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A BANK TO REBUILD THE SOUTHERN MEDITERRANEAN

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Does the Mediterranean region today need a bank whose task would be to help rebuild the financial institutions of southern Mediterranean countries? Irrespective of how events play out in Tunisia, Egypt, Libya and beyond, building a working democratic system that is not dominated by rent seekers and the military and achieving social justice and the rapid economic growth necessary to offer jobs, housing, a better education and badly needed infrastructure is a daunting challenge. But it is one which must be met if the future security of the Mediterranean and Europe is to be assured in the decades ahead. A plan being prepared for a meeting of EU leaders on Friday and which has the full backing of the Commission President José Manuel Barroso, has drawn up a list of incentives which seek to spur economic and political reforms in North African. Two key points stand out here:

1) The importance of transparency and the rule of law to create an open market and promote much needed private investment in the region.
2) The difficulties southern rim countries will encounter in the aftermath of the uprisings, especially those dependant on tourism and, to a lesser extent, on foreign investment and exports of manufactured goods such as Tunisia and Egypt.

The Barcelona Process and the Union for the Mediterranean failed because authoritarian regimes were able to discard much of the conditionality attached to European Union, World Bank and Africa Development Bank loans and other forms of aid. The conditionality clauses are seldom if ever respected as the European Union and individual countries turn a blind eye – after all dealing with dictatorships is more comfortable. Because southern rim Mediterranean rulers have often discarded the elementary rules of sound economic governance and because capital flight has reached such extraordinary levels – an estimate of $350-500bn for the five North African countries from Egypt to Morocco, the economic performance of these economies has been disappointing: their average rate of growth of 4-5% has been quite unable to absorb the growing number of young people entering the labour market every year.

To fund such an institution, its founders might consider ascribing to its start up capital all the ill begotten gains and assets they are currently seeking to freeze from the former leaders of Egypt and Tunisia and the man who has ruled Libya for 42 years. Of the aforementioned figure of capital flight, not all is illegitimate, but a some of it undoubtedly is. To these could be added funds from the EU, North America, Japan and why not China.

A Bank for the Reconstruction of the Mediterranean need not be modelled strictly on the European Reconstruction and Development Bank which has played a useful role in easing the transition of former central command economies in Eastern Europe towards a market economy. But it could act as a powerful tool in the hands of those in the Maghreb and beyond who wish to see their countries fully integrated into the economic world of 2011 and those Europeans, not just from Mediterranean countries but from the United Kingdom, Germany and Scandinavia who understand that the current upheavals in North Africa offer a unique opportunity to improve the quality of governance in many Arab countries, build forms of popular representation which allow former subjects to become citizens and modernising elites to gain legitimacy by offering a realistic and bold vision of the future.

Following on a number of studies initiated in Spain, France and the United States in recent years which have looked into the Cost of No Maghreb and how to increase both flows of investment across the Mediterranean and faster growth in southern rim Mediterranean countries, a *Commission sur le Financement du Codéveloppement en Méditerranée* comprising eleven senior bankers and governors of central banks from both shores of the mare nostrum was handed to President Nicolas Sarkozy last October. It noted the Mediterranean was the only region which did not have, as was the case in Asia or Latin America a development bank devoted to its specific needs; that the banking sector in the southern rim Mediterranean countries was awash with liquidity but that small and medium size companies which account for the bulk of jobs in the private sector found it extremely difficult to raise funds. One could add that funds from the EU are usually channelled through local banks which local rulers can lean on to lend to their families and cronies.

European political leaders who claim to be surprised by the extent of the properly *Mafiosi* activities of the former Ben Ali clan regarding the banking system in Tunisia are misinformed or, more likely, disingenuous. What went on in Tunis goes on in other southern rim Mediterranean capitals, which explains why many projects financed by the EU are not the best on offer to achieve a faster rate of economic growth even if they often benefit large western multinationals. Furthermore, local small and medium size companies from North African countries are barred from competing in tenders for projects financed by the European Investment Bank, which is absurd.

What is needed to help reconstruct the Mediterranean region is a bank which could also offer the means for independent specialists with in depth knowledge of the region to monitor economic progress; where honest statistics could be collated; where best practise could be promoted. Such an institution could act as a watchdog for financial transparency, promote serious debate about economic policies and potential cooperation between countries in the region, encourage private enterprise and investment which are key to the future prosperity – last but not least it could promote serious debates which are all too often absent from existing forums.