

UC San Diego

Policy Papers

Title

Policy Paper 43: Banking on Peace: Lessons from the Middle East Development Bank

Permalink

<https://escholarship.org/uc/item/3qt5t4gs>

Author

Kaye, Dalia Dassa

Publication Date

1998-10-01

Supplemental Material

<https://escholarship.org/uc/item/3qt5t4gs#supplemental>

CONTENTS



INTRODUCTION	3
THE PRIMACY OF POLITICS.....	4
EXPLAINING THE BANK: ECONOMIC DEMAND OR POLITICAL AIMS?.....	5
THE ORIGINS OF THE MIDDLE EAST BANK.....	8
<i>A Good Idea Before Its Time</i>	8
<i>The Multilaterals: A Mechanism for Arab-Israeli Institution Building</i>	8
<i>The Regional Economic Development Working Group (REDWG) and the Middle East and North Africa (MENA) Economic Summits</i>	9
NEGOTIATING THE MENABANK.....	11
<i>No Sure Deal</i>	11
<i>The American Turn-around</i>	11
<i>Between Casablanca and Amman: The Bank Takes Shape</i>	12
<i>After Amman: Finalizing the Bank Charter</i>	14
<i>Problems for the Bank: Regional Commitment and U.S. Funding</i>	14
CONCLUSION: BANKING FOR PEACE.....	15
THE UNIVERSITY OF CALIFORNIA INSTITUTE ON GLOBAL CONFLICT AND COOPERATION.....	18
ELECTRONIC PUBLISHING AT IGCC.....	19
CURRENT PUBLICATIONS	20

BANKING ON PEACE: LESSONS FROM THE MIDDLE EAST DEVELOPMENT BANK*

Dalia Dassa Kaye



Introduction

In October 1991, the United States (with the Soviet Union) sponsored the Madrid Peace Conference, taking advantage of its diplomatic leverage in the wake of the Gulf War to launch several Arab-Israeli negotiating tracks. In addition to bilateral negotiations, the Americans established a multilateral track (the “multilaterals”) designed to address issues of region-wide concern, such as arms control and regional security, economic development, water, the environment, and refugees.¹ Unlike the bilateral tracks, the multilateral track also included Arab participants from the wider region.² For the first time since Israel’s creation, Israel and Arab states gathered together specifically to address regional issues of mutual concern, marking a major turning point in the history of the Arab-Israeli conflict. Despite its problems, the multilaterals produced not only joint projects and unprecedented regional economic conferences, but also the first regional Arab-Israeli institutions.

Among the most significant of these institutions is the Bank for Economic Cooperation and Development in the Middle East and North Africa, or the MENABANK. In fact, the MENABANK is one of the few institutions that endured the setbacks in Israeli-Palestinian relations after the 1996 Israeli election. Despite this resilience, however, the MENABANK is collapsing. Interestingly, the reasons for its demise have as much to do with

¹Research for this article was funded by the Institute on Global Conflict and Cooperation and the MacArthur Foundation. The Brookings Institution and the Center for Middle Eastern Studies at the University of California, Berkeley also supported the larger research project from which this article is drawn. An earlier version of this paper was presented at the International Studies Association South Annual Conference, Roanoke, Virginia, October 1996. I would like to thank the government officials who generously offered their time to be interviewed for this project. Thanks also to individuals who read earlier versions of this paper: Steve Weber, Ernie Haas, Beth Kier, Tamar Gutner, Bruce Jentleson, Mark Amen, the participants of the IGCC/MacArthur regional relations conference in Newport Beach, California in 1998, and David Kaye.

¹For a detailed account of the multilateral peace process, see Dalia Dassa Kaye, “Beyond the Handshake: Multilateral Cooperation in the Arab-Israeli Peace Process” (Ph.D. diss., UC Berkeley, 1997), and Dassa Kaye, “Madrid’s Forgotten Forum: The Middle East Multilaterals,” *The Washington Quarterly*, Vol. 20, No. 1 (Winter 1997). Also see Joel Peters, *Building Bridges: The Arab-Israeli Multilateral Talks* (London: The Royal Institute of International Affairs, 1994) and Peters, *Pathways to Peace: The Multilateral Arab-Israeli Talks* (London: The Royal Institute of International Affairs, 1996).

²However, Syria chose to boycott the multilaterals because they believed the bilateral tracks had to be resolved before regional cooperation efforts. Iraq, Iran, and Libya were not invited. The Gulf Cooperation Council (GCC) participants include: Saudi Arabia, Kuwait, Oman, Qatar, and the United Arab Emirates (UAE). The North African (Maghreb) participants are: Morocco, Tunisia, and Algeria and Mauritania. The “core” participants are the Egyptians, Israelis, Jordanians, and Palestinians. Turkey also participates.

the U.S. Congress as with the Arab-Israeli peace process. For the last three years the U.S. administration has unsuccessfully lobbied Congress for \$52.5 million dollars in annual appropriations to fund the U.S. contribution to the MENABANK (See Table 1).³

While initially Congressional reluctance to fund the bank stemmed from fiscal concerns and general suspicion of multilateral development banks, increasingly Congress has been concerned about the regional commitment to support such an institution given the deteriorating condition of the peace process. However, the United States and the core regional parties (Israel, Egypt, the Palestinian Authority, and Jordan) should capitalize on the recent Israeli-Palestinian agreement at Wye River, Maryland, and revive important forums for regional Arab-Israeli cooperation like the MENABANK.

Indeed, regional institutions have been important elements in normalizing Arab-Israeli relations because they create opportunities for regional parties to address common problems and develop interests that cut across the Arab-Israeli fault-line. The process of institution building does not necessarily create functional interdependencies among regional parties, but it can lead to common understandings about regional problems and turn divisive political issues into mere "technical" problems open to solution. Such institutions can also facilitate the multilateralization of regional relations, where Arabs and Israelis can find themselves on the same side of a policy issue.

Moving beyond the polarizing Arab-Israeli conflict will prove a long and difficult path. But it is a necessary transition as international politics becomes increasingly regionalized in the aftermath of the Cold War. While critical global players like the United States will continue to play a central role in a variety of regions, regional parties now have an opportunity to shape the nature of regional relations in the absence of U.S.-Soviet dominance. Conceptually, international relations scholarship has begun to recognize the need to focus on the question of regional orders which, outside the European context, have been greatly ignored.⁴ The

question of building regional institutions as part of these orders is particularly important, especially because such institutions can help facilitate more stable relations if constructed properly. But institution building, like any political process, is a contentious exercise that deserves careful study, a point well illustrated by the MENABANK. This paper will use the MENABANK case to explore the sources of new regional institutions and to illustrate larger lessons about the forces supporting and impeding regional multilateral cooperation.

