Arab Stabilization Plan

Expanded White Paper

ARAB STABILISATION PLAN

The unemployment crisis facing the Middle East and North Africa has been a central driver of recent instability. With pockets of youth unemployment up to 60%, and with an estimated 14-15 million unemployed, the proposed 'Arab Stabilization Plan' targets high rate-of-return investments to tackle the jobs crisis head on.

The White Paper shows that an injection of US$100 Billion over the next 5 years could create up to 11 million jobs, based on World Bank figures. Public financing utilized through the Trust Fund will be directly invested in infrastructure projects to stimulate private sector-led growth. Core sectors include energy, transport, housing, agriculture, communications and water and sanitation. The UAE, Saudi Arabia, Qatar and Kuwait would be the main investor countries and Egypt, Tunisia, Jordan, Morocco, Algeria, Libya and Yemen the main target countries.

PLAN OBJECTIVE:

The objective of the ASP is to urgently create jobs, through private and public flows, making growth more inclusive whilst minimizing the risks of instability, contagion and radicalization.

This study has been conceptualized and wholly financed by Majid H. Jafar as a private initiative.

Our young people are coming out of school to face the worst unemployment rate of any region. Smart economic policy is critical, to support inclusive, jobs-generating growth.

Speech of His Majesty King Abdullah II, Before the Arab-British Chamber of Commerce, London, UK, 15 November 2011

The regions infrastructure needs are between US$75 and US$100 billion a year for the next 5 years, after experiencing an investment low of US$6 billion in 2009.

Shamshad Aktar, Regional Vice-President, MENA, World Bank

PREPARED FOR:

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This expanded White Paper is a roadmap towards creation of an 'ARAB STABILIZATION PLAN' in direct response to the jobs crisis facing the Arab World. There are 14-15 million people unemployed across the Arab World, with pockets of youth unemployment reaching up to 60%. With the population of the Arab World set to increase from 355 million to 500 million by 2025, the jobs crisis is at a TIPPING POINT and affecting stability.

The proposed ARAB STABILIZATION PLAN (ASP) embraces four distinct Arab contexts: the Levant, Gulf, North Africa, and Egypt. At stake is the fate of millions of people, as well as the fortunes of government regimes and major international interests - public as well as private. The ASP, partly inspired by the European Recovery Program (the so-called 'Marshall Plan'), would not only lay the foundation for collaborative regional leadership, it would also address the jobs crisis head on: creating 3 to 11 million jobs over the next 5 years.

The ASP would provide for an ARAB-LED solution and is different from all other efforts proposed. Further, unlike the economic framework developed by the G8/Deauville Partnership, aimed at providing conditional loans channeled through the World Bank and the International Monetary Fund (IMF), the ASP would not focus on structural adjustment but direct jobs creation through critical private or public-private infrastructure investments. ASP Funds will be directly invested in infrastructure projects and will not pass through government. Finally, the Plan is established around PRIVATE and PUBLIC-PRIVATE PARTNERSHIP investment windows, allowing flexible, high-impact country and sector investor options.

How is the ASP Different From Other Initiatives?

- The ASP is an Arab-led initiative based on mutual interests, with larger flows than any equivalent plan.
- The ASP provides fast-tracked project-based finance with high rates of return.
- The ASP targets employment not fiscal stabilization or loan-based structural adjustment.
- The ASP is a multi-investor plan and fund aimed at multi-state financing.
- The ASP is a NEEDED COUNTERPART to Deauville investments in fiscal stabilization and technical assistance.

The ASP Could Solve the Job Crisis, Generate High Returns and Build Essential Infrastructure.

- In MENA there are 14-15 million unemployed with 2.8 million people joining the job market each year.
- The IMF forecasts the financing needs of oil-importing Arab countries to top US$160 billion in 2011-2013.
- The World Bank states that the region must invest US$75 to US$100 billion in infrastructure annually.
- China spends around 15% of expenditure in infrastructure. MENA currently only spends 5%.
- Likely economic rates of return on investments can exceed 25%, with significant stabilization and employment benefits - immediate, short and longer term.

How Would the ASP be Implemented?

The ASP would be financed largely by GCC investor countries (UAE, Saudi Arabia, Qatar and Kuwait) and authorized by an ARAB COMMON INTEREST PACT, possibly through a proposed resolution of the Arab League. It would be led by a GOVERNING BOARD, including investor and target countries at Finance Minister Level, with ultimate authority over policies, direction and funding decisions. An INVESTMENT COMMITTEE and team of TECHNICAL EXPERTS would administer the ASP, manage the Trust Fund and provide due diligence on project proposals. At a country level, NATIONAL PROJECT DEVELOPMENT TEAMS would provide visible national leadership and vision, identifying high-potential projects. Coordination between the ASP, Deauville and other initiatives could be ensured through a REGIONAL POLICY FORUM – to deepen dialogue on mutual strategies.

How Many Jobs Could be Created – Based on World Bank Figures?

- INVESTING US$30 BILLION: A fund of US$30 Billion, based on a typical basket of investments, has the potential to generate up to 3,300,000 infrastructure-related jobs in oil-importing countries and up to 1,470,000 jobs in developing oil-exporting countries over 5-7 years, based on World Bank figures.
- INVESTING US$100 BILLION: A fund of US$100 billion, based on a typical basket of investments, has the potential to generate up to 11,000,000 infrastructure-related jobs in oil-importing countries and up to 4,900,000 jobs in the developing oil-exporting countries over the next 5-7 years.

Acronyms and Abbreviations

AFFI	Arab Financing Facility for Infrastructure
AFESD	Arab Fund for Economic and Social Development
ARTF	Afghanistan Reconstruction Trust Fund
ARTF MC	Afghanistan Reconstruction Trust Fund's Management Committee
ASP	Arab Stabilization Plan
ACIP	Arab Common Interest Pact
ASP TF	Arab Stabilization Plan Trust Fund
ECA	Economic Cooperation Administration
ERP	European Reconstruction Plan (Marshall Plan)
ERR/FRR	Economic Rate of Return / Financial Rate of Return
FEMIP TF	Facility for Euro-Mediterranean Investment and Partnership Trust Fund
FSAC	Financial Services Advisory Corps
G8	Group of Eight
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
IFC	International Finance Corporation
IFI	International Financial Institution
IMF	International Monetary Fund
IDB	Islamic Development Bank
LAS	League of Arab States
MDTF	Multi-Donor Trust Fund
MENA	Middle East and North Africa
NPV	Net Present Value
OECD	Organization for Economic Cooperation and Development
OEEC	Organization for European Economic Cooperation
OGP	Open Government Partnership
OPEC	Organization of the Petroleum Exporting Countries
PFI	Private Finance Initiative
PFM	Public Financial Management
PPP	Public-Private Partnership
SME	Small and Medium Enterprise
SPF	State and Peace Building Fund
TF	Trust Fund
UNCAC	United Nations Convention against Corruption
WB	World Bank

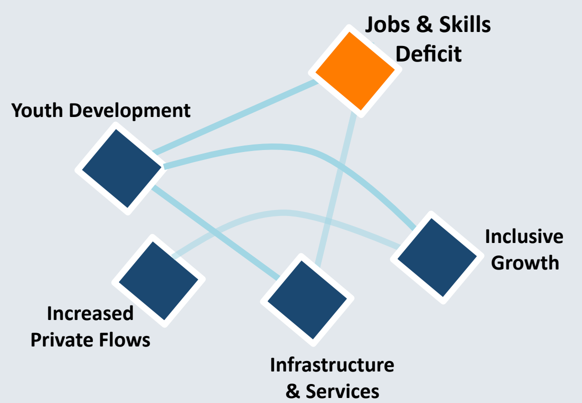
1. What Is Driving The So-Called Arab Spring?

Providing employment is the most critical 21st century economic development challenge facing the Middle East, with 65% of the population under the age of 30 and 14-15 million people out of work. Unemployment rates are extremely high, with youth unemployment at 26.2% in the Middle East and 27.1% in North Africa in 2011. Pockets of youth joblessness are as high as 60% in Egypt and Tunisia. Lack of jobs is a major economic and social problem in these societies. Long-term prosperity and stability hinge on opportunities afforded to this generation.

> A young person who says 'I want a job, I am fed up with being marginalized, and this is not something I can bear anymore,' does not care whether it's the fault of the government or the market.
>
> *Mongi Boughzala, Economics Professor, University of Tunis, New York Times,*

The unemployment tinderbox has spread across most of the Arab world. Female youth unemployment in the Arab World is particularly striking, at 39.4% in the Middle East and 34.1% in North Africa. Youth are however especially concerned by the limited responsiveness to the employment challenge. The problem will not go away and must be addressed head on. ***Figure 1*** highlights the drivers of the jobs and skills deficit.

Figure 1: Jobs & Skills Deficit Requirements



High unemployment is the outcome of economic systems that are neither inclusive nor reflective of the challenges faced by countries forced into complex transition. Young people are fighting for better education, jobs and affordable housing, but in the long run these can only be provided through the private sector or through strong public-private partnerships. The ***vicious cycle*** feeds on itself, resulting in continuous high and worsening joblessness, as shown in ***Figure 2***.

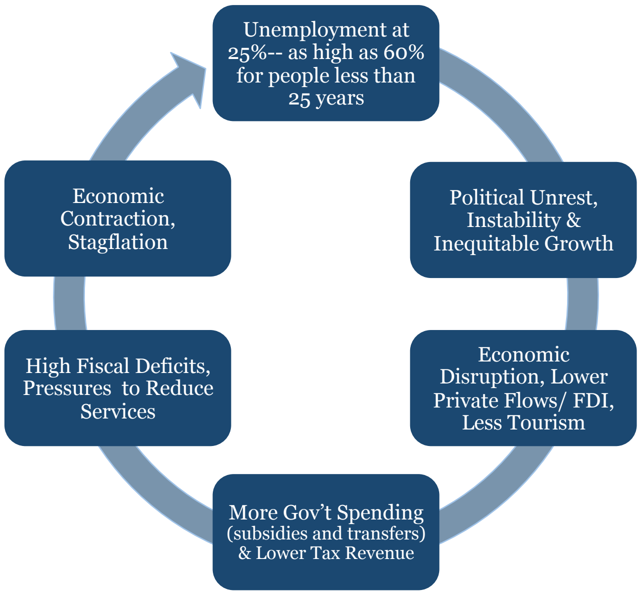
Across the Arab World, where declining growth and increased energy import costs have massive macro-economic and fiscal implications, there is an urgent need to create jobs through the private sector, which demands new channels of investment. The employment problem is made worse by lack of appropriate skills.

While there are good arguments in favor of embarking on a region-wide transition plan, the immediate focus must be on <u>creating jobs and private sector development, both of which are essential for stabilization</u>.

With governments unable to finance growth from their own resources, and given the failure to raise the US$38 billion committed by the G8/G20 under the economic framework of the Deauville Partnership (that was to be largely chan-neled through the IMF/World Bank), employment must be driven by targeted investments that create a better ena-bling environment for the private sector

The current economic crisis, which includes risks of increased radicalism, is in many ways as big a threat to regional and world stability as the period following the end of the World War II. The solution then was the ***USA's 'Marshall Plan'*** to support Western Europe's post-war stabilization, providing US$13 billion in support; US$115 billion in current prices (WDR, 2011). ***Growth leapt from just 87% of pre-World War II levels in 1947 to 135% in 1951; a 55% jump in just four years.***

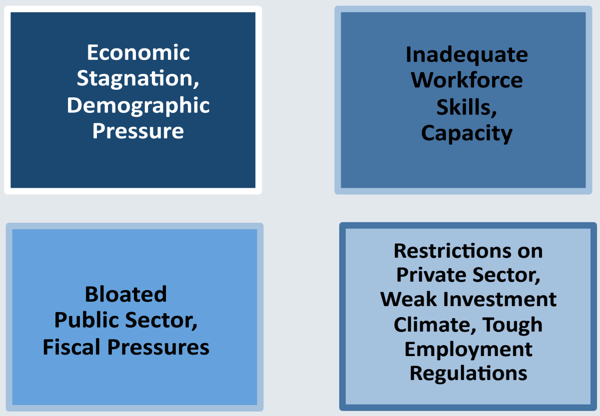
Figure 2: The Vicious Cycle of Unemployment



2. Why is a Stabilization Plan Urgently Needed?

Over the past two years the Arab world has been thrown into the greatest pan-regional turbulence since the 1950s. The crisis embraces four distinct Arab contexts: the Levant, Gulf, North Africa, and Egypt. At stake is the ***fate of millions of people***, as well as the fortunes of government regimes and major international interests - public as well as private. A critical and profound reshaping of the Arab world is underway, with significant implications for its political and economic futures.

