region in spite of all efforts devoted to regional financial cooperation as described in this study have been negatively affected by structural economic problems that need to be identified and cured if Arab regional cooperation is to become more efficient.

Bottlenecks affecting negatively Arab economic integration efforts

The main cause of relatively poor economic performance of the Arab region in comparison to other regions of the world could be attributed to structural domestic deficiencies. Without going into a detailed analysis of such deficiencies, we can identify the following main obstacles to more intra-trade and economic integration.

- Rent economy is predominating in the region, with the prices of oil being the main determinant of growth in GDP of oil exporters as well as non-oil exporters which economies is so much dependent on the financial resources originating from the first group of countries. The amount of ODA from “rich” Arab countries and from Arab Agencies in addition to workers remittances from the oil exporting countries constitutes a major variable of growth.
- The educational sector is not linked to the needs of the local economies and the unemployment rate is very high in the entire region, affecting mainly the young generation.
- Oil exporters from the Arabian Peninsula import a substantial number of foreign workers, while unemployment is developing in their population; immigrants come in very large number from the Indian Peninsula and the other Arab countries.
- The private sector do not spend on R & D and on quality control of its products; domestic markets continue to remain controlled by a few large private “groups” who extend their business horizontally, but not vertically.
- There is general lack of governance and transparency in the Public sector and in the relations between the Private and the Public sectors, which favours corruption and thus high transaction, costs; the very low level of salaries in the Public sector in low-income Arab countries is an additional stimulus to corruption. Workers salaries in the Private sector are not competitive with the level of salaries in other regions of the world in Asia or in Central Europe.
- The informal sector, which constitutes a large source of employment, is not induced to modernize and develop; its value added in the GDP remains very low.
- This situation is responsible for a permanent brain drain that impacts negatively the productivity of Arab economies.

- The lack of productivity and innovation in the Arab economies creates more unemployment or disguised unemployment, thus stimulating more brain drain.
- In consequence, a vicious circle is created which is not easy to break, unless there would be substantial changes in overall economic policies.
- Under these linked bottlenecks no sharp increase in intra-regional trade could be envisaged.

The Arab network of Regional Development institutions and arrangements is striving to improve the technical and financial services it is providing to the region or to other regions. However, one should design a more aggressive approach by these institutions to tackle the main obstacles identified here above. In our view, two main issues need to be discussed.

Reforming Arab financial cooperation

A. Rationalizing the institutional network and improving its operational efficiency

As was seen, the network of institutions is quite complex and there is a duplication of functions between National, Regional and Multilateral institutions specializing in certain countries (Moslem) or Africa.

In this respect, many different issues could be raised.

- Changed circumstances justify the reshaping of the network created in the early seventies

How long should Arab resources be devoted to supply multilateral institutions which mandate includes the Arab and other regions together (Africa, Moslem countries)? As resources available through other Regional and multilateral institutions are becoming greater, is there still a need for Arab based institutions to provide development funding to non-Arab countries?

The period when the fourfold increase in oil prices had created a big hardship for non-oil developing countries is now well over, so what is the rationale to continue to extend ODA to non-Arab countries? This is of course a question of international policy conducted by the rich Arab oil exporting countries; but we believe worthwhile for these governments to examine it. Policies to gain friends in the international scene could be continued through direct bilateral aid or their national agencies and not necessarily through Official Regional funding institutions.

- Merging institutions and regrouping ODA to the Arab region for more operational efficiency

There is no doubt, in any case, that there is room for merging institutions. Shouldn't the ABDF be merged with the ISDB as there is clearly a duplication of work between the two institutions when it comes to Africa?

Another issue to be discussed is the need to pool regional resources earmarked to the Arab region as these are scattered between National, Regional and Multilateral Funds? Should all regional development lending be conducted through one institution, i.e. the AFESD? In such a case, the ISDB could be specialized to lend to non-Arab countries, while the AFESD would become the exclusive development lender to the Arab region. One could suggest here an alternative by which the ISDB would entrust to the AFESD the operations of an Arabic window” that it would continue to fund.

Of course, these are very difficult issues to tackle, as no institution accepts easily to see its mandate revised or its bureaucracy merged into another one.

B. Concentrating funding on the most strategic bottlenecks

If the network of Arab and Arab based official financial institutions can be reshaped to become more efficient, it will then be more able to cope with the main economic bottlenecks that we have identified.

In this respect, we believe that focus should be put on the need for more financial support to R & D, economic innovation, human resources training, linkages between the educational system and the private sector, and other issues needed to be dealt with to cure the lack of productivity of the Arab economies and increase the private sector competitive capacity both on the domestic markets and on the international markets.

The trend towards supplying SMEs with adequate funding and improving the capacity of the informal sector is to be reinforced substantially.

Actions should be designed to reduce the very negative brain drain affecting the region by more collective efforts from the different national, regional and multilateral institutions based in the Arab region.

C. Tapping resources from domestic and international financial markets to increase the level of operations

In order to increase their capacity to fund the necessary actions and operations in the identified fields, Arab institutions should begin to tap domestic and regional financial markets. It is not reasonable to continue to be exclusively dependent on the good will of “rich” Arab governments to increase their share of the subscribed capital of these institutions. Governments sitting on the boards of the institutions should provide for legal mechanism to allow these institutions to tap financial markets, as being so successfully done by other multilateral institutions like the World Bank or the European Investment Bank.

Beneficiary entities in Arab countries should also become more efficient to make a better and faster use of financial resources made available by these institutions.