The Primacy of Politics

This political story about an economic institution, the MENABANK, demonstrates that the origins of new institutions often reflect political interests and beliefs more than functional concerns about how to resolve substantive problems (e.g., economic development). Economic rationales can be constructed post hoc, but this should not obscure our understanding of the political basis of institutions. The MENABANK was primarily created to serve the political objectives of the peace process, creating cooperative outlets for Arab-Israeli interaction that would establish a favorable regional climate for peacemaking. That said, to survive, these institutions need to satisfy regional interests, both political and economic, that may have little to do with the peace process (especially from the Arab perspective). Indeed, the MENABANK proved a relative success because of its ability to satisfy both the political objectives of its American supporters and the interests of regional actors in attracting private foreign investment and political prestige through new institutions. If structured properly,

³The United States holds 21 percent of the shares, which constitutes a \$52.5 million annual commitment for a five-year period. See Testimony of Treasury Secretary Robert E. Rubin before the House Appropriations Subcommittee on Foreign Operations, 18 April 1996.

⁴On the growing importance of regions in the wake of the Cold War, see David Lake and Patrick Morgan, eds., *Regional Orders: Building Security in a New World* (Pennsylvania State University Press, 1997) and Louise Fawcett and Andrew Hurrell, eds., *Regionalism in World Politics* (London: Oxford, 1995).

TABLE 1. MENABANK Share Allocation

Non-Regional Members		Regional Members	
Austria	1%	Algeria	2%
Canada	2.75%	Egypt	4%
Cyprus	0.25%	Israel	4%
Greece	2%	Jordan	4%
Italy	5%	Morocco	2%
Japan	9.5%	P.A.	4%
Korea	1.25%	Tunisia	2%
Malta	0.25%		
Netherlands	3.5%		
Russia	6%		
Turkey	1%		
U.S.	21%		

Notes: Total capital subscription: 75.5%. The remainder of the capital is reserved for countries that may join the bank once operations begin (for example, Western European states and China).

Total capital: \$5 billion, of which only \$1.25 billion is paid in.

institutions can prove important components of conflict resolution.

The first section of the paper addresses a simple question: why did the MENABANK emerge? I consider two central explanations: economic demand and the political beliefs of the most influential extra-regional player in the peace process, the United States. Although the bank concept actually originated in the region, the bank would never have become a reality without the support of the United States. Moreover, I outline the political beliefs and motivations of key U.S. policymakers to illustrate how these beliefs help explain why the United States used its power to promote institutions like the MENABANK. Although the bank serves important economic objectives given the remarkably low levels of direct foreign investment in the Middle East,⁵ economic incentives alone cannot explain the emergence of this bank or its particular structure.

After reviewing the merits of these explanations, the next section details the negotiation process which produced the bank. The negotiations leading to the creation of the MENABANK reveal the primacy of politics and political beliefs about Arab-Israeli peacemaking far more than economic

rationality.⁶ The conclusion considers the policy lessons generated from the bank case for building institutions in regions like the Middle East.

Explaining the Bank: Economic Demand or Political Aims?

Before reviewing both the economic and political arguments for the creation of the bank, it is important to note that these goals are not mutually exclusive. The bank survived many political setbacks because it advances both political and economic interests of regional parties. Moreover, once the bank was formed, good economic rationales for such an institution have been offered by a variety of experts and government officials.⁷ Still, the origins

⁶For an example of another development bank whose origins suggest the influence of ideational factors far more than economic functionalism, see Steven Weber, "Origins of the European Bank for Reconstruction and Development," *International Organization* 48 (Winter 1994):1-38.

⁷See Grais and Savorelli 1998. U.S. officials also stress the economic utility of the bank and their persistent efforts to make this bank "lean," promoting private sector investment, market-rate loans, and a modest capital, \$5 billion, of which only \$1.25 billion is paid-in. See U.S. State Dept. Fact Sheet, "Middle East/North Africa Development Bank," Bureau of Public Affairs, Office of Public Communication, 27 October 1995; Ambassador David Dunford's (head of the MENABANK transition team in Cairo) address to the American Chamber of Commerce in Egypt, 18 August 1997, and Undersecretary for Economic, Business and Agricultural Affairs Stuart Eizenstat's remarks for the MENABANK Breakfast at the Doha economic summit, 17 November 1997 (<http://menabank.org>).

⁵For a detailed argument outlining the economic and financial rationale for the MENABANK, see Wafik Grais and Lorenzo Savorelli, "Economic and Financial Rationale for a New International Financial Institution for the Middle East and North Africa," 1 June 1998, on the MENABANK web site at <http://menabank.org>.

of the bank and its structure (that is, its distribution of shares, its location, its governing body, the content of its proposed projects) suggest that economic considerations often took a back seat to political concerns.

For example, if economic factors were a major force behind the bank's creation, then one would expect the support of finance ministries from regional and extra-regional parties. One might also demonstrate that alternative financing mechanisms would not have been as economically viable to serve the development needs of the region. Neither of these expectations holds true. First, Arab states like Saudi Arabia were concerned about such a bank because it did not want to pay the bank's bills, and the economically weaker Arab parties (the Egyptians, Jordanians, and Palestinians) had preferred alternative financing mechanisms from an economic perspective, as discussed below. Israel, whose Finance Ministry initially opposed the idea, had no pressing economic interest in promoting such an institution. Israel's primary markets and economic interests remain in Europe and the United States. Israel does not need a bank to attract private sector investment, which is more profitably acquired through unilateral initiatives that would not divert investment to cross-national projects. However, the Israelis agreed to place the bank in Cairo and acquired shares in the bank equal to those of the other core players (Israel, Egypt, Jordan, and the Palestinians each hold 4 percent of the shares).⁸ Promoting economic development in Arab states is in Israel's political interest, but this task could be and is accomplished through existing financial institutions, such as the World Bank, the European Investment Fund or the Arab Monetary Fund.

In addition, several financing alternatives were not only available but were supported by the major European powers. Several alternatives were outlined in a U.S. concept paper prepared after the Casablanca Economic Summit in 1994. While some were rejected because of their emphasis on concessional lending to public sector projects that have not historically proven economically successful (such as the idea to create an IBRD/IMF Special Program for the Middle East modeled after the

Special Program for Africa), other alternatives, like the creation of a special lending window at the World Bank, did seem economically viable and politically acceptable to the Europeans. From the viewpoint of weak economic players like the Palestinians, alternatives that would serve their development needs without requiring long-term institutional commitments involving Israel, especially before all political issues had been resolved, were arguably preferable. However, the World Bank alternative posed a political problem in that Israel, as a developed nation, would not be eligible for financing (ruling out cross-national projects), and thus would "run counter to the efforts of the regional parties who are working to expand the incentives to advance the peace process."⁹ The United States subordinated economic considerations to the overriding concern that any financing body must reflect these political purposes.

Thus, in order to understand fully why the bank materialized, it is necessary to factor in political forces that were driving this process. The bank was less the result of economic necessity than a reflection of how key players in the peace process (especially the United States) believed the region should be shaped. These beliefs are grounded in a worldview that has guided U.S. foreign policy since World War II, subscribing to the notion that cooperation and even integration via political and economic institutions can promote peaceful interstate relations. This was the rationale behind the creation of the first development bank, the International Bank for Reconstruction and Development (IBRD), and is one that is deeply embedded in the psyche of the American foreign policy community. As Treasury Under-Secretary Lawrence Summers explained in his remarks to the Casablanca Summit: ". . . ultimately, as the architects of modern Europe recognized a half century ago, it is not words or even individual deeds, but institutions that shape our future."¹⁰

While alternative outcomes were not only possible but more congruent with the functional demands of the region, they were not selected because they failed to satisfy fundamental notions about how to define and organize the region. The United States supported the bank because it be-

⁸Significantly, a 4 percent share is the threshold needed to allow members to appoint a Director to the Bank's Board. As the Chairman's Summary of the 21 November 1995 Task Force meeting in Cairo explained, representation in the bank takes into account "the desire to achieve a balanced distribution of seats on the Executive Board between regional and non-regional members . . . selection of the Board of Directors shall be taken in such a way that any country or group of countries having at least 4 percent of the total authorized capital, will be entitled to appoint an Executive Director." p. 2.

⁹U.S. Concept Paper prepared for the January 1995 experts meeting to examine funding mechanisms for Middle East development, 22 December 1994.

¹⁰Shared Prosperity in the Middle East: Toward a Regional Development Bank," Remarks by Lawrence H. Summers, Under-Secretary for International Affairs, U.S. Treasury Department, Middle East/North Africa Economic Summit, Casablanca, Morocco, 31 October 1994.

lieved that such institutions could regularize cooperative relations and undercut confrontational tendencies and threats still prevalent in Arab-Israeli relations. Arab-Israeli institutions, according to this view, enhance the normalization of Israel into the region and thus Arab-Israeli peacemaking. As U.S. Undersecretary of State Joan Spero put it, “First and foremost, we have a bank that is explicitly being created to support regional parties committed to the Madrid Peace Process. . . . Membership in the Bank is open only to those supportive of the peace process.”¹¹ European officials were well aware of the political motivations driving this process, and some even saw its value despite concerns about the economic viability of such an institution: “The people who want to set up the bank never hid that it was meant to be a political symbol, which is legitimate.”¹² Indeed, the rationale for the bank was similar to the motivations behind establishing the overall multilateral peace process: to facilitate normal political relations between Israel and its neighbors and to stabilize the region. The key U.S. officials responsible for the Madrid peace process in the Bush Administration—the “peace processors”¹³—sought to promote Israel’s acceptance and legitimacy among the larger Arab world; concerns over the actual issue areas covered by the multilaterals (e.g., economic development) were secondary.¹⁴

These beliefs, however, were not imposed upon the regional parties from outside but rather “stuck” because regional players saw the value of accepting that which benefited their material interests, albeit marginally relative to other economic alternatives. For the Egyptians, the bank became an attractive alternative when it was decided to place the institution in Cairo, bringing the Egyptians regional prestige which they highly value. The

Egyptians also believed the bank’s location in Cairo could give them greater leverage in securing financing for projects that would benefit the Egyptian economy. For the Palestinians, the bank provided another opportunity to attract investment for their fledgling economy, an opportunity difficult to turn down even if it had to include Israel. In Jordan, some elites genuinely believe in the bank’s political value of integrating Israel in order to promote regional stability,¹⁵ but they also hoped such an institution would increase investment interest in their poor, debt-ridden country. In this regard, the Jordanians were not pleased when the Americans agreed to place the bank in Cairo,¹⁶ and almost broke the unity of the core regional parties in support of the bank over this issue, until they were appeased with a compromise (the parties agreed to place a different economic institution in Amman). Finally, it is not surprising that Israel under the Labor party’s leadership (particularly Shimon Peres), enthusiastically supported the bank proposal, primarily to promote more cooperative relations with its Arab neighbors, thus advancing the peace process. As the Labor Party platform for the 1996 Israeli elections stated, “In the view of the Labor Party this system of regional cooperation strengthens the peace process and demonstrates its importance in a very practical way, thus increasing stability.”¹⁷ The result was unified regional support for the bank despite the varied interests in promoting it.

However, without American support, the bank would never have emerged given these diverse regional interests. By reviewing the origins and nego-

¹¹U.S. Foreign Policy and the International Financial Institutions, Testimony Before the House Committee on Banking and Financial Services, Subcommittee on Domestic and International Monetary Policy, by Joan E. Spero, Under-Secretary of State for Economic, Business, and Agricultural Affairs, Department of State, 25 April 1996. To ensure the enforcement of political conditionality relating to the peace process, the charter requires that new members can only be accepted subject to a special majority of 80 percent—with a 21 percent share, the United States can block the entry of any state it believes is not meeting these political criteria.

¹²Quoted by Ariane Obolensky, vice-president of the European Investment Bank, at the end of the Amman Summit, FBIS-NES, 2 November 1995, p. 1.

¹³These officials continued to serve in the Clinton Administration and represented a professionalized elite dedicated to Arab-Israeli peacemaking. For a more detailed characterization of this policy community, see Chapter Three in Dassa Kaye, “Beyond the Handshake.”

¹⁴Author interviews with senior State Department officials in Washington, D.C., 3 January 1996, 6 May and 8 May 1996.

¹⁵For example, Crown Prince Hassan had advocated the creation of a regional institution that would include “non-Arab states” before the Gulf War and obviously before a formal peace treaty between Jordan and Israel. See Hearing before the Commission on Security and Cooperation in Europe, “CSCME: Prospects for Collective Security in the Middle East,” 103d Cong., 1st sess., 14 October 1993. Crown Prince Hassan’s plan is printed in the appendix, pp. 68–82. See also an Address delivered by Crown Prince El Hassan Bin Talal at the International Symposium, “Looking Beyond the Gulf War: A Conference on Security and Cooperation in the Middle East,” Prague, 16 March 1991.

¹⁶Indeed, well after the bank was established, Jordanians continued to resent the central role played by Egypt in shaping the bank. At a panel discussion at the Doha economic summit on November 18, 1997, the Jordanian representative present remarked, “I remember . . . that Jordan was probably the first country in the Middle East to start promoting the idea of the Middle East Bank as a regional bank specialized in the development of the region. And yet, as much as we were promoting it, we found now the bank crossing the borders of Jordan to be stationed in Egypt without even a Jordanian representative on the steering committee.” The complete transcript of the session is reproduced on the MENABANK web site at <http://menabank.org>.

¹⁷“Israel: Labor Party Issues Platform,” in FBIS-NES, 23 May 1996, p. 3.

tiation process leading to the MENABANK, we will better understand how American beliefs about Middle East peacemaking and a variety of regional interests led to the creation of a novel Arab-Israeli institution.

The Origins of the Middle East Bank

A Good Idea Before Its Time

While proposals for a new Middle East development bank were discussed well before the 1991 Gulf War,¹⁸ it was only afterward that high-level U.S. officials began to focus on economic development schemes to rebuild the region. In his testimony to the Senate Foreign Relations Committee in February 1991, Secretary of State James A. Baker proposed the creation of a Middle East development bank, drawing on a “haves/have nots” theme that struck a chord in the Arab world and

dominated Saddam Hussein’s pre-war speeches. However, as he later conceded in his memoirs, Baker did not receive approval for the proposal from the Treasury Department, leaving the bank as a “classic case of planting a very good and farsighted idea before it was ready.”¹⁹

Baker was not the only early advocate for a Middle East bank. Crown Prince Hassan of Jordan proposed the creation of a regional development fund as part of cooperation efforts in a CSCE-type structure that would include “non-Arab states.”²⁰ Sounding similar themes, Shimon Peres was perhaps the most vocal and enthusiastic supporter of a regional bank as part of his vision of an integrated “New Middle East” modeled on European cooperation efforts. Speaking to the skeptics of such a proposal, who noted that sufficient lending sources were already in place to fund Middle East development projects, Peres argued:

There is no doubt that it would be possible to get assistance from existing sources, such as the World Bank, the European Investment

Bank, and private banks. I believe, however, it is preferable to concentrate all investment money for Middle Eastern development in a bank set up exclusively for that purpose. . . from a socio-psychological standpoint, the bank will encourage people living in the Middle East to see the regional framework as an entity in its own right. Every child knows the concept of a bank; Israelis often say “Better banks than tanks.”²¹

Thus, even at its early stages, the bank proposal carried a primarily political rather than economic purpose, although some economists suggested various economic rationales for a new Middle East development fund, particularly the need for wider membership and for a financial intermediary between international capital markets and regional investment opportunities.²² But to become a reality, the idea needed a regional process that could provide its foundations.

The Multilaterals: A Mechanism for Arab-Israeli Institution Building

The multilateral track quietly evolved while daily headlines focused on the bilateral tracks of the Arab-Israeli peace process and the subsequent Israeli-Palestinian negotiations after the signing of the Oslo Accords in September 1993.²³ The process launched five working groups, each chaired by a different extra-regional party (or “gavel-holder”): Arms Control and Regional Security (ACRS), chaired by the United States and Russia; Regional Economic Development (REDWG), the European Union; the Environment, Japan; Water Resources, the United States; and Refugees, Canada.

After the first organizing session in January 1992, the multilateral working groups developed distinct agendas and goals, each with varying degrees of success. Israel and its Arab partners, with the encouragement and funding of their extra-

²¹Shimon Peres, *The New Middle East* (New York: Henry Holt and Co., 1993), p. 111.

²²See Said El-Nagger and Mohamed El-Erian, “The Economic Implications of a Comprehensive Peace in the Middle East,” in Stanley Fischer, Dani Rodrik, and Elias Tuma, eds., *The Economics of Middle East Peace* (Cambridge, Mass.: MIT Press, 1993), pp. 219–20.

²³This breakthrough included the first official contacts between Israel and the Palestine Liberation Organization (PLO), leading to a declaration of principles (DOP) on Palestinian self-rule in 1993. This agreement was followed by a more substantive accord (Oslo II) signed in 1995, which led to Israeli troop withdrawals and re-deployments from major Palestinian urban areas and the extension of the Palestinian Authority’s rule beyond Gaza to parts of the West Bank territory. The final status of these territories is still subject to negotiation between Israel and the Palestinian Authority. For more on the Oslo Accords, see Makovsky 1996.

¹⁸See, for example, Robert R. Nathan and Jerome I. Levinson, “A Development Fund for the Near East,” in Joyce R. Starr with Addeane S. Caellegh, *A Shared Destiny: Near East Regional Development and Cooperation* (New York: Praeger Publishers, 1983).

¹⁹James A. Baker, III (with Thomas M. DeFrank), *The Politics of Diplomacy* (New York: G.P. Putnam’s Sons, 1995), p. 413.

²⁰See fn. 15.

regional sponsors, developed regional projects, confidence-building measures, and even new regional institutions like the MENABANK. Many concepts discussed in the multilaterals were adopted by negotiators of the bilateral peace agreements between Israel, Jordan, and the Palestinian Authority (PA). A network of hundreds of regional and extra-regional experts have participated in and organized the activities of the multilateral working groups, creating in many ways a multilateral sub-culture.

The multilaterals became more than a mere public relations exercise. True, its first organizing session in Moscow was largely symbolic, created by the Americans as an enticement to Israel's Prime Minister Yitzhak Shamir to demonstrate Arab acceptance of Israel in an altered regional environment. As a senior U.S. administration official noted, the entire multilateral process was established with "little thought to intentions or implications."²⁴ U.S. Secretary of State James Baker was even willing to sacrifice the multilaterals if it were to lead the Syrians into boycotting the entire Madrid process.²⁵ Despite these tenuous origins, the process endured past Moscow. While the extra-regional parties continued to chair all of the working groups, regional participants increasingly assumed more responsibility for the process. For example, most of the working groups "mini-lateralized" over time, dividing into smaller working groups focused on particular aspects of a regional problem that were often chaired by one of the four regional "core" parties (Egypt, Israel, Jordan, or the Palestinian Authority). Meetings also moved from European capitals to the region, and special bureaus and personnel were assigned responsibility for the multilateral track in all of the core parties' foreign policy establishments.

The Regional Economic Development Working Group (REDWG) and the Middle East and North Africa (MENA) Economic Summits

One of the most active groups in the Arab-Israeli multilaterals was the Regional Economic Development Working Group (REDWG), chaired by the European Union. Through its subcommittee on finance, this group laid the groundwork for the creation of the bank by turning the idea into a concrete proposal included in REDWG's agenda. This process, however, did not occur overnight. Instead, the group evolved from "conference diplomacy" limited to the exchange of ideas and ice-breakers between Arab and Israeli officials into more serious regional cooperation focused on practical projects. In order to understand how the bank evolved, it is important to review briefly REDWG's development and the eventual emergence of a parallel economic cooperation forum headed by the United States, where the current MENABANK was finalized. Many concepts discussed in the multilaterals were adopted by negotiators of the bilateral peace agreements between Israel, Jordan, and the Palestinian Authority.

As with the other multilateral working groups, REDWG's first meetings provided principally a forum for facilitating bilateral contacts between regional players and between regional and extra-regional participants rather than a forum for genuine regional cooperation and institution building. The talks provided an open channel for Arab-Israeli interaction that allowed the peace process as a whole to continue even when the bilateral tracks were stalled. Informal contacts at the multilaterals between Israelis and Arabs helped ease tensions and provided a forum for direct communication and signaling of intentions between the parties that would not otherwise be available. This was particularly important in the case of the Palestinians who were affiliated with the Palestine Liberation Organization (PLO), who were present at multilateral working groups (although this was not officially acknowledged) and developed relationships with Israelis that would not have been possible in any other forum before the Oslo Accords. In this early stage, REDWG focused on garnering international support for Palestinian economic development, its key project a World Bank study of Palestinian development needs in the West Bank and Gaza which formed the basis for international assistance

²⁴ Author interview with senior U.S. official, Washington, D.C., 8 May 1996.

²⁵ According to one senior State Department official and former Baker aide—and confirmed by Baker in an interview with the author—Baker was prepared to give up the multilaterals in exchange for Syria's attending Madrid. Baker's aides avoided this by creating the compromise that attendance at the multilaterals would be optional, thus keeping the process afloat even without Syrian (and Lebanese) participation. Author interview with senior State Department official, Washington, D.C., 8 May 1996. Also see Baker 1995, p. 505.

to the Palestinians at the donor's conference in Washington on 1 October 1993.

However, in the course of pursuing bilateral interests within the multilateral context during the pre-Oslo REDWG meetings, a distinct group of Arab and Israeli policymakers and experts developed personal relations and a genuine interest in the continuing viability of the process itself. Rather than being overtaken by the rapid progress in the bilaterals after Oslo, the multilaterals became an important force for developing regional cooperation in areas that the bilaterals did not address. The movement of the working groups' plenary sessions to the region by the Spring of 1994 reflected a new regional reality that seemed an impossibility to most observers only a year before. The arrival of official Israeli delegations to Arab capitals like Doha, Muscat, and Tunis slowly became part of the region's landscape.

REDWG emphasized greater regional cooperation by presenting a series of projects outlined in the Copenhagen Action Plan (CAP) in REDWG's November 1993 meeting in Copenhagen. The Plan covered ten sectors and proposed thirty-five regional projects, including improving highway infrastructure, railways and ports; linking electricity grids of Israel, the Palestinian territories, Jordan, and Egypt; hydroelectric canal projects (with the Mediterranean-Dead Sea and the Red-Dead Sea Canals as possible alternatives);²⁶ veterinary services; plant protection; and in the finance area, training banking personnel in the Palestinian Authority. The enormity of the plan led the group to establish a smaller Monitoring Committee (MC) in its June 1994 meeting in Rabat to oversee the implementation of the various projects. Again, the Israelis, Palestinians, Egyptians, and Jordanians took the lead and established four subcommittees (infrastructure, trade, tourism, and finance) within the MC in order to better coordinate the work carried out between the plenary meetings (also known as intersessionals) and bring the projects to fruition. At its first meeting in December 1994, the MC clarified the membership²⁷ and organization of the group, deciding that it

would be co-chaired by the core regional participants (rotating the chair between them every six months) and the European Union. The MC also established a small secretariat in the region which began operating in Amman in March 1995 (because Egypt was to house the bank, the parties agreed to Amman as the venue for the MC). At the Amman Summit in October 1995, the participants decided to transform the MC into "a permanent regional economic institution to be based in Amman."²⁸ The offices of the MC Secretariat officially opened on 7 May 1996.

Despite the efforts of the European gavelholder, REDWG's work remained more conceptual and less "action plan"-oriented than some of the regional players and the United States would have liked. Because funding was scarce,²⁹ the participants

The Casablanca Summit in October 1994 launched a new process, the Middle East and North Africa (MENA) Economic Summits, with the second follow-up conference taking place in Amman in October of the following year.³⁰ While this process was technically distinct from REDWG, in reality the two processes overlapped, particularly because many of the same officials from the region were active in both and the Summit's working agenda was largely taken from REDWG's MC. However, unlike REDWG, the primary objective of the MENA process was to engage the private sector in regional economic development rather than relying solely on government resources. Despite persistent concerns about Israeli economic dominance,³¹ the MENA summits enhanced a sense of shared regional interests among Arabs and Israelis in attracting private sector investment. The summits also led to the emergence of three specific economic institutions: a Regional Business Council; a Middle East and Mediterranean Travel and Tourism Association (MEMTTA); and most significantly, the proposal for a Middle East development bank.

²⁶See "Development Options for Cooperation: The Middle East/East Mediterranean Region 1996" (Israel: Ministry of Foreign Affairs and Finance, August 1995, Version IV), chap. 16.

²⁷The members of the MC are: the four core regional players (Israel, Egypt, Jordan, and the Palestinians); the European Union; the other gavel holders of multilateral working groups (the United States, Russia, Japan, Canada); Saudi Arabia (representing the GCC states); Tunisia (representing the Arab Maghreb Union); and Norway (the chair of the ad-hoc liaison committee, AHLIC, a group set up to oversee financial assistance to the Palestinian territories).

²⁸Amman Declaration, 31 October 1995. For the text of the declaration, see FBIS-NES, 1 November 1995, pp. 11-13.

²⁹While the European Union committed funds to REDWG's projects, the level of funds was marginal (\$6 million for feasibility studies and \$9.2 million for intersessionals to implement the CAP). See Peters 1996, p. 47.

³⁰At the end of the Amman Summit, the parties agreed that the following conference would convene in Cairo, where they also agreed the Middle East Development Bank would be based. The 1997 MENA Summit convened in Qatar.

³¹See, for instance, "Summit Seen as Attempt to Strengthen Israel," FBIS-NES, 1 November 1995 p. 14, and "Amman Summit Aimed to Achieve Israeli 'Hegemony,'" FBIS-NES, 2 November 1995, p. 51.

Negotiating the MENABANK

No Sure Deal

Supporters of the bank idea faced formidable opposition early on, including from key officials in the Clinton administration. A month before the Casablanca Summit, senior Treasury Department officials expressed skepticism toward the initiative.³² A senior Clinton Administration official said at the time, “It is the unified view of the U.S. government that we do not think the establishment of a Middle East regional bank would be right. . . . We have had mixed experiences with such banks in Europe and Asia, and our Treasury officials feel very strongly on this issue of a banking mechanism.”³³ In addition to U.S. reservations, European Union members made no secret of their opposition to a formal development bank for the Middle East. Even in Israel—the principal bank proponent—voices from the Finance Ministry expressed concern about funding such a bank.³⁴

Despite the work of the MC’s finance committee advocating the creation of the bank, the resistance of the major European powers and the U.S. Department of Treasury posed a major roadblock to the initiative (these officials were more economic-minded and did not share the same intellectual commitment to Israeli normalization as the State Department officials responsible for the peace process). When a senior Israeli official presented plans for a bank to senior State and Treasury Department officials in Washington in September 1994, the officials informed him that although the United States opposed the initiative, if Israel came back with a united position among the “Gang of Four” (Israel, Egypt, Jordan, and the Palestinian Authority) favoring the bank, the United States would “give them their bank.”³⁵ Once the regional players displayed unity on this issue (albeit for different reasons) and argued the importance of a financial body devoted solely to Middle East development,³⁶

the United States recognized, for political reasons, that it must support the bank. Such unprecedented regional coordination was, in the view of senior State Department officials, exactly the type of cooperation for which they had hoped when launching the Madrid process and matched their central beliefs about how to organize the region. They could not reject regional cooperation on economic grounds given the political significance of the initiative, although economic justifications were later provided.

The American Turn-around

To the surprise of his senior advisors, President Clinton boosted the prospects of the bank when he expressed his support on route to the Arava Israel-Jordan peace treaty signing in October 1994.³⁷ In an address to the Jordanian Parliament, President Clinton publicly endorsed the bank. This endorsement paved the way for a provision in the final Casablanca Declaration calling “for a group of experts to examine the different options for funding mechanisms including the creation of a Middle East and North Africa Development Bank.”³⁸ In his address to the summit, U.S. Treasury Under-Secretary Lawrence Summers (who originally opposed the bank) voiced unequivocal American support for the bank proposal, arguing for the importance of building new regional institutions that would “shape the future” just as had been the case in Europe.³⁹

While the Americans by this point strongly favored the bank proposal, the Europeans continued to oppose the bank and preferred existing funding mechanisms for development projects (such as the World Bank or the European Investment Fund). Between the announcement of a possible bank at Casablanca and the call to establish the bank at the Amman Summit the following year, the EU member-states, the United States, and the core regional

to “create a viable and dynamic regional economic development programme in the region.” See “Middle East Development Bank (MEDB): A Policy Position Paper,” drafted by the regional parties in REDWG’s Monitoring Committee Finance Subcommittee before the Casablanca Summit.

³⁷It is not clear how the idea of the bank reached President Clinton, although there is speculation that Peres personally raised the proposal with him. Author interviews with State Department officials, 8 May 1996.

³⁸Casablanca Declaration, Section 9, Part (a) (emphasis added). For the full text of the Casablanca Declaration, see “Casablanca Declaration,” *Middle East Executive Reports*, Vol. 17, No. 11 (November 1994), p. 23.

³⁹“Shared Prosperity in the Middle East: Toward a Regional Development Bank,” Remarks by Lawrence H. Summers at the Middle East/North Africa Economic Summit, Casablanca, Morocco, 31 October 1994.

³²Author interview with an Israeli official, 23 October 1995, Jerusalem.

³³See David Makovsky, “U.S. Not Backing Peres’ Bank Plan,” *The Jerusalem Post*, 11 October 1994, p. 2.

³⁴*Mideast Mirror*, 1 November 1994, Vol. 8, No. 211.

³⁵Author interview with senior Israeli official, Jerusalem, 23 October 1995.

³⁶This work resulted in a joint “vision paper” offered by the core parties for consideration at Casablanca. The vision paper argued forcefully for the need to establish a regional bank, in order for the parties to “function effectively as a region,” and

players established a special task force which met to consider alternative funding mechanisms for the region on a nearly monthly basis until the Amman Summit in October 1995.

Between Casablanca and Amman: The Bank Takes Shape

The Europeans continued to resist establishing the bank on economic grounds—particularly given the sufficient sources for loans to the region and the financial burdens of financing what they perceived as a redundant institution. Yet the Europeans harbored political doubts that went beyond the economics of the bank. The Europeans felt the Americans had usurped their only role in the peace process by taking the initiative out of REDWG and creating a parallel, in their view competitive, economic process based on new regional institutions dominated by the Americans.⁴⁰ In short, the Europeans complained that the United States could not continue to control the political agenda of the region while insisting the Europeans foot the bill. At Casablanca, German and French officials (speaking for the EU) objected to the bank, arguing it would amount “to American control over European money.”⁴¹ In contrast, once-skeptical American Treasury officials, while underscoring that the Middle East bank should not repeat the same financial mistakes of other such regional institutions, argued in favor of the bank at Casablanca, revealing American beliefs concerning the nature of regional relations: “Europe has benefited, and benefited quickly, from its own regional development institution [EBRD]. . . . Why not the Middle East? . . . Development banks can be to the new world order what security organizations were to the old—a banding together of nations with shared vision and a commitment to address their greatest challenges.”⁴² With the core players’ success in achieving U.S. support for the bank proposal at Casablanca, the tremendous hurdles of European opposition and the specific structuring of the bank

created a full agenda for the special task force negotiating the bank’s creation.

The first meeting of experts to discuss financing institutions for the Middle East convened in Washington on 10–11 January 1995. At this meeting, the core regionals argued in favor of the creation of a development bank and the United States prepared a “Concept Paper” that discussed regional development needs, existing financial arrangements for the region and, most significantly, how to structure a regional bank to ensure a private sector and low cost operation.⁴³ For example, from the outset the United States scaled down regional figures for the bank’s capital from \$5–\$10 billion to \$5 billion, with paid-in components spread over five years, a figure that remained in the final bank charter.⁴⁴ The group also discussed the general principles that would guide any future financing mechanism, whether embodied in a bank or some other alternative body, including the political condition that members “will subscribe to core principles: peaceful relations with neighbors in accord with the Madrid process, and commitment to regional economic development and cooperation. They would also eschew direct and indirect economic boycotts.”⁴⁵ These principles focused largely on creating new institutions that would promote cooperative, and even integrative, policies between Arabs and Israelis (hence, the trans-border requirement for funding regional projects) and on ensuring a private sector and market rate-based institution (modeled on the European Bank for Reconstruction and Development, or EBRD).

This latter focus reflected the demands from U.S. financial experts that every effort be made to make the bank financially feasible. However, despite the unity of the core parties in favor of the bank proposal, the Europeans continued to express their concerns and emphasized the need to explore alternative forums for promoting economic development other than the bank. Because of these disagreements, the group resolved to set up a task force that would “develop detailed proposals for new institutional arrangements that will meet three principal criteria: 1) provide new financing mechanisms for the region; 2) foster enhanced regional

⁴⁰Europe’s launching of the Barcelona Conference process (a European-Mediterranean forum which met for the first time on 27–28 November 1995) may be seen as a response to the MENA process. For more on the Barcelona Conference, see FBIS-NES, 29 November 1995, pp. 1–3, 57, 63–64. For key excerpts from the Barcelona Declaration, see *Mideast Mirror*, 29 November 1995, pp. 11–12.

⁴¹*Mideast Mirror*, 1 November 1994, The Arab World, Vol. 8, No. 211.

⁴²Treasury Undersecretary for International Affairs Lawrence H. Summers at the Casablanca Summit. See *Mideast Mirror*, 1 November 1994, Vol. 8, No. 211.

⁴³See “Concept Paper” prepared by the United States for the January experts meeting to discuss options for funding mechanisms to “support the Middle East peace process,” as required by the final Casablanca Declaration.

⁴⁴The full text of the MENABANK charter is reproduced on the MENABANK web site at <http://menabank.org>.

⁴⁵Summary Conclusions by the Chair, Meeting of Experts on Financing Institutions for Economic Development in the Middle East and North Africa, 10–11 January 1995, Washington, D.C.

policy cooperation; and 3) be responsive to regional proposals.⁴⁶ With regard to the bank specifically, the task force was charged with considering “its mandate, membership, eligibility for borrowing, relationship to other financial and policy institutions, operational functions, capital requirements, governance, and interim arrangements.”⁴⁷ The task force gave itself the deadline of the next MENA summit in Amman (30 October–1 November 1995) to produce these recommendations for a “political-level decision.”

Although reports of the January meeting highlighted Saudi reservations regarding the bank,⁴⁸ the Saudis were never great supporters nor opponents, remaining throughout the negotiations what one U.S. official called “cooperatively inactive.”⁴⁹ Moreover, with the core parties uniformly advocating the bank, supported by other Gulf and Maghreb states, the primary source of resistance came from France, Germany, and Britain. France, for instance, spoke out against the bank at the January meeting, proposing instead a cooperative economic institution for the region based on the Organization of Economic Cooperation and Development (OECD) model. The regional participants were not convinced, and continued to argue that these financial alternatives could complement, but not replace, their bank initiative (revealing the material motivations partially driving the process forward, particularly the concern that a new institution would include a financing component and not just a planning mechanism).

The first task force meeting to settle differences over the type of financial institution that would be announced in Amman met on 8–9 March in Washington. At this meeting, Britain, France, and Germany continued to express opposition to the bank and instead promoted a proposal to establish a Middle East and North Africa Financial Intermediation Organization (MENAFIO) that would promote political cooperation, economic coordination, and resource mobilization but which would not have its own capital. The bank’s proponents argued that this type of limited institution would not satisfy re-

gional demands for more permanent institutions and continued to promote the need for a regional bank with its own capital base. In this regard, the United States offered its first draft of a bank charter (drawing on the core parties’ vision paper and the U.S. concept paper) that served as the working draft for the final bank charter. The notion of a Middle East bank was now solidifying into a very tangible initiative.

The next two task force meetings in April⁵⁰ and May continued to flesh out details of the bank charter, while the Europeans attempted to promote a more detailed version of their MENAFIO alternative. According to a U.S. official involved in the negotiations, the European proposal was almost surreal in that it offered a blueprint for a bank that looked very similar to the U.S. proposal—even lifting language from the U.S.-drafted charter—except that it left out the bank (or capital) itself. An attempt to compromise on the MENAFIO initiative failed by the June task force meeting. In the minds of the key American negotiators, only a bank would provide regional legitimacy and further their political objectives of integrating Israel into the region. For the Arab parties, an institution lacking a funding mechanism would not satisfy the economic interest that led them to initially support the bank.

At the July 1995 task force meeting in Moscow, the United States backed the regional parties in support of the bank despite continued European resistance. The United States became the bank’s secretariat and the parties decided at that time to place the bank in Cairo. While the Americans always allowed room to discuss alternative financing proposals at the end of each task force meeting (a concession to the Europeans), they spent the next sessions reviewing the bank charter articles in detail.⁵¹ However, the last task force meeting in October just before the Amman Summit—when the bank would officially be announced—was devoted to easing Jordanian concerns over the decision to place the bank in Cairo rather than in Amman. This dispute revealed the first signs of division among the regional parties since they had proposed the bank, and risked to undermine the initiative.

⁴⁶Ibid.

⁴⁷Ibid.

⁴⁸See Steven Greenhouse, “Mideast Development Bank Plans Scaled Back; Saudis’ Opposition Weakens,” *The New York Times*, 15 January 1995, p. A8.

⁴⁹However, according to a senior State Department official, the Saudis were initially very interested in the proposal because they saw it as a way to divert other regional borrowers from coming to them for loans at a time when they are facing their own economic difficulties. Author interview with U.S. official, Washington, D.C., 6 May 1996.

⁵⁰For further details on the April meeting, see “Jordan: Regional Bank to Be Ready in October; Bank to Finance Projects in Peace Era,” *The Jerusalem Post*, 3 April 1995, p. 9.

⁵¹A U.S. Treasury official drafted the initial charter, with the first draft dating back to March 1995. The fact that the MENABANK charter resembles the European EBRD is no coincidence—the same U.S. official drafted that charter as well. Author interview with U.S. official, 28 February 1996, Washington, D.C.

The unprecedented regional support for the bank provided the most persuasive political case in its favor, particularly given its weak economic foundations. However, the parties averted a crisis when they agreed to formalize the REDWG MC secretariat and permanently place that new institution in Amman.

The division of labor between the Amman secretariat and the policy forum of the bank (in Cairo) in coordinating regional economic planning was left unclear, but the parties believed that the creation of an additional economic institution in Amman was necessary from a political standpoint. While the “something for everyone” approach to institution building may not be the most efficient road to economic development, it served the important political purpose of ensuring the establishment of cooperative Arab-Israeli institutions. At the second MENA summit in Amman, the parties formally agreed to establish the bank and finalized its charter in the following months.

After Amman: Finalizing the Bank Charter

At its post-Amman November 1995 meeting in Cairo, the task force allocated 75.5 percent of the bank’s capital, leaving 24.5 percent unallocated for other regional (Syria and Lebanon in particular) and extra-regional (the Europeans) potential members to join at a future date. The United States, as one would expect, received the bulk of the shares (21 percent), while each of the core parties received an equal 4 percent (See Table 1). However, the parties were not able to finalize the bank charter at their February 1996 meeting as planned. To the surprise of U.S. officials, the Egyptians raised last minute concerns over the explanatory language for the charter relating to the boycott against Israel. The Egyptian position stalled the bank’s establishment for two months. As a result, the participants agreed to the entire charter except for the section referring to boycotts and left the United States in charge of drafting acceptable language to all the parties. Thus, the charter itself does not specifically mention the boycott, employing broader language that commits the bank members to “promoting economic cooperation within the region, including trade liberalization and the removal of trade barriers and restrictions. . . .”⁵² However, the United States included boycott language in the explanatory statement for the charter, stating that “members will

cease to participate in and will not erect politically motivated barriers and restrictions to economic cooperation with other regional members, including boycotts and other impediments to such cooperation.”⁵³

With this issue resolved, the bank charter was circulated among prospective members for approval at the end of April 1996 through a “no objection” procedure. In May 1996, China formally requested membership of the bank (applying for 4 percent of its shares), a request that was supported by most of the prospective members. A multinational transition team began work in Cairo to lay the ground work for operationalizing the bank, and within the year were provided an office space in Cairo by the Egyptian government. On 28 August 1996, the bank charter was deposited at the United Nations Headquarters by the United States and Russia for signatures and ratification among the prospective members. While not all members have signed and ratified the charter, in part because the United States has not yet contributed its portion of the funds needed to start the bank’s operations, the transition team laid the groundwork for the bank’s operations throughout 1997–1998, such as drafting its by-laws, addressing treasury-related issues, finalizing its organizational structure and personnel policy, and completing a headquarters agreement with the Egyptian government. The team also developed a pipeline of projects for consideration once the bank begins operations.⁵⁴

Problems for the Bank: Regional Commitment and U.S. Funding

Despite the transition team’s progress, the setbacks in the bilateral peace process slowed the pace and enthusiasm of regional support for the bank, with Jordan the only regional member to have signed the bank charter thus far. The Israelis refused to sign the charter until the Egyptians also agreed to sign, which they have yet to do. Some reports also suggested that the Israeli government under Netanyahu was not as enthusiastic in its support for regional institutions such as the bank as under his predeces-

⁵³Explanatory Statement for the Middle East and North Africa Bank Charter, Article 4, paragraph (a) (ii). The explanatory statement, as the entire charter, was adopted by the consensus of the parties to the agreement and is designed “to guide interpretation of the Articles indicated, but are not an integral part of the Agreement.”

⁵⁴For details of these projects, see Ambassador David J. Dunford, “MENABANK: Would U.S. Membership Help the Peace Process?” *Peacewatch* No. 159, The Washington Institute for Near East Policy, 20 March 1998.

⁵²MENABANK charter, Chapter II, Article 4, Paragraph (a) (ii).

sor,⁵⁵ but high-level Israeli officials have vehemently denied this, pointing out that Netanyahu lobbied for the bank in a meeting with members of Congress during a visit to Washington.⁵⁶ Yet, although the core parties still supported the bank publicly (such as at the Cairo economic summit),⁵⁷ their participation was increasingly linked to the political process. At a 1 May 1997 meeting of prospective bank members and other interested parties (China, the EU) in Washington, D.C., the State Department organizers sought to revive attention to the bank in light of negative political developments and showcase the work of the transition team in Cairo for the group. Although the meeting itself was an important development given the lack of contact among the core parties (particularly the Israelis and Palestinians) since the January 1997 Hebron agreement, the regional participants only sent embassy-level officials. Because the Egyptians refused to send higher-level representation, other regional parties who would have otherwise sent higher level officials were forced to send embassy staff as well.⁵⁸

While negative peace process developments certainly damaged the positive cooperation among the core parties in the bank negotiation process, a serious impediment to getting the bank off the ground has been the inability of the U.S. administration to receive Congressional funding for the initiative even though the funding requests are quite modest (a \$52.5 million annual commitment over five years). In the 1997 budget, Congress authorized funding but did not include the funds in its appropriation. Congress also failed to fund the bank in fiscal years 1998 and 1999. Naturally, the increasingly negative positions of the core parties toward the peace process made it all the more difficult for the administration to secure financing for this new Arab-Israeli institution. However, without U.S. funding—the bank’s primary shareholder—it

will be difficult to operate the bank, particularly since other members are unlikely to pay their shares if the United States does not.

Conclusion: Banking for Peace

While other alternatives were available to address the economic development needs of the region, these alternatives were not chosen because they failed to satisfy American political objectives and beliefs about how to promote the Arab-Israeli peace process. American policymakers believed that in order to enhance regional stability, Israel should be integrated into the regional fold through permanent multilateral institutions. In this sense, the creation of the MENABANK has more to do with the politics than the economics of the region.

While the MENABANK may not lead to the most important lending mechanism in the region given its political foundations (though many of the economic and efficiency-based concerns have since been addressed), the bank is nonetheless a useful policy tool to promote cooperative Arab-Israeli relations and should be judged on these political, rather than merely economic, grounds. When considering appropriating the U.S. portion of the funds to this bank, Congress should consider these political arguments without harboring unrealistic expectations concerning the extent to which economic cooperation can “spill over” into the political realm.

But time is running out. According to the bank’s charter, if the bank “shall not have entered into force within two years after its opening for signature, the Depository [the Secretary-General of the United Nations] shall convene a conference of interested parties to determine the future course of action.”⁵⁹ Thus, since August the prospective members of the MENABANK have had a responsibility to address the status of the bank and determine its fate. Indeed, the funding for the MENABANK transition team expired in October 1998 and its future is now uncertain. However, this pressure and the movement on the Israeli-Palestinian track in the aftermath of the Wye agreement offers the parties an opportunity to refocus their efforts on establishing this bank.

⁵⁵See, for example, “Can the Middle East Bank on Bibi?” *U.S. News and World Report*, 15 July 1996, p. 20.

⁵⁶Author interview with senior Israeli official, 25 August 1996, Israeli Foreign Ministry, Jerusalem.

⁵⁷The final Cairo conference communiqué included the following statement of the MEDB: “They [the participants at Cairo] underscored the importance of the bank for economic cooperation and development in the Middle East and North Africa in Cairo and its potential contribution to the promotion of capital flow to the region, to building infrastructure projects, and to the development of the private sector in the region. The conclusion of the drafting of the agreement establishing the bank was welcomed. Countries were encouraged to sign the agreement and complete their funding and ratification procedures promptly in order to enable the bank to begin operations in 1997.”

⁵⁸Author interview with U.S. official, 15 May 1997.

⁵⁹MENABANK Charter, Chapter XII, Article 53 (e).

In this regard, the U.S. Administration should engage in serious efforts, in coordination with the U.N. Secretary General's office, to convene a meeting of prospective members to generate regional support and organize efforts to acquire the signatures, ratifications, and funding necessary to begin the bank's operations. If the parties demonstrate a renewed commitment to the bank, they boost the prospects for Congressional funding. If the bank members are no longer committed to this institution, it would be better to close up shop than to allow it to languish. The preferable outcome from the U.S. perspective should be renewed efforts to establish the bank, including the coordination of efforts among the regional parties to promote the bank in the U.S. Congress.

The MENABANK once played and can play an important role in promoting peaceful and cooperative Arab-Israeli relations. While policymakers should be cautious about promoting institutions in all cases, especially when the political conditions are premature,⁶⁰ they should recognize opportunities when such cooperation serves important political ends. The MENABANK suggests several lessons for how to construct nascent regional institutions in an often rancorous political climate:

- The more limited the objectives the more likely the success of new institutions. Premature discussion of Arab-Israeli economic integration or grand schemes like an Organization for Security and Cooperation in the Middle East (OSCE) can undermine the gradual progress efforts like the bank have contributed to normalizing Arab-Israeli relations. Sometimes, years of informal cooperation are necessary to forge consensus and reduce mistrust before the parties are ready for formal institutions, as is likely in the arms control area.
- New institutions are more likely to materialize if they focus on narrow issue areas and a limited number of parties who recognize clear (though not necessarily common) interests in cooperation. This increases the prospects for consensus building and avoids unnecessary linkage between issue areas which can hold up

⁶⁰There are times when attempts to formally institutionalize cooperation before the parties are ready can actually undermine rather than enhance cooperation. This has been the case in the Arms Control and Regional Security (ACRS) Working Group of the multilateral talks where attempts to create new institutions have exacerbated Egyptian fears over losing its regional influence, resulting in uncooperative Egyptian behavior. For more on ACRS, see Bruce W. Jentleson and Dalia Dassa Kaye, "Securing Status: Explaining Middle East Security Cooperation and Its Limits," *Security Studies* 8 (Autumn 1998).

cooperation in areas that otherwise would have moved forward. In the case of the bank, for instance, the small number of regional parties driving the process increased their ability to recognize common interests (for example, increasing foreign investment into the region).

- Setbacks in Israeli-Palestinian relations make regional institutions more difficult to develop, but not impossible. The bank case demonstrates that, within limits, regional parties are willing to engage in institution building if they feel other interests are being served by the process. The United States can help facilitate this by continuing to support initiatives like the regional economic summits and recognizing the central role played by regional actors like Egypt in ensuring the success of these initiatives. Regional cooperation and institution-building cannot be fully insulated from bilateral tension, but progress is still possible if the regional parties have a stake in the process.
- Policymakers need to recognize that if politics and political aims are in fact the driving forces behind the creation of institutions, politics can work to undermine the institution's early development. The MENABANK experience counsels for sensitivity to the politics of institution-building.
- Inter-Arab competition, particularly between Egypt and Jordan, is another possible impediment to building regional institutions. The United States must be sensitive to this competition and maintain strong relations with both of these key Arab allies, highlighting the gains from regional cooperation rather than the losses. The location of institutions is thus not a trivial matter and must be given careful political consideration.
- In circumstances where Congressional support for an institution will be crucial, the Executive Branch should work with key members, especially on the appropriations committees, from the very outset. In the MENABANK case, coordination with Congress at the very early stages—even enlisting key members in supporting the bank and joining in conferences—might have increased the ability of the Administration to obtain funding.

Even if the MENABANK fails to materialize in the near term, it will provide useful lessons for future Arab-Israeli peacemaking and suggest the sources and impediments to successful multilateral

regional cooperation. In the context of Arab-Israeli politics, this is no small accomplishment. That said, the demise of the bank would be an unfortunate missed opportunity for all parties concerned about banking for peace.