Figure 3: Structural Economic Challenges



Arab countries experienced unprecedented growth in the early part of the new millennium. However, ripple effects of the 2007 financial crisis, ***burgeoning unemployment***, and high costs of energy and food imports have left many ***governments without the resources - or investment policies*** - to meet core challenges. Oil importing countries that have not focused on private sector development as the driver of growth and employment have been the most badly affected by the current crisis.

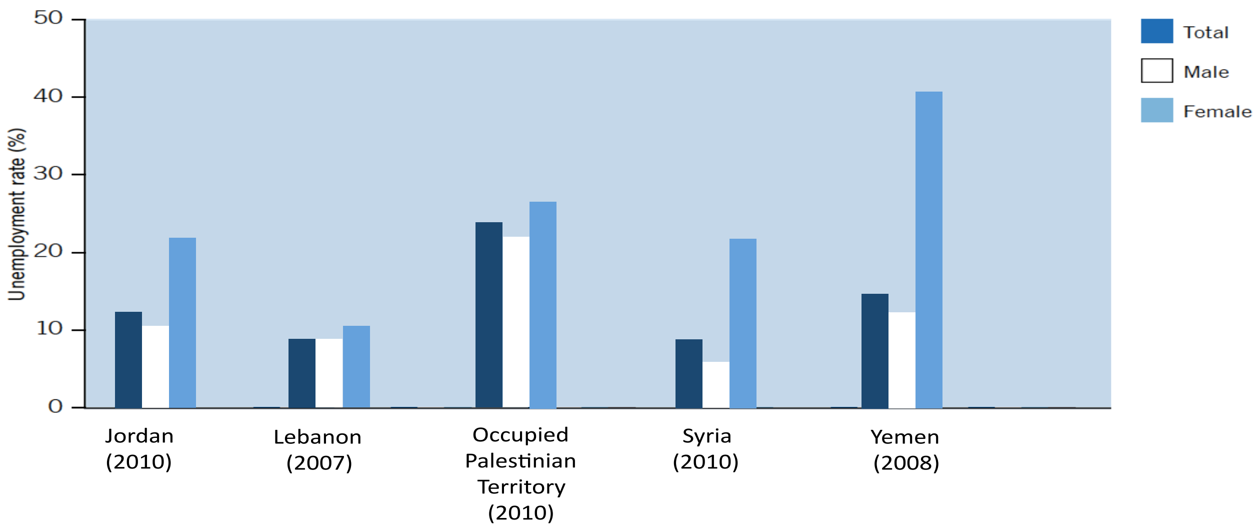
As illustrated below, the Arab World unemployment challenge is clear.

Establishing a regional plan to generate millions of jobs while laying the foundation for inclusive growth and macro-economic stability is central to resolution of political unrest in the near term. The facts speak for themselves:

- In 2011 there are between 14-15 million unemployed across MENA, and many more underemployed;
- In MENA, each year, a further 4-5 million jobs are required to avoid increased unemployment;
- The Arab world population is to grow from 355 million in 2011 to ~500 million by 2025;
- Government investment in infrastructure (outside the GCC) is less than 5% of GDP – China's is 15% of GDP;
- In non-GCC countries private investment has declined from US$25 billion in 2006 to US$17 billion in 2009, and continues to decline;
- While in 2011 oil exporting countries' GDP grew by 4.9%, energy importing countries' GDP growth declined to 1.5%;
- Urbanization in MENA will reach 70% by 2015, with increased water and energy threats;
- IMF forecasts a fiscal deficit for the region of up to US$130 billion over the next 2-3 years.

Sources: IMF World Economic Outlook 2012, ILO Global Unemployment Trends in 2012

Unemployment (%) in Selected Countries (ILO, 2012)

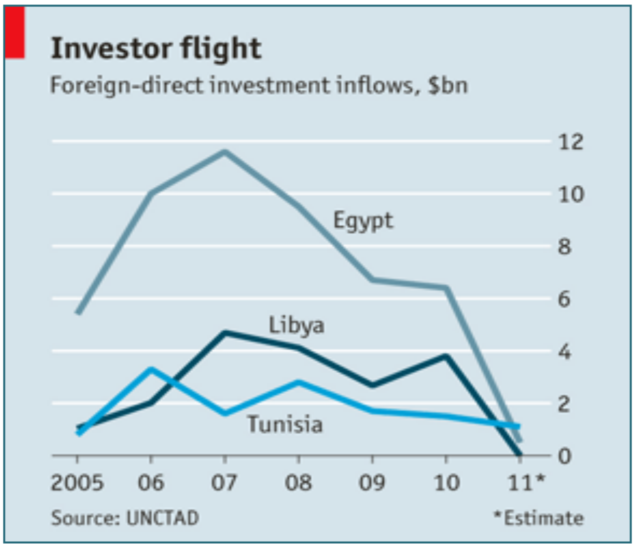


Costs to Business & Foreign Investment are Mounting

When business gets hurt, and foreign direct investment drops off, growth, profits, jobs, services and revenues are hit. The costs of continuing instability are fuelled by investment uncertainty in the private sector, undermining its ability to drive growth and to create jobs.

> The government needs to build factories to bring us proper jobs.
>
> *Mr Abdenaceur Hammoudi, Tunisian Fruit Seller, Tabarka As quoted in The Economist, February 4 2012, 'Unfinished Business, Revolutions have hurt the wallets of bosses and workers alike*

Tunisia saw GDP growth in 2011 fall from 3% to 0% according to the IMF, but the Tunisian government says the economy actually contracted by 1.8%. Egypt, which has seen frustration turn to violence, saw a decline in growth from 5% to 1%. Similarly, Libya's economy is likely to have contracted by up to 50% following the paralysis of the oil industry. Many of the companies that have closed down are not likely to return anytime soon. According to UNCTAD, foreign direct investment in Egypt fell from US$6.4 billion in 2010 to just US$500 million in 2011, leading to the loss of tens of thousands of jobs. The Chart below showing Investor Flight demonstrates the impact on instability of foreign direct investment.

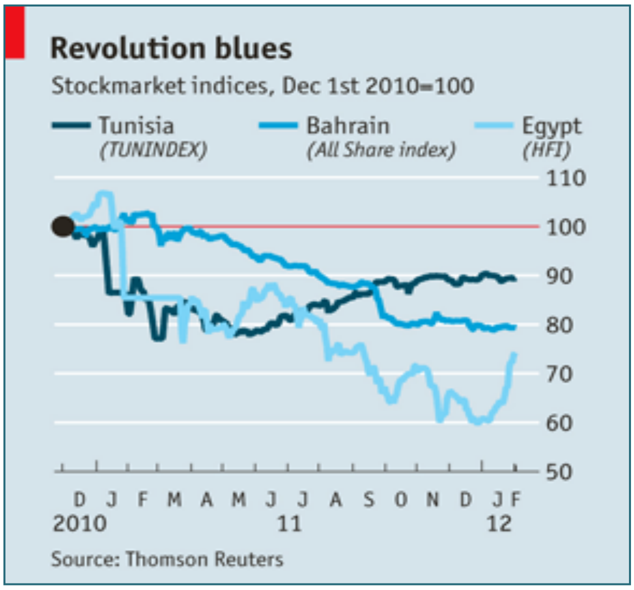


Source: The Economist

In Libya, following 6 months of insurgent conflict, the private sector is beginning to return and countries such as the UAE, Qatar, France and the UK are seeking to benefit from future investment. Tunisia's government is promising to increase growth to 8% while reducing unemployment from 19% to 8.5% by 2016. Meeting these targets is a tall order that requires both economic reforms and considerable external support. The government of Egypt claims commitment to restructuring its economy and boosting private enterprises, including for the textile (which employs 70,000) and other sectors such as services.

Research by Zogby Research Services in 2011, using survey results from 2009 and 2010 puts employment at the top of citizens' concerns in 7 out of 8 countries: Tunisia, Egypt, Lebanon, Jordan, Saudi Arabia, Iraq and Iran.

According to the Economist magazine, Egypt's foreign currency reserves have fallen from US$36 billion to US$15 billion over the past year, and as a result the government is weighing options to borrow US$4.8 billion from the IMF, to balance its books. However, in the absence of FDI, removing subsidies – reducing citizens' spending power – requires significant external support. Stock markets have also been hit, with Egypt taking the biggest blow (see Revolution Blues Chart below).



Source: The Economist

3. ASP OBJECTIVES & COORDINATION FRAMEWORK

The ASP is an essential, coordinated response to this major and evolving regional crisis. It is a ***common interest pact*** based on political and private cooperation for growth, led from within the Arab World and targeting ***two primary stabilization objectives***: (i) private sector-led growth and (ii) rapid job creation.

In concept, ASP ***draws on the lessons from other political and economic pacts*** – including the European Recovery Plan (Marshall Plan). Through the ERP, the United States invested 5% of its 1948 GDP in growth and jobs across 18 diverse European states, as a central strategy for re-establishing regional stability after the devastation of WWII.

The Marshall Plan was arguably a strong factor in the region's unprecedented post-war boom and the emergence of Europe as a coherent political and economic force. Other efforts to inject political and economic reforms into fragile regional contexts have been far less successful. Important lessons can be drawn from failures as well as successes. Analysis suggests there are a number of ***factors that promote achievement of good outcomes***:

- ✓ Collective political commitment;
- ✓ A common & realistic agenda;
- ✓ Respect for sovereign processes;
- ✓ Clear stabilization and integration objectives;
- ✓ Balanced public/private sector engagement;
- ✓ Flexible but effective management structures;
- ✓ Timely, visible gains that build momentum; and
- ✓ Ability to adjust and capitalize on success.

As with the Marshall Plan in 1945, the ASP would be unprecedented in the Arab World. ***Led by the Arab World***, it would unite the common interests of oil-exporting and oil-importing Arab countries towards large-scale investment in job creation and growth.

As a multi-investor and multi-target Pact, it has the scope to rationalize oil exporting and oil importing country agendas through a truly common platform. Thereby, different economic models can cooperate for mutual benefit.

The ASP is also unique in that it *represents* ***a private-to-private as well as inter-governmental model***. It leverages the considerable private sector capacity of the Arab world to support growth as a complementary strategy to other political and economic reform measures driven through traditional public channels.

The ASP envisages ***a flexible, twofold mechanism for investments***: (i) an ASP-administered Multi-Investor Trust Fund; and (ii) direct bilateral investments. Both mechanisms would be overseen by a Governing Board, representing both investor and target countries, with oversight by Finance Ministries of the GCC and other participating countries through a higher-level regional forum. Further details of the ASP's institutional structures are put forward in Section 6 below.

COORDINATION:

As a ***primary initiative with a very specific focus on leveraging public/private investment for jobs and growth,*** the ASP will be a natural counterpart to broader political reform, fiscal stabilization socio-economic development planning processes underway under the G8 Deauville Partnership.

Specifically, the ASP will interact with the proposed Deauville Partnership 'Transition Fund' to ensure investments made through the public sphere towards a healthy, equitable enterprise culture are ***supported but not duplicated*** by ASP investments in private sector job creation and growth.

Four key liaison points between the ASP and the Deauville Partnership are:

- Within target countries (at the level of project development);
- Within ASP investor countries (through MoFA);
- Via the ASP Governing Board; and,
- *A Regional Policy Forum to manage the Arab World's reform and growth process could be attached to the Arab League*.

The ASP will also liaise closely with other regional growth initiatives such as the Arab Financing Facility for Infrastructure (AFFI), as well as the Islamic Development Bank.

Defining Mutual Accountabilities:

A mutual political and economic pact, hereafter referred to as the Arab Common Interest Pact (ACIP), will underpin the ASP. The purpose of such a pact would be to provide an authorizing environment for the ASP, including the specific mechanisms for ASP administration and management of funding flows under the ASP umbrella.

This Common Interest Pact will unite investor and target countries to define a joint agenda, and specify in detail aspects of mutual responsibilities and accountabilities. It empowers the ASP to ***engage the six primary change agents within the "Arab Spring" process***:

- Private sectors in countries experiencing unrest;
- The Arab World's lowest income groups;
- Target ASP countries;
- Oil-exporting countries;
- Arab League/other pan-Arab structures; and
- The Deauville Partnership.

The main organizing elements of the Arab Common Interest Pact are described in greater detail in Section 5.

4. Which are the Target Countries and Sectors?

The establishment of the ASP must be centrally focused on meeting the ***needs of countries whose economies have been negatively impacted by the so called 'Arab Spring'***, but also those best placed to ***give*** and ***benefit*** from support within a framework of minimum risk. With oil exporting GCC countries on different growth paths than energy importing states, <u>the growth imbalance across the Arab World provides opportunities on both sides for cooperation.</u>

Likely GCC and Non-GCC Investors

Countries most likely to contribute to the ASP within the GCC include:

Likely Investor Countries	
UAE	Saudi Arabia
Qatar	Kuwait

Additional resources for the ASP may come from the Governments of the BRIC Countries. This support may also be coordinated with assistance being provided by the G8/G20 under the *Deauville Partnership* framework, and international financial institutions (the Islamic Development Bank, World Bank, IMF).

Eligible Arab Economies

Criteria for the selection of Arab economies to be provided support under the ASP include (i) willingness to participate/benefit, (ii) private sector employment potential, (iii) country/sectors meeting minimum political and security risks, and (iv) must be signatory to the Arab Pact. Countries meeting these criteria are likely to include:

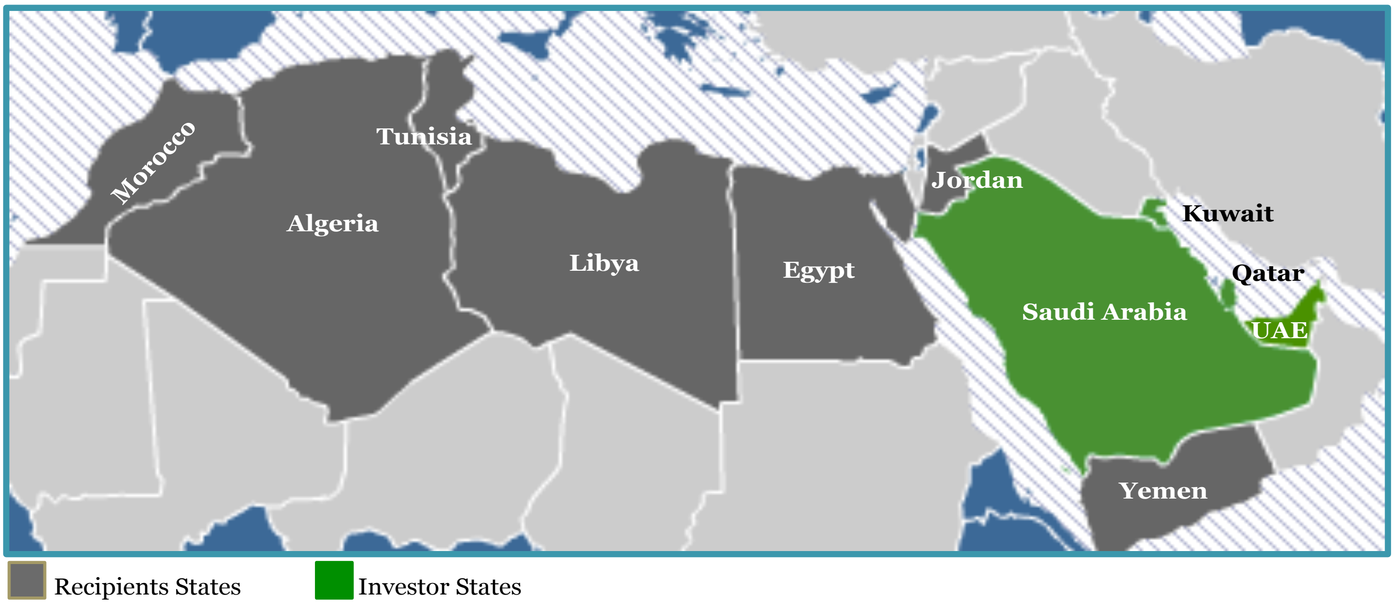
Target Countries	
Algeria	Morocco
Egypt	Tunisia
Jordan	Yemen
Libya	

Libya and Iraq may benefit from technical assistance alone, while Syria and Lebanon may benefit from both financial support and technical assistance. The countries of focus do not have to be 'post-revolutionary' states.

Target Investment Sectors

Proposed sectors for plan financing - driven by the need to maximize impact on employment, growth and revenues - are shown below.

Figure 4: Map of Target and Plan Investor States



5. THE 'ARAB COMMON INTEREST PACT'

VISION AND PRINCIPLES:

The **ARAB COMMON INTEREST PACT (ACIP)** is a ***mutual agreement to mobilize Arab leadership and resources in the common interest of the Arab people within the framework of the Arab Stabilization Plan.***

It aims to ***create a unified bond and purpose among Arab countries,*** to tackle current economic and social challenges and spread the benefits of growth and modernization across the region.

Underlying and representing this bond are a set of ***five fundamental principles*** and pledges of mutual accountability. All participating countries will agree to abide by these, to secure common interests between investors and target countries, and to protect investments over the long term:

- ***Principle 1- Sovereignty:*** Respect for, and non-interference in, sovereign rights.
- ***Principle 2 – Economic Responsibility:*** Delivering a healthy national investment climate.
- ***Principle 3 - Equity:*** Maximizing the social dividends of growth.
- ***Principle 4 - Mutual interests:*** Strengthening regional ties and economic integration.
- ***Principle 5 - Accountability:*** Assuring transparency, quality and coordination.

In respecting these principles, Arab countries will undertake the following commitments:

PRINCIPLE 1: SOVEREIGNTY:

Target and investor countries will *respect each other's sovereign rights fully* and refrain from interference in internal sovereign issues.

Investor countries will *limit investments to growth and job creation initiatives approved by the appropriate internal target country structures*, leaving counterpart politico-social reform processes to be supported by other stakeholders.

Target and investor countries *will foster mutual stability* and actively prevent attempts by any individual or group to undermine each other's sovereign government systems.

PRINCIPLE 2: ECONOMIC RESPONSIBILITY

Target countries will *introduce or implement any necessary measures to ensure a stable climate for investment and growth* in a context of good fiscal policies and management.

Target countries will *begin a national reform process that creates room for inclusive private sector growth and supports human development,* for example, modernizing Public Finance Management systems, reviewing social welfare and improving quality public services.

Target countries will *develop and implement appropriate laws and measures to secure investments made in growth*, including foreign direction investments

Target countries will take swift action *to forestall public or private practices that might damage ASP investments*, such as corruption or unduly long bureaucratic delays.

Investor countries will *ensure that the domestic competitiveness of target countries and the capacity of local businesses are enhanced* and not diminished by ASP investments.

Target countries will *establish a Sustainability Planning Process*, through ASP technical assistance, to ensure that the dividends of growth outlast the ASP funding horizon and changes in government.

PRINCIPLE 3: EQUITY:

Target countries will *work towards an integrated national strategy for socio-economic development* to which ASP support preferences can be linked alongside other assistance strategies, including Deauville Partnership assistance.

Investor and target countries will ensure *that projects include the lowest economic population groups and take care not to aggravate ethno-sectarian disparities*.

Investor and target countries will *include investments that build a skilled job market for* sustainability.

Investor and target countries will *establish counterpart funds where possible to be invested in* *essential services* such as health, education, water and electricity.

Principle 4: Mutual Interests:

Investor countries will *welcome and empower full participation of target countries in the ASP* at the level of regional management as well as national planning.

Investor countries *will enable and promote cross-national dialogue on growth and reform issues* under the auspices of the ASP.

Investor countries will *facilitate preferential access to regional markets* for target countries, in concert with G8 trade-based support initiatives such as the US Middle East and North Africa Trade and Investment Partnership (MENA TIP) the soon to be launched EU 'Deep and Comprehensive Free Trade Agreements' (DCFTAs) and the various Free Trade Agreements.

Investor countries will *invite a representative of the Arab League to participate in the ASP* and agree to present on ASP progress at the Arab League under a proposed Arab League Resolution on the ASP.

Target countries will *maintain open and transparent dialogue with ASP participants on all other issues that might impact investments,* such as regional trade, bilateral investments and international aid.

Principle 5: Accountability

Investor and target countries will *develop an annual public report on ASP progress and plans*.

Target countries will *identify benchmarks and targets for the ASP based on existing national plans wherever possible,* rather than adding new and burdensome layers of monitoring .

Target countries will *propose project-specific benchmarks for expected results over time and for use of funds,* to be regularly monitored as part of the ASP accounting and monitoring processes, such as number of direct jobs created, number of ancillary jobs created and percentage increase in local economic output.

Investor countries will *provide technical support to assist target countries in providing adequate monitoring and quality assurance for project investments*, including in-country technical assistance through the ASP.

Target countries will *invite an ASP representative to participate in national aid management platforms* and groups.

Investor and target countries will *engage with the Deauville Partnership* via the ASP Governing Board and appropriate regional forum, to avoid duplication of effort.

Regional Leadership & Coordination

Recognizing that the Arab Stabilization Plan must cooperate closely with other mechanisms supporting the Arab World, and acknowledging the need for committed regional leadership to avoid duplication of effort and investment, ***it is proposed that the ACIP be adopted as a Resolution of the Arab League*** and its progress assessed at Annual Summits.

It is further proposed that leaders of Arab World countries, following the adoption of this Arab Common Interest Pact, convene regularly through existing high-level policy forum to ***lead a dialogue on modernization and integration strategies for the region***. Such a dialogue would ***encompass the ASP and other initiatives,*** extending beyond economic/growth inputs to include socio-political elements of regional change.

LEADERSHIP & COORDINATION STRUCTURES

A **REGIONAL POLICY FORUM** to operate at the highest political level in conjunction with the Arab League, to create an authorizing environment for the ASP in the context of other regional assistance initiatives and to lead the essential regional debate on common strategies for modernization and growth.

A GOVERNING BOARD led by the members of the GCC (UAE, Saudi Arabia, Qatar, Kuwait, with national representatives from target Arab countries will leads abd coordinate investments from the fund, in line with agreed plan objectives, discussed country allocations and procedural requirements.

An **INVESTMENT COMMITTEE** to manage the day-to-day process of administering the ASP and assuring due diligence, accountability and results.

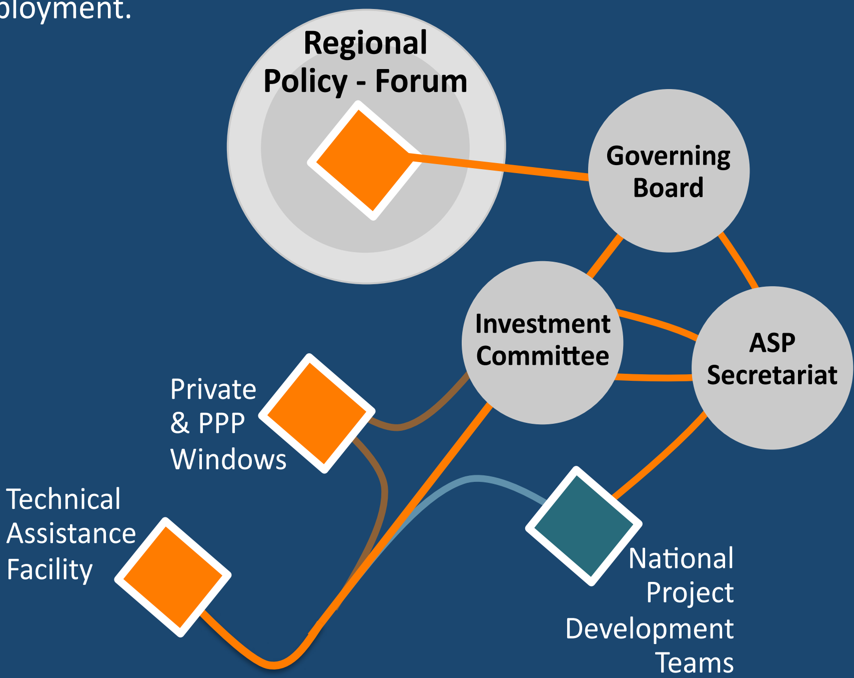
A small **SECRETARIAT** to enable accountable administration, coordination and monitoring/ evaluation of the ASP, and support the Governing Board in all its functions.

Arab country **NATIONAL PROJECT DEVELOPMENT TEAMS**, to include public and private representation, to lead national level investment prioritization and execution;

An **ASP TRUST FUND** with two funding windows (Private and Public and Private Partnership (PPP)), mandated as follows:

- **A PRIVATE WINDOW** to support direct investment by the private sector in the core sectors of energy, agriculture, transport, water and sanitation, housing, and communications.
- **A PPP and PRIVATE FINANCE INITIATIVE (PFI) - WINDOW** around which sector investments can be made in public infrastructure by public and private investors as appropriate to the needs of the investment, and involving special purpose vehicles, concessions or lease contracts;

A TECHNICAL ASSISTANCE FACILITY to provide world class technical and project advisory support, project design development, independent economic analysis and impact analysis on direct, indirect and spill-over employment.



6. Leadership & Coordination Arrangements

The ASP seeks to ***enable an effective political and investment relationship without overburdening the management capacity of either investor or target countries.*** It is structured to ensure that management authority is clear and that implementation processes can be both proportionate and efficient. Institutional arrangements are as follows:

A. A ***Governing Board*** including all investor and target countries responsible for the policy direction and financial decisions of the ASP;
B. An ***Investment Committee*** overseeing the administration of the ASP, including the Trust Fund, reporting to the Governing Board:
C. ***National Project Development Teams*** planning, proposing and overseeing active projects;
D. A ***Multi-Sovereign Trust Fund*** with two funding windows for private and public/private ventures;
E. A standing ***Technical Assistance Facility*** **t**o provide feasibility analysis, quality assurance and technical support to ASP projects; and
F. A ***small secretariat*** providing support for management, coordination, due diligence and impact evaluation.

Each of these institutional structures has clear terms delineating membership, mechanism of operation and mandate. A brief Terms of Reference is detailed below:

A. Governing Board

Membership: The Governing Board is a senior-level strategic oversight body operating *above* the level of administrative responsibility but *below* the level of Head of State. Investor and target countries would participate at the level of MoF/MoFA or an equivalent state designate. CEOs of private investors could be invited to join at a later stage. A representative of the Arab League could also be invited to participate as an Observer. Other Observers on the Governing Board could include the IDB, AFFI and World Bank.

Mechanism:

Leadership and meetings: a Chair manages the Board and sets the agenda. The Chair is nominated by an investor country, seconded by another Board member and voted in by the Board. Chairpersonship rotates annually. Governing Board meetings should be held every four months, hosted by participating States on rotation. States may nominate themselves to host meetings.

Decision-making processes: the Governing Board has absolute authority over final project approval. Projects initially approved by the Investment Committee (see below) are circulated automatically to the Board, for a 48 hour no-objection silence procedure. This process can take place virtually, without having to wait for an official Board meeting. Issues that cannot be resolved bilaterally between investors or target countries will be taken up at the next Board meeting. ***Board decisions are made by consensus and sovereign rights are given the highest priority.***

Mandate: the ASP Governing Board would:

i. Have final and absolute authority over project approval and use of ASP funds;
ii. Set strategic goals for the ASP and for funds channelled through its mechanisms, including approving and reviewing the work plan of the ASP Trust Fund;
iii. Approve country benchmarks for job creation and growth;
iv. Oversee compliance with the Arab Common Interest Pact governing all participants in the ASP;
v. Build a positive policy environment for support to the ASP, advocating with participating and non-participating states;
vi. Appoint an independent Administrator for the Investment Committee;
vii. Arbitrate any disputes referred to the Board related to decisions on approval or non-approval of proposed projects;
viii. Maintain an overview of direct bilateral funding between countries provided outside the Trust Fund windows but under the ASP umbrella;
ix. Represent the ASP within the Regional Policy Forum maintaining oversight over all regional reform and growth initiatives;
x. Represent the ASP with other international stakeholders, such as the Deauville Partnership, and
xi. Update the Arab League at its Annual Summit.

B. Investment Committee

Membership: The Investment Committee is the central administrative hub of the ASP. It recommends projects to the Board for final approval and manages day-to-day administration of ASP processes. The Committee would be headed by an independent Administrator, selected and approved by the Board. The Administrator would be supported by a resource pool of experts (the Technical Assistance Facility) on an ad hoc basis as required. In addition, Investor countries could designate a technical expert to participate in the Committee. The World Bank would also be a member of the Committee, to ensure coordination with other growth stimulation programmes.

Mechanism:

Leadership and meetings: the Committee would meet every two weeks to review and approve projects for funding, chaired by the Administrator and supported by the ASP Secretariat (see below). Meetings can be virtual.

Decision-making processes: Project proposals are sent directly from target country National Development Teams (see below) to the Committee Administrator. The Administrator then circulates proposals to all Committee members for feedback, and may request expert input from the Technical Assistance Facility. Once the relevant due diligence is completed, the Administrator may table the project for initial approval under a no-objection protocol at the next available Committee meeting. Initially approved projects are sent to the Governing Board for final approval. Should any dispute arise over a project's suitability for funding, and the matter cannot be resolved at the level of the Committee, then the matter would be referred to the Governing Board.

***Mandate*:** the Investment Committee would:

i. Support the development of annual ASP investment plans by target countries (drawn from national development strategies);
ii. Review and approve project proposals for funding by target countries. **The Committee is responsible for ensuring a fair balance between target countries and also that the projects meet criteria set out in the "Arab Common Interest Pact" under the principle of *Equity*;**
iii. Administrate the ASP Multi-Sovereign Trust Fund, including submission of a work plan to the Governing Board;
iv. Coordinate direct bilateral funding flows under the ASP umbrella, through liaison with bilateral investors;
v. Assemble the Technical Assistance Facility to assist ASP projects;
vi. Manage the ASP secretariat; and
vii. Report to the Governing Board.

C. National Project Development Teams

Membership: National Project Development Teams (PDTs) are located inside target countries to identify, develop, propose and monitor ASP projects. They require strong commitment across the reach of government, as well as strong technical capacity to scope and assess projects for funding. Each PDT would be led by high-level representative of the Executive branch of government, such as the Cabinet secretary or equivalent. National ministries of finance, trade and industry, labor and planning, or their equivalent and designates, would also be members, as would the national statistical body and Chamber of Commerce. Independent experts fielded by the ASP as part of the Technical Assistance Facility would be available to support PDTs.

Mechanism:

Leadership and meetings: PDTs will conform to standard modes of operation and internal clearance processes, although national approaches to coordination will be allowed. However, it is strongly advised that each PDT should be chaired by a designate of the Executive (e.g. the Cabinet Secretary), representing commitment across all government ministries. This will give ASP investors more assurance of long-term sustainability.

Project development and submission processes: technical experts attached to the PDTs will assist to scope and plan the initial country ASP investment proposal and identify priority projects. Once a plan is developed, each PDT will pass it through its specific internal clearance process, on behalf of the target country, before submitting it to the Administrator of the Investment Committee. PDTs will continue to monitor the progress of approved projects. **The PDTs are critical to ensure that projects are proposed based on the principles of equity and likely impact, rather than to the advantage of private interests –**

and also that investments support but do not duplicate other international assistance.

Mandate: the National Project Development Teams would:

i. Identify targets from the National Development Strategy or its equivalent that the ASP is best placed to support;
ii. Develop a rolling country ASP investment proposal attached to these targets;
iii. Develop full project proposals associated with the investment plan, through the ASP but supported where appropriate by the Technical Assistance Facility;
iv. Submit national plans and proposals to the Investment Committee on behalf of the target country and manage any subsequent requests for clarification;
v. Monitor and report on in-country progress and results, as part of the ASP quality assurance framework;
vi. Develop an Investment Sustainability Plan to ensure long-term maintenance of growth and employment gains beyond a 10-year horizon; and
vii. **Liaise with the Financial Advisory Corps established under the Deauville Partnership** to ensure projects reap the full benefit of fiscal and monetary reforms.

D. Multi-Sovereign Trust Fund

Membership: The ASP Trust Fund is the region's most viable tool for a coherent regional investment and growth programme. Investor countries would contribute to the ASP Trust Fund through two funding windows: 1) private investments; and 2) public-private partnerships.

Mechanism: The ASP Trust Fund would be managed by the Governing Board, via the ASP's Investment Committee. The full structure and operation of the ASP Trust Fund is elaborated further in Section 8.

Mandate: The ASP Trust Fund would:

i. Direct earmarked and non-earmarked funding flows in accordance with an agreed work plan;
ii. Accumulate capital at a steady pace, while channelling funds to projects quickly and equitably, spreading resources across the region; and
iii. Provide the Governing Board with unparalleled and unique capacity to leverage investments for growth and jobs towards regional stabilization objectives. **A sufficiently capitalized ASP Trust Fund would provide a powerful investment boost to high-potential growth initiatives.**

E. Technical Assistance Facility

Membership: The Technical Assistance Facility (TAF) is a standing resource pool of experts associated with the ASP, ready to assist target countries. TAF experts can be provided by investor countries or selected from global resources. They should have extensive sector-specific and/or management capabilities drawn from both public and private spheres.

Mechanism: The Administrator and the ASP Secretariat would be responsible for identifying and contacting available experts, including through liaison with investor States. Technical experts within the TAF would be either "active" or "standby". Active experts can be funded through the ASP Trust Fund or directly by an investor State. Projected requirements of "active" technical assistance needs would be provided ASP Secretariat in the form of a rolling work plan, to submit to the Governing Board.

Mandate: the Technical Assistance Facility would:

i. Support target country National Development Teams to develop investment plans with benchmarks for ASP support and detailed project proposals;
ii. Support the Investment Committee to review and assess proposals for funding;
iii. Provide guidance to the Governing Board on overarching regional performance targets and appropriate state-specific benchmarks;
iv. Support the implementation of active projects, either remotely or via deployment; and
v. Support the quality assurance and evaluation strategy of the ASP, both in-country with PDTs and regionally through the ASP secretariat.

F. ASP Secretariat

Membership: The ASP's secretariat is a fundamental part of the ASP's operation. It would have three aspects: (i) administration; (ii) coordination; and (iii) monitoring and evaluation. Each function would likely be run by one technical expert, with a small supporting team as necessary, reporting to the Administrator.

Mechanism: The ASP secretariat supports the Administrator and the Investment Committee to enable the work of the Governing Board. ASP secretariat staff would be recruited on regular annual contracts, through a decision of the Governing Board. Costs of recruitment should ideally be shared between contributor states, either through a funding pool within the ASP Trust Fund or through rotating contracts. The Administrator or an interim designate is responsible for developing a staff plan, identifying candidates and undertaking initial recruitment.

Mandate: The ASP secretariat would;
i. Provide administrative and follow-up support to the operations of the ASP's institutional structures, including ensuring effective communication between the Governing Board, Investment Committee and target countries;

ii. Support the administration of the ASP Trust Fund, including submitting a rolling work plan to the Governing Board and enabling accounting and audit functions;

iii. Manage the roster of experts for the Technical Assistance Facility, including projecting technical assistance needs on a rolling basis, proposing experts for the roster and overseeing administrative aspects of recruitment and deployment;

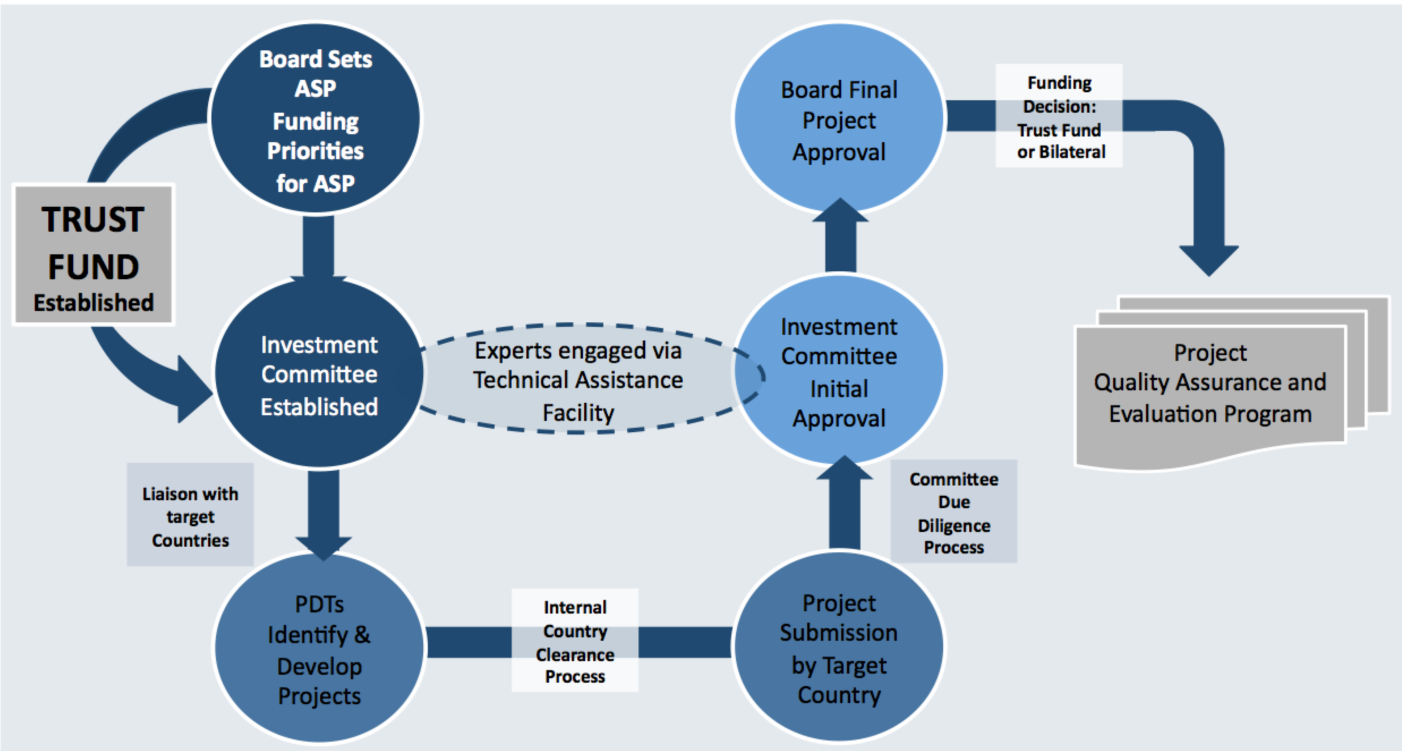
iv. Enable coordination between investors providing bilateral funding under the ASP umbrella and the Governing Board;

v. Serve as a working level liaison between other regional assistance programmes and the ASP;

vi. Prepare the ASP annual report; and

vii. Oversee quality assurance and evaluation for the ASP, including the operation of the Trust Fund, ensuring technical support for project-related monitoring and evaluation in target countries.

Figure 5: ASP Institutional Processes



Quality Assurance & Measuring Results

In order to provide the maximum possible accountability for both investor and target countries the ASP needs a strong ***quality assurance and evaluation framework***. The Quality Assurance Office of the ASP Secretariat would support the production of an initial monitoring and evaluation (M&E) framework for the ASP, proposing a formula for regional, national and project benchmarks, evaluation timelines and development of an Information Management System to record and analyze data.

Results indicators and benchmarks: The quality assurance programme would be based around four specific sets of benchmarks:

- Regional investment indicators;
- National investment indicators;
- Project-specific indicators; and
- ASP performance indicators (associated specifically with the ASP Trust Fund).

The decision-making process for each level of benchmarking will be specific and appropriate to the level of operation. Regional indicators (measuring how effective the ASP has been at achieving regional growth) will be agreed at the level of the Governing Board. National indicators (measuring how effectively the ASP has been managed at country level to tackle unemployment and economic constriction) will be proposed by National Project Development Teams**.**

Project-specific targets benchmarks will be developed simultaneously with project proposals. Some benchmarks may necessarily differ according to project type, and results will also accumulate at different rates. However the ASP will also develop a set of common project indicators that can be measured across all projects at defined stages. The ASP will, in this way, be able to monitor sustainability and forestall "boom and bust" cycles of job creation. **Responsibility for monitoring *national projects and providing needed data to the ASP Secretariat belongs to the PDT of the target country.*** Indicators measuring the performance of the Trust Fund will be proposed by the Administrator to the Governing Board, who should receive an update on indicators at each Board meeting. All indicators will be published annually as part of the ASP Annual Report, for transparency and accountability.

Evaluation timelines: In addition to an annual report and update to the Arab League, the ASP will have ***four major evaluation points***: a mid-term evaluation at five years, a final evaluation at ten years and two rapid evaluations at 2.5 years and 7.5 years. It is recommended to retain an independent evaluation specialist to support this process. In addition, depending on project duration, projects should have at least one ASP rapid evaluation visit before a closing evaluation.

To enable this multi-level quality assurance framework, the ASP Secretariat requires a standing team able to deploy experts to projects as part of the Technical Assistance Facility. Development of an Information Management System maintained by the Secretariat will also greatly assist in keeping projects accountable. Table 1 below illustrates how benchmarks might be agreed.

Evolution of a Regional Forum for Policy Coordination

The Arab World's recent dynamic political processes have generated an unprecedented degree of interest in regional stabilization,

To date, however, there is still no established internal forum through which a dialogue on a regional agenda for a stable regional future could be coherently and privately pursued.

The need for such a forum is now greater than ever. There are a number of interests active in the region, each with their own funding modalities and each directed at a wide range of objectives. Adopting a coherent and mutually reinforcing approach is now critical.

The ASP, therefore, provides useful and important catalysis for the evolution of existing regional policy forums into ***a body mandated to debate regional growth, modernization and stabilization issues, and ensure that all assistance frameworks support regional policy goals.*** Such a forum would demand high-level representation from across all Arab countries – as with the current regular meeting of Finance Ministers under the auspices of the Arab League. These meetings might logically be expanded, as per agreements under the Arab Common Interest Pact, to:

- Define core growth, modernization and stabilization objectives for the region;
- Harmonize approaches between regional and international assistance modalities; and,
- Bridge the gap between private and public sector interests, leveraging the maximum possible resources for common goals.

If authorized by an Arab League Resolution (see the Arab Common Interest Pact), this expanded Policy Forum could include representation from the region's main funding bodies, including the ASP, the Deauville Partnership, the IMF, the World Bank, the ISB and the AFFI. Its goal would be to maintain a strategic overview of needs, results and roadblocks across the region. It would also hold ***a standing session at the Arab League Annual Summit, thus supporting the needed evolution of the Arab League into a major strategy and policy hub for the pan-Arab world.***

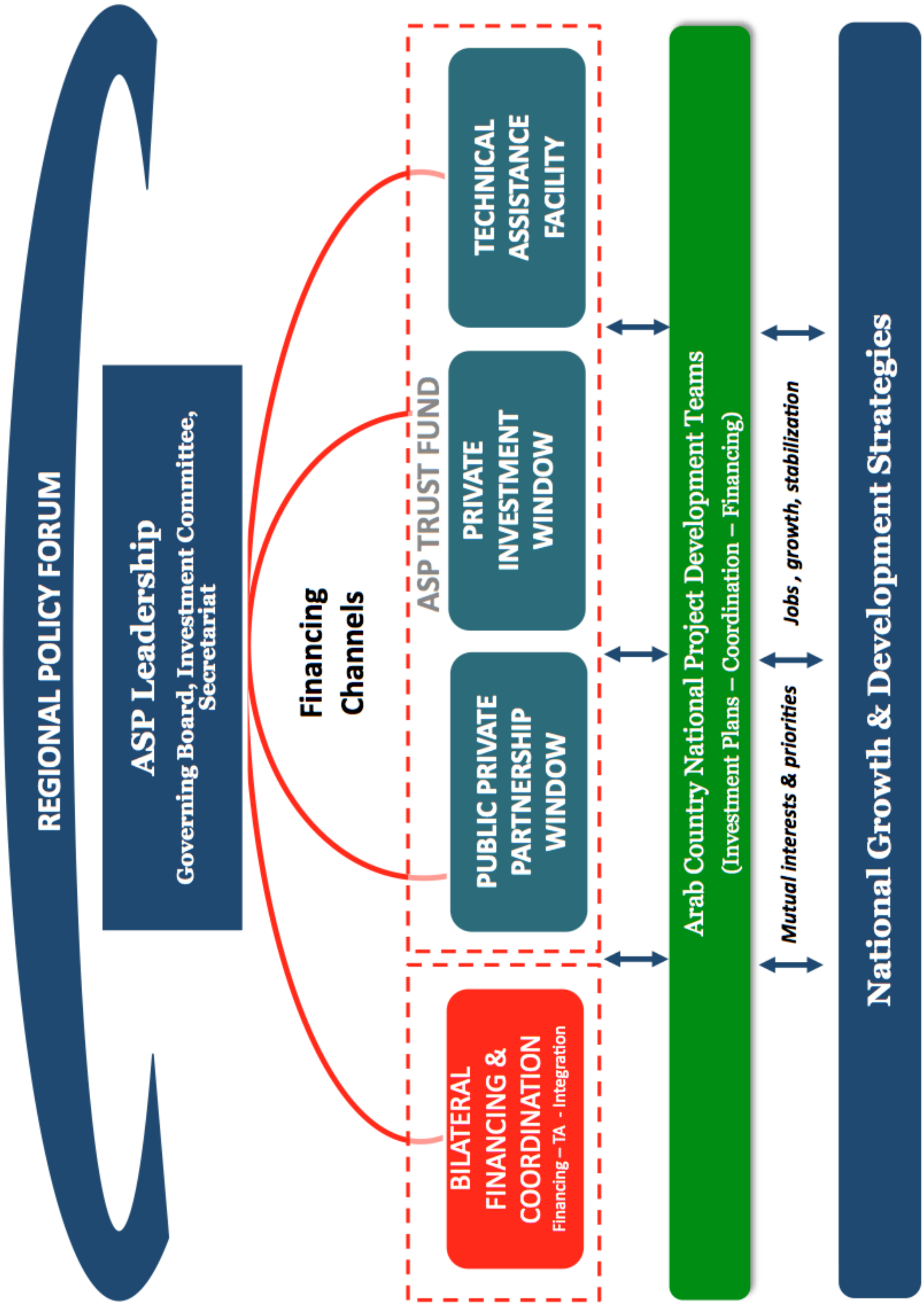
Table 1 provides an illustrative examples of regional, national, project and trust fund benchmarks, while highlighting proposed decision-making, oversight and evaluation options. An outcome and impact based framework would be critical to an effective ASP.

Figure 6 below provides an overview of the leadership and coordination framework for the ASP.

TABLE 1: INDICATIVE LIST OF ASP BENCHMARKS

Type of Benchmark	Illustrative examples	Decision-making process	Oversight	Collection/Evaluation points
Regional investment indicators	Establishment of Regional Policy Forum Establishment of national 1-2 year investment plans within one year Establishment of Sustainability Planning Process within three years Perceptions of access to decent work among lowest economic/income groups ▪ # disbursed to investment projects (USD) ▪ # projects funded ▪ # jobs created per 1 million USD invested ▪ % change in economic output across target countries	The Governing Board, at its first meeting, will consider a set of priorities against which indicators and benchmarks can be mapped. Investor and target countries would then propose and assess indicators proposed by an independent monitoring expert. By agreeing to measure regional indicators as a composite of national indicators, countries are agreeing to make such indicators available to the ASP as part of their regular governance processes.	Governing Board, with the support of the ASP Secretariat collecting needed data from national projects and from the ASP Trust Fund	Annual Reports 2.5 years Rapid Evaluation 5 year Mid-Term Evaluation 7.5 year rapid evaluation 10 year Final Evaluation
National investment indicators	▪ % national unemployment ▪ Annual GDP ▪ Real job creation ▪ % unemployment by region or economic quintiles ▪ Volume of private capital inflows	National benchmarks should be identified by the National Development Teams based on pre-existing national strategies, disaggregated as far as possible to reflect the target country preference for areas of ASP investment.	Target countries, through the national statistical body – in conjunction with National Project Development Teams	Data to be collected by Arab country's national statistical agency in line with national practices, and provided to the ASP Management Information System
Project indicators	▪ # jobs created per $100K investment ▪ % change in economic output per area or sector ▪ % employees still retained after 3 years ▪ Perceptions of access to decent work among lowest economic quintiles	National Project Development Teams will develop project-specific indicators and benchmarks as part of the due diligence process for project identification and proposal. Indicators and benchmarks recommended by NDTs will be the basis of a Management Information System for the ASP	National Project Development Teams, working with the investee and the national Statistical body of the target country.	Dependent on project duration. Each project to ideally have two evaluations at mid-point and closing.
ASP Trust Fund performance indicators	▪ # jobs created per 1 million USD investment over time ▪ # Government funds mobilized to partner ASP investments ▪ Mean time from proposal to funding decision ▪ Mean time from proposal to investment	The Investment Committee will develop and measure benchmarks and performance indicators for the Trust Fund, and propose them to the Board.	Investment Committee, with the support of the ASP Secretariat	As for the Regional Investment Indicators

Figure 6: Arab Stabilization Plan (ASP) – General Leadership & Coordination Structure



7. WHAT ARE THE ASP FINANCING ARRANGEMENTS?

As a multi-investor multi-target plan, the ASP's financing arrangements – both inflows and outflows - will need to be carefully managed and monitored. The ASP needs ***a solid control framework*** in line with international norms, policies and standards for financing and fund management. This is essential to make sure that funds are used for designated purposes and that the supply of financing meets strict project investment criteria.[1]

Two Investment Windows

The ASP Trust Fund has been designed with **two main investment windows** to maximise flexibility in meeting both investor and target country growth and employment needs, as follows:

- A Private Investment Window; and
- A Public-Private Partnership (PPP) Window.

These two investment windows focus on ***driving private sector solutions to growth and the jobs crisis***. They also acknowledge the fact that other initiatives, particularly the Deauville Partnership, are providing direct budget support for fiscal stabilization in Tunisia, Libya, Morocco, Jordan and Egypt.

ASP Financing Mechanism & Channels

The ASP has also been designed with ***two main investment modalities***:

- An ASP Multi-Sovereign Trust Fund; and
- Bilateral direct funding route.

The ASP anticipates that most investors will opt to invest via the Trust Fund. There are a number of very sound reasons why this makes the most sense for optimal results and investment protection. Trust Funds have been shown in many contexts to generate the greatest impact per dollar invested and minimize the burden of policy and financial processes on both investor and target country. ***Investors in the Trust Fund will benefit from the detailed quality assurance, project monitoring and evaluation framework attached to the Trust Fund.*** They will also be able to choose between earmarking funds for specific projects or sectors or making partial contributions towards one or more projects, offering greater flexibility as well as security. A precise description of the operation of the ASP Trust Fund is detailed in Section 8.

However, it would also be possible for potential investors to work bilaterally under the overall ASP authorizing environment provided by the ACIP, without formally channelling through the fund. The ASP financing mechanism would seek to actively attract new investors, financing an ever-growing shelf of investment projects in target countries, with the ACIP providing comfort that the overall investment climate will be protected.

ASP investment channels will be selected on the basis of flexibility and value for money. Investments will not be channelled through governments of target countries; rather, they will be used to directly support projects agreed to by target countries, and procured through national or international sources. The ERP (Marshall Plan) successfully pioneered this approach. It relied on private channels rather than governments for procuring resources. It operated with the participation of business representatives and private advisory committees, in which industry and labor representatives collaborated with senior civil servants.

ASP investors making pledges to the Trust Fund could therefore choose one of the following investment channels:

- ***Earmarked Project or Sectoral Investments***: [2] Investors could earmark funds for a target country, target sector or target project. These type of investments entail a small additional administrative fee;
- ***Non-Earmarked Project Investments:*** Investors would preferably commit to the spirit of the ASP fund and provide non-earmarked support, to meet Board-sanctioned objectives.

[1] The Deauville Partnership is sponsoring an OECD initiative, the Open Government Partnership (OGP), which embraces a set of high-level government principles. Jordan joined the OGP in 2012 at the OGP Summit in Brasilia and will launch its national action plan in 2013. Tunisia plans to join the OGP in 2013. Egypt, Libya and Morocco will initiate steps toward eligibility through a United States government-sponsored Open Governance Project being implemented by the OGP Steering Committee and the OECD.

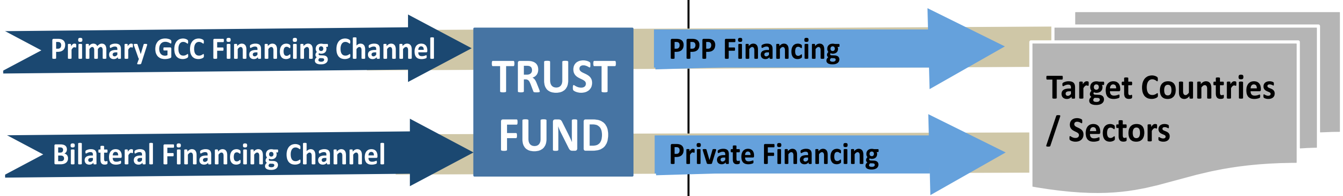
[2] Earmarked funds are funds designated for a particular investment. For the ASP, this could include an investment window, country, sector or specific project. Non-earmarked funds are funds provided without preference.

Who Funds the ASP?

ASP financing arrangements address the mutual interests of target and investor countries. The "Arab Spring" has exposed the growth imbalances across the Arab World, largely but not wholly determined by high oil prices bolstering growth in oil exporting countries while hitting energy importing countries hard. MENA, therefore, now has a critical opportunity to balance regional growth futures. There is an estimated US$1 Trillion in assets available for investment in oil exporting countries and with buoyant world oil prices investment funds are set to increase further. This significant regional wealth could be put to good use in supporting the ASP, while also attracting high rates of investment return. Financing private sector driven growth across the Arab World <u>*meets the needs of all stakeholders*</u>:

- Investors;
- Those seeking employment; and,
- Arab State governments faced with a massive employment challenges.

The majority of financing would therefore be sourced from GCC countries (UAE, Saudi Arabia, Qatar and Kuwait) and targeted to investment projects in Algeria, Morocco, Egypt, Tunisia, Jordan, Yemen and potentially Libya. While inflows from GCC countries will define the financing mechanism, a flexible approach will be adopted to allow third party financing from non-GCC countries, at the agreement of the Governing Board. A simplified flowchart illustrating the funding process is presented above.



There are several potential third party investors for the ASP. China's sovereign wealth fund, the China Investment Corporation (CIC), has more than US$400 billion in assets and is already making considerable investments in Africa, including in many Arab World states. G8 has also committed US$38 billion under the economic framework of the Deauville Partnership - to be provided, mostly through international lending organizations - to help Egypt, Tunisia, Morocco and Jordan make the transition to democracy. It is also in the interest of the US, EU and other major international players to alleviate the economic and political hardship in the region, and the ASP will offer opportunities for investment towards such interests.[3]

Selection Criteria for Financing Jobs and Growth

Through its private and public-private windows, the ASP will allow investors to specify the type of project and engagement they wish to support towards jobs and growth. All investments must stimulate economic growth and create significant jobs in target countries while also provide solid rates of return on investment for investors.

To meet these projects financed would be carefully screened for minimum rates of return on growth and employment objectives, while being profitable as stand along project investments. Standard project investment requirements include positive economic and financial dividends, with significant impact on the creation of permanent and temporary jobs. A standard discount rate could be applied, but project due diligence would assess both economic and financial rates of return and impact on jobs creation.

Leaving fiscal and governance support to other stakeholders, the ASP will develop a basket of emerging project opportunities in both private and public-private sectors across the Arab World:

Public – Private Partnership Window: Countries such as Egypt and Tunisia have been seeking billions of dollars in support for PPP investments. This trend for implementing mega-projects in partnership with the private sector presents a significant opportunity for growth and jobs. However, the weak enabling

[3] G8 pledges have yet to be mobilized. However, the European Investment Bank committed to provide US$7.5 billion to the four member countries through 2013, with $3 billion to Egypt alone. Investments are to focus on jobs creation. The World Bank said it is to finance US$$10.7 billion of projects, the ADB US$7.6 billion and the Islamic Development Bank US$5 billion. French assistance would amount to US$2.7 billion.

environment, overly complex contracts, red tape, foreign exchange rate fluctuations and limited local bank financing have so far undermined such efforts – quite aside from political instability. Given the costs of doing business in many target countries and the need to improve the investment climate, the Deauville Partnership would take the lead in investment climate reforms. In the case of PPP arrangements, this would include working towards good PPP governance practices, as outlined in the figure below. PPP investments, including measures to mitigate commercial and country-specific risks, would cover the following priority sectors: [4]

- Transport;
- Energy;
- Education;
- Healthcare; and,
- Water and sanitation services and irrigation and drainage.

Given the weak fiscal situation of most oil importing Governments in the region, investing in viable PPPs is likely to be the model of choice for many sectors, and will be central to the ASP. Once the Arab Common Interest Pact is signed, providing support for investment climate (lowering the costs of Doing Business) investments, PPPs through the fund are likely to be considerable. Different contractual arrangements will be agreed on a project-by-project basis, according to the following standard operational arrangements.

There are many PPPs already operating across the target countries, and acceleration of PPPs across the region is expected to boost growth and jobs while reducing costs to government. Sample PPP projects already in operation include:

- ***PPP Investments in Egypt***: The Government of Egypt has signalled its intent to attract nearly US$2 billion in PPP financing in 2013-2014, and has recently offered PPP contracts worth US$200 million. Existing PPPs include El-Salam Canal Project, West Nile Delta Project, Wastewater Treatment at Sixth of October City, a Treatment Plant at Abu Rawash and a road PPP from Sixth of October to Cairo's Rod el-Farag district. In 2012, Egypt amended its rules for PPPs to allow disputes to be resolved through arbitration rather than through Egyptian courts.[5]

- ***PPP Investments in Tunisia***: While less developed, financing for PPPs in Tunisia are attracting greater support and government is committed to policy changes. Existing PPPs include Zine El Abidine Ben Ali airport project in Enfidha and an airport in Monastir, Water Treatment in El Al and El Attar (II) and plans for Tunisia Solar Plan.

- ***PPP Investments in Jordan***: Three PPP contracts have already been launched in Jordan. These include the Assamra water treatment plant, the Queen Alia Airport in Amman and a contract for processing medical and industrial waste in the Amman area. The Assamra project is a BOT-type contract (build, operate and transfer) concluded in 2002 with a planned private investment of some USD 169 million and a mandate to provide water treatment services and supply water for irrigation.

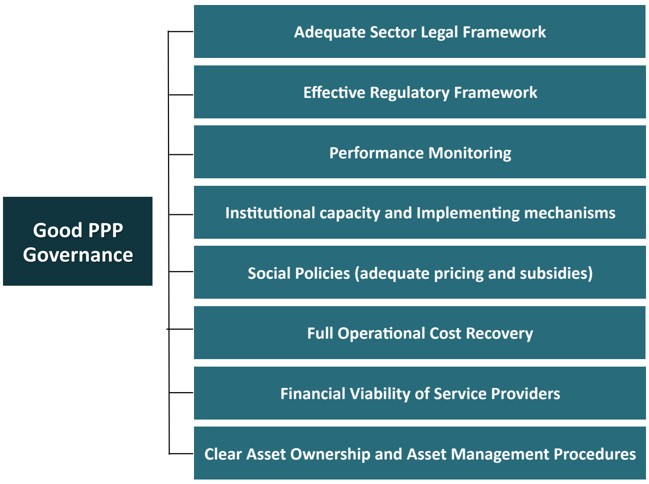
[4] In 2009, Orascom Construction Industries, Egypt's biggest listed builder, won the country's first public-private partnership concession in a 50-50 joint venture with the water division of Spain's FCC.

[5] Under the new rule, arbitrations would be carried out at the Cairo International Arbitration Centre and be based on the regulations and procedures of the United Nations Commission on International Trade Law (UNCITRAL).

Table 2: General PPP Operational Arrangements

PPP Option	Asset Ownership	Operation & Maintenance	Capital Investment	Commercial Risk	Contract Duration
Service Contract	Public	P & P	Public	Public	1-2
Management Contract	Public	Private	Public	Public	3-5
Lease Contract	Public	Private	Public	Shared	8-15
Build - Operate - Transfer	Private (Bulk Services	Private	Private	Private	20-30
Concession Rights	Public	Private	Private	Private	25-30
Divestiture	Private	Private	Private	Private	Permanent

Private Window: The private investment window fund would provide support for a range of investment projects in target countries, consolidating existing investments but targeting growth and jobs. The UAE for example, already has US$10 billion invested in industry, construction, urban development, housing, infrastructure, financing projects, communications, as well as agricultural and tourist development projects in Egypt. Saudi Arabia too currently has US$220 million invested, and new trade delegations have recently met. Opportunities for private project investments can be found in all major sectors.



Any private and public/private infrastructure investments might require coordination with the Arab Financing Facility for Infrastructure (AFFI). The AFFI is a Joint Partnership of the World Bank, the International Finance Corporation and the Islamic Development Bank.

Fiduciary Risk Management Framework

Finances flowing under the ASP umbrella must be managed so as to minimize fiduciary risks. There are four controls that the ASP will be able to establish through its Trust Fund, in line with international practice.

These include (i) transparent and timely reporting of aspects of fund utilization; (ii) limitation of fund utilization for purposes formally agreed to; (iii) monitoring of fund procurement practices according to designated standards; and (iv) proscription of fund utilization for unsubstantiated expenditures, if fiduciary standards are not met. Violation of these controls is a standard concern for all funds but best practice (lessons learned from other funds) will be employed for the ASP. The Governing Board and Investment Committee will also need to determine the following:

- Country of establishment for Trust Fund administration;
- Currency of Special Accounts;
- Target country and sector allocations;
- Investment financing criteria and screening.

Bilateral investments made outside the Trust Fund framework are necessarily – if marginally - more exposed to risk. The Trust Fund represents the best option for high quality monitoring of investments and efficient, transparent fiduciary processes.

Sunset Clause

The ASP will need to run until the implementation of projects has been concluded and management, operations and assets handed over. Many larger infrastructure investment projects such as regional highways, hydroelectric dams, major agricultural development investments and trade and transport infrastructures have a 3-7 year project investment cycle. Therefore, investments will need ASP oversight beyond the initial phase of support. For realistic management and the best results, it is proposed, that the ASP has a sunset clause of 10 years from start-up. For longer-term investments beyond this period, national oversight capacities must be developed. National Sustainability Plans developed under the auspices of the National Project Development Teams will greatly assist this process and ensure long-term value addition.

8. WHAT IS THE ASP TRUST FUND?

The Arab Common Interest Pact, once formally endorsed by both investor and target countries, would ***provide the authorizing environment to establish an ASP Trust Fund***. Finances from the Trust Fund would be drawn down to support investment projects decisions of the ASP Governing Board.

The design of a complex financing mechanism such as the proposed ASP Trust Fund is an extremely important determinant of prospects and outcomes. Indeed international experience amply demonstrates that design can be a make-or-break factor.

It is essential to ensure a design that is effective in achieving results on a timely basis but also flexible and adaptive so that it can be adjusted in the light of experience and evolving priorities. ***The ASP Trust Fund structures reflect the lessons from experience with Multi-Donor Trust Funds (MDTFs) and other complex financing mechanisms elsewhere, in particular the critical success factors that have been identified, such as:***

- **An adequate authorizing environment:** This is the primarily political enabling environment in which a complex financing facility operates. The authorizing environment needs to be permissive and conducive to success: not least to ensure continuing financial support to the facility. It also extends to target countries, where political backing for the activities funded by the facility is very important and – in the case of the ASP - to respected private sector leaders and entities.
- **Overall strategy and policy body:** Experience elsewhere underlines the importance of having a body including all investor countries as well as representatives of the target countries, to serve as a high-level governing forum at which the overall strategy for the facility is discussed and guidance is provided, and at which broad policies can be set. Equally important is the role of this kind of body in keeping individual investors at arms-length from specific operational decisions and day-to-day management of the facility.
- **National ownership and support by target countries:** This is essential for success. Ownership can be fostered by engagement of target countries' governments (and other stakeholders) at the overall strategy and policy level, and by offering a significant measure of sovereign control in view of identifying projects, ownership of public and PPP projects, and their review of results and evaluations.
- **Technically skilled administrative leadership:** A strong and effective administrator that pro-actively takes on the day-to-day management of a facility, and devotes sufficient resources and high-level attention to this task, is a crucial success factor. In addition to having the technical capacity and skills to handle the responsibilities, it is critical that the administrator has independent standing and sufficient credibility so as to be able to resist any tendency toward micro-management by investor or target countries.
- **Streamlined processes:** For complex financing mechanisms the supreme governing body also plays the executive decision-making role of approving individual projects and expenditures of a substantial nature[6]. However, for a facility that includes a number of investors as well as multiple target countries, and which is expected to become sizable, this is an unwieldy and inefficient approach. Instead, a much smaller executive body - preferably including respected entities most of which are neither investors nor targets of the funding would enable better executive decision-making - as was the case with the Afghanistan Reconstruction Trust Fund's Management Committee (ARTF MC)[7].
- **Monitoring and oversight:** This is essential to provide assurance to investors that funds are being appropriately spent for the purposes approved. Recruiting a separate Monitoring Agent has proven useful in this regard for example in the ARTF.

The chart on the following page 30 provides a concise summary of critical factors and associated recommendations for the ASP TF.

[6]This is true not only of most of the financing mechanisms reviewed for deriving lessons for the ASP TF, but also of major entities such as the World Bank and other IFIs, whose Executive Boards of Directors consisting of all member countries approve each individual project. This practice has been widely criticized from both within and outside these institutions as being inefficient and leading to inflexibility and delays.

[7] The ARTF MC includes the World Bank, Asian Development Bank, Islamic Development Bank, and UNDP as well as a representative of the Afghan Government.

Fund Structure and Management

Inflows to the fund would be paid into a single or multiple ***Special Accounts***, overseen by the ***Governing Board*** and projects decided on by an ***Investment Committee*** following due diligence provided by the ***Technical Assistance Facility***. Projects would be designed by ***National Project Development Teams*** and a small ***Secretariat*** would monitor results, outcomes and impact. The full Terms of Reference for the Trust Fund Management Process has already been outlined in Section 6, and are illustrated here again in the chart below.

Some Overall Strategic Considerations

Flexible and Adaptive Design: This is a critical success factor, as adaptation will be required especially in the early stages, and as the Trust Fund grows and evolves, and priorities develop and change over time.

As the Trust Fund grows larger, there are more investors, and projects become more numerous, a separation of responsibilities will be necessary. Governing Board involvement in each project decision would become unwieldy and inefficient, and the Investment Committee with its Secretariat support might become increasingly empowered. Thus the Trust Fund design should allow for the possibility of such changes, or design them in at the beginning.

Issues Associated with Earmarking: Earmarking every contribution to a Trust Fund for a specific purpose or investment defeats the purpose of having a trust fund mechanism – whose essence is pooled funding for a common purpose beyond the preferences of any individual financier. But on the other hand, many investors like to (or in some cases may be required to by their institutional mandates) to earmark contributions for specific (country, sector or project) purposes.

Too strict a stance against earmarking could lead to lower contributions than otherwise might be possible. However, it is essential to have a critical mass of un-earmarked contributions that are sufficient to enable the Trust Fund to work around the remaining earmarked funds to achieve its goals and priorities.[8]

[8] In the case of the ARTF, for example, initially the Netherlands and then the UK and other donors provided substantial un-earmarked funds, which maintained the flexibility of the ARTF.

It is also useful to contain the scope of earmarking. For example in the case of the ASP TF allowing earmarking funds to specific TF windows (public, private, PPP) and technical assistance, or maybe to specific target countries, but not for individual projects. Of course private sector funding for private or PPP projects would be project-based, and in the case of major PPP projects some public sector funding also might be earmarked for the project(s) concerned.

Achieving Early Successes ('Quick wins'): This requires identifying and moving expeditiously forward with a few priority investments, which are of a nature that can not only disburse funds quickly, but also achieve results quickly. Rather than spreading funds and attention too widely and thinly, focus is required. It is also essential that the Trust Fund get an early injection of flexible resources that can be deployed to achieve some quick wins, which in turn will enhance the credibility of the TF and thereby encourage more contributions, generating further momentum, whereby success builds on success.

The generic trust fund management framework presented here highlights core elements for success, including strong leadership, strong linkages with national project development committees, quality control, impact evaluation and external audit. The role of technical assistance (financed by the fund) particularly for project preparation is a critical enabler of impact and effectiveness.

FIGURE 7: TRUST FUND MANAGEMENT PROCESS

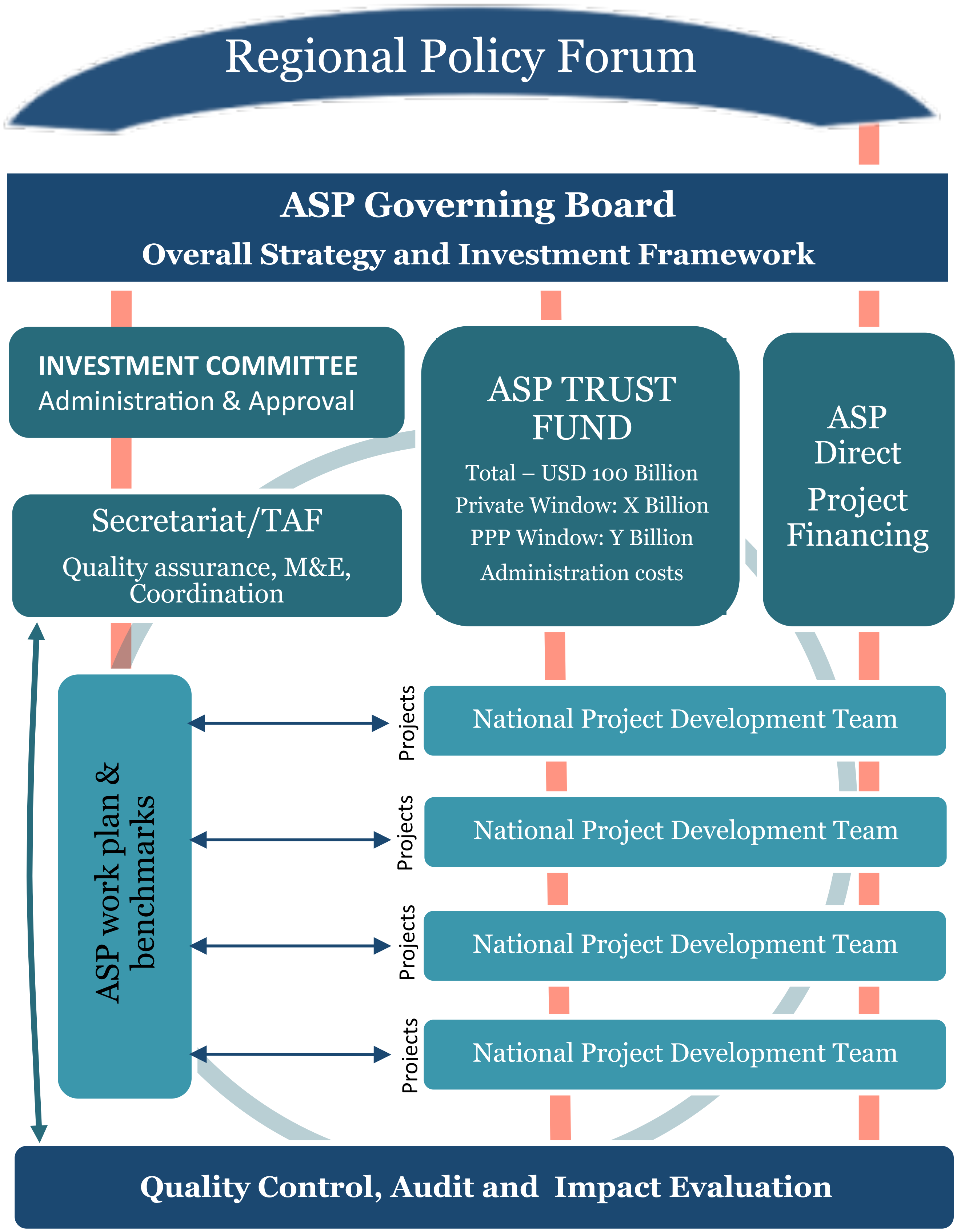


Table 3: Critical Success Factors and Associated Recommendations for ASP

Critical Success Factor	How to Achieve	Relevant Example(s)	Recommendation for ASP
Authorizing environment (primarily political, can be to a considerable extent informal) that is permissive and conducive to success.	Solicit political backing; consult widely, private sector backing also very important for ASP facility.	Marshall Plan (political objectives bought into by governments concerned).	GCC endorsement and possible endorsement from other international financial institutions, such as the Islamic Development Bank.
Design that provides for investors' inputs and strategy / policy role but keeps them out of day-to-day management and decision-making.	Strategic / policy role for investors but at arms-length from specific decisions and the day-to-day operation of the facility.	ARTF: Steering Committee for strategy / policy; Management Committee (IsDB, UNDP, ADB, WB) for executive functions; WB-Administrator in charge of management.	Strategy/policy body (Governing Board) including all significant investors meets quarterly or less. Small committee to carry out executive functions.
Strong, effective administration of funding mechanism, avoiding micro-management by investors or by host country governments.	Selection of a strong, effective administrator is key; this is make-or-break.	ARTF for public sector financing (World Bank devoted extensive attention and resources to its role as Administrator).	Select strong administrator by transparent process; will need top private sector expertise to help manage private/PPPs investments
Meaningful ownership by target country governments - sponsor & support public projects, enabling conditions for private/PPP projects.	Government sponsorship/sign-off on public sector projects. Involvement in strategic / policy body, but not in day-to-day management.	ARTF: all project proposals approved by Afghan government; government participates in Management Committee.	Challenge for ASP given multiple target countries, emphasis on private investments; all governments should be represented on the Governing Board.
Credible oversight and monitoring but which does not interfere with effective management and achieving timely results.	Independent third-party monitoring, programmed evaluations, audit	ARTF Monitoring Agent and external audit arrangements; leveraging of improvements in Afghan government PFM processes.	Include in design a Monitoring Agent and strong provisions for audit and regular evaluations; regular reporting to the Investment Committee.
Ability to achieve some 'quick wins' to maintain momentum and interest in early period.	Identify investments / projects that will move forward quickly, and include in facility scope, prioritize and focus on to achieve early results; also requires early flexible funding.	Marshall Plan (funding of imports), ARTF (funding of recurrent budget—mainly government salaries); Netherlands provided critical support of EUR 35m per year at outset.	Identify 'quick wins', e.g. vocational training & associated job creation especially in SMEs; solicit getting sizable early flexible investment from one or more investors.
Flexible and adaptive design so financing facility can be improved in light of experience and evolving priorities.	Initial design not over-specified; administrator has flexibility to experiment, to revisit structure, and recommend improvements.	Marshall Plan evolved over time (also experience with earlier post-World War II aid); creative use of counterpart funds from imports.	Leave scope in design for further development in light of initial experience, allow for subsequent improvements and refinements.

9. EXPECTED RESULTS & EGYPT PROJECT CASE STUDY

As highlighted above, the ASP must focus on ***rapid jobs creation*** by ***increasing public sector project financing to be executed by the private sector:*** including through ***public-private partnerships***. Core fund investments will increase gross domestic product and generate revenues to fund essential services and improve the fiscal balance. Yet, with the size of the funds pledged unknown, it is not possible to determine the exact impact of ASP on jobs and growth. What is known is that creating jobs is critical to improving stability, and stability is equally important to improving employment. This section, therefore, remains illustrative and scenario driven, but is supported by empirical evidence and investment comparators.

> In the short-run every US$ 1 billion invested in infrastructure in MENA has the potential of generating, on average, around 110,000 infrastructure-related jobs in the oil-importing countries, 26,000 jobs in the GCC economies, and 49,000 jobs in the developing oil-exporting countries.
>
> *World Bank, Infrastructure & Employment Creation in MENA, January 2012*

Understanding Results and Impact

Impact on jobs and growth are easy to model once funding levels and sector investment priorities are known. Each investment has a hurdle rate (discount rate - the cost of borrowing) to overcome and depending on the sector, both economic and financial rates of return can be estimated, and can be expressed in terms of Net Present Value (NPV). Impacts on jobs can also be estimated, involving differentiating between ***direct***, ***indirect***, ***induced*** and ***catalytic*** employment.

Direct Employment:
Generated by the project itself.

Indirect Employment:
Generated via purchases from the supply chain.

Induced Employment:
Generated via spending from direct/indirect employees.

Catalytic Employment:
Generated by improved productivity/performance.

Direct and indirect employment is calculated by undertaking project level economic and financial analysis. ***Indirect*** and ***induced*** employment calculations are based on applying ***multipliers*** to direct employment, generated as a result of the investment; whereas ***catalytic employment*** is a function of economic growth impact of the project, and is inferred from an economic model.

A recent report by the World Bank on the impact of infrastructure investment on jobs in the Arab World that *'in the short-run every one billion of US$ invested in infrastructure has the potential of generating, on average, around 110,000 infrastructure-related jobs in the oil-importing countries, 26,000 jobs in the GCC economies, and 49,000 jobs in the developing oil-exporting countries. The region could therefore generate 2 million direct jobs and 2.5 million infrastructure- related jobs just by meeting estimated domestic investment needs, but the potential varies greatly across sectors and countries.'*[9]

The average Economic Rate of Return (ERR) of projects from various sectors based on World Bank financing over a twenty-five year period highlight how profitable ASP investments could be.

Table 4: World Bank Infrastructure Projects 1974 – 1997 [10]

	No. Of Projects Sampled	ERR Ex-ante (Avg.)	ERR Ex-post* (Avg.)
Roads & highways	337	28.17	26.35
Ports, airports	95	24.09	20.87
Telecommunications	86	20.55	19.49
Energy transport	126	21.03	16.76
Railroads	77	20.74	14.55
Industries	104	24.51	13.65
Energy production	187	14.80	12.86
Water, transport	98	11.84	7.36

* Re-estimated economic rates of return are based on re-calculation by Bank staff at the time of project completion. Projects approved, but not completed or not re-evaluated, were excluded from the analysis.

9 Word Bank, January 2012, see http://siteresources.worldbank.org/INTMENA/Resources/QN54-infrastructure-and-employment-creation-in-MENA.pdf

10 Source: Florio, Massimo, An International Comparison of the Financial and Economic Rate of Return of Development Projects, www.economia.unimi.it/uploads/wp/wp91.pdf

The World Bank reports that 'to sustain growth rates achieved in recent years and boost economic competitiveness, the Arab World needs to invest between US$75 and US$100 billion in infrastructure annually'. While most infrastructure projects have construction periods of 1-7 years, the long-term impact on growth, if combined with ancillary and spin-off investments is substantial.

ASP Funding Scenario 1**: **Fund Size US$30 Billion (Illustrative): Based on World Bank figures, if the ASP were to have US$30 billion of assets under management - financing labor and capital intensive works - based on a prototypical basket of investments, and based on comparators from other countries, the Plan has the potential to generate up to 3,300,000 infrastructure related jobs in oil-importing countries, up to 780,000 jobs in the GCC economies, and 1,470,000 jobs in the developing oil-exporting countries.

Based on World Bank Figures
US$30 BILLION COULD GENERATE

± 3.3 Million

Infrastructure Related Jobs in Oil Importing Countries

ASP Funding Scenario 2: Fund Size US$100 Billion (Illustrative): Based on World Bank figures, if the ASP were to have US$100 billion of assets under management—financing labor and both capital intensive works—based on a prototypical basket of investments, and based on comparators from other countries, has the potential to generate up to 11,000,000 infrastructure related jobs in oil-importing countries, up to 2,600,000 jobs in the GCC economies, and 4,900,000 jobs in the developing Oil-exporting countries.

Based on World Bank Figures
US$100 Billion Could Create:

± 11 Million

Infrastructure Related Jobs in Oil Importing Countries

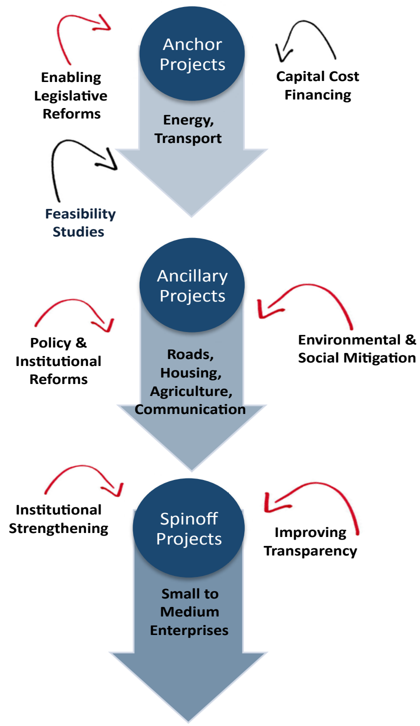
Impacts on GDP would need to be calculated. These figures are highly illustrative and speculative and modeling would be required, based on a wide range of assumptions. Once project feasibility studies have been undertaken, the economic and financial rates of return can be assessed over the different project life times.

WIDER GROWTH IMPACTS

'In our economy in Tunisia today we have about 80,000 new graduates each year, and the economy is only providing 25,000 jobs for those new graduates'
Alia El Made, Dean of the Faculty of Economics and Political Science, from Cairo University in Egypt

With a focus on employment, economic growth must be inclusive – meaning that its impact must be equally shared across the target countries population. This is why, beyond the immediate impact of ASP project-level finance, the domestic private sector and governments can build on the gains and likely benefits of large 'Anchor' projects, with 'Ancillary' and smaller 'Spinoff' projects also generating significant employment. Linking fund investments with national small to medium enterprise development initiatives will also drive much needed midstream and downstream jobs growth.

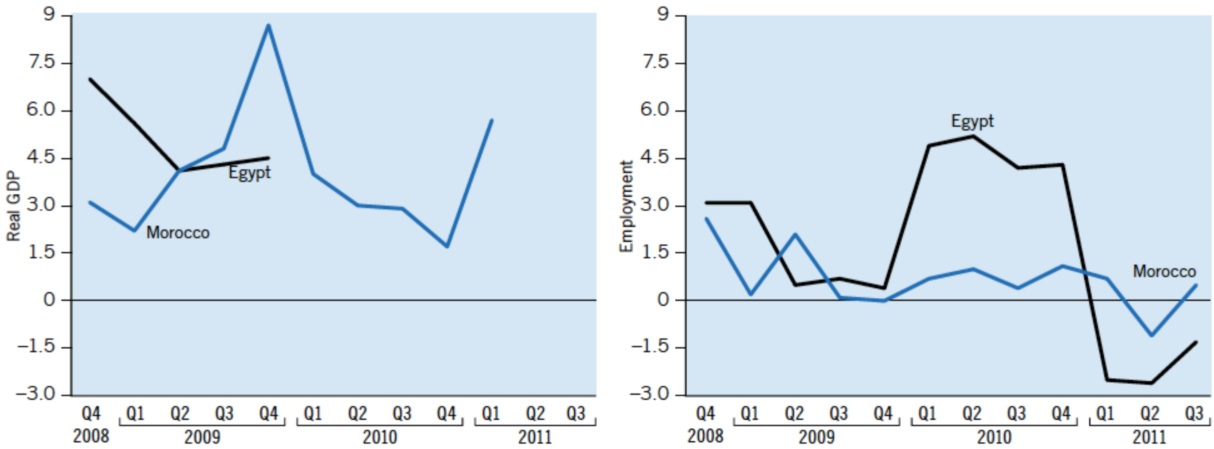
Anchor, Ancillary & Spinoff Gains



Egypt Outsourcing and Offshoring (O&O) Project Case Study

The political instability that engulfed Egypt has had a profound affect on the economy and jobs and the recovery has yet to commence. International reserves have declined by 60 % in 2011, the fiscal deficit has risen and the price of treasury bills has soared only adding to macroeconomic instability. With public debt standing at 70% of GDP (IMF, April 2012), and economic growth forecast at just 1.5% for 2011/2012 (June/July) and unemployment increasing to over 12.4%, up from 9% a year ago, securing economic growth and creating jobs demands immediate attention. Moreover, the budget deficit has increased due to increased expenditures and lower revenues, and with increased capital outflows and falling FDI international reserves have declined to about 3 months of imports. The charts below highlight the impact from 2008 until later 2011 on GDP and employment, for Egypt and Morocco.

GDP and Employment in Egypt and Morocco (% change versus same quarter, prior year)



Source: IMF, *International Financial Statistics*, November 2011; Central Agency for Public Mobilization and Statistics, Egypt; Statistics Morocco.

While the ongoing presidential elections provide the potential for greater political stability, the truth is that the economic situation is set to continue, with unemployment problems also worsening. According to the ILO, labor force growth in North Africa is the third highest in the world, and an issue primary for youth and women. Egypt had seen rapid employment growth throughout 2010, but a sharp decline started in the first quarter of 2011 which persisted in the second quarter, reaching nearly – 3% during the period of heightened political turmoil in the country. (ILO, 2012) The latest available data, for Q3 2011, show continued employment losses that can only be met through private sector investment (given Government's fiscal crisis). With pockets of unemployment at over 60%, identifying high job return investments will be a central activity of the ASP.

Investing In Egypt: Possible Rates Of Return & Job Impact

This short section provides and example of a significant investment project (Outsourcing and Offshoring (O&O) Strategy Re-Launch), that could be supported by the ASP. The project analysis is framed within the wider context of standard Economic Rates of Return (ERR) for infrastructure projects and direct and induced employment multipliers (see Annex 5). As the following analysis shows, not only would the proposed O&O project generate a significant number of jobs, it would also provide for substantial Greenfield FDI, generate revenues and support IT sector modernization.

As feasibility studies for ASP projects have yet to be carried out, normative Economic Rates of Return could be applied based on the ranking of various infrastructure projects according to norms for their sector. This provides a generalized ERR to be established for projects falling within each sector, which could then be confirmed at a later date, by ASP project development teams. The average ERR rankings of projects from various sectors based on World Bank financing over a twenty-five year period, shows that investments in IT related sectors can have a rate of return of over 19%. This ex-post (adjusted) ERR was based on an evaluation of 86 major investment projects.

Sample O&O Project Background

This project focuses on continuing the success that Egypt has achieved in the Outsourcing and Offshoring (O&O) arena. Since the late 90's, the Egyptian government has put focus - through the Ministry of Communications and Information Technology (MoCIT) and its Information Industry Technology Agency (ITIDA) - on establishing Egypt as hub for providing Information Technology and IT Enabled Services (IT-ITeS) mainly for the Europe, USA and the Gulf region.

Egypt launched its O&O strategy in 2006 aiming at growing Egypt's IT-ITeS exports from US$ 300 million to US$ 1.1 billion and providing 50,000 direct jobs by the end of 2010. MCIT/ITIDA hired world class international organizations, e.g. McKinsey & Co. and Hill & Knowlton, to achieve this goal. By the end of 2010 Egypt had more than reached this goal; creating 60,000 direct jobs and 150,000 indirect jobs while generating US$ 1.1 billion of O&O exports. As a result, Egypt was ranked among the top five O&O locations in the world in 2010.[11]

The design of the Phase II strategy not only focusing on the low to mid end services, but also positioning Egypt as a knowledge hub. The launch of the Phase II however was challenged by the events that took place in Egypt in 2011-2012 and the project now needs to be re-launched. Nonetheless, Egypt's potential, represented by its large talent pool, with their unique multilingual capabilities, its competitive cost structure, and its infrastructure, remains as a strong value proposition for attracting investments which can become one of the locomotives for its economy.

Among other analyst reports and studies, McKinsey & Co. has identified Egypt's potential export targets to grow five folds to become US$5 billion in 2020 and that the domestic outsourcing industry would grow to generate US$1.7 by 2020. The ASP could provide considerable support to meet both growth and jobs creation objectives. This project could therefore become a job-creation engine for the economy, providing more than 200,000 direct jobs in addition to a minimum of another 300,000 indirect jobs by 2020 (one of the largest drivers of urban job creation), empowering the youth (>75% of employees likely to be less than 30 years old) and reducing unemployment. The ERR and employment multipliers speak for themselves. However, for the wider impact of the project to be seen, well-designed training programs, enabling already identified wave 2 cities, investing in additional technology parks/office space clusters and marketing engines will be required.

These initiatives would need to be created in coordination with involved government organizations, NGOs, multinationals operating in Egypt and the national private sector so as to create an integrated model that includes different aspects of the industry (a model proved success in implementing Phase I of the strategy).

Egypt O&O Industry - Exports & Domestic

The wider economic and employment potential of the O&O project is clear, and the project would be guided to meet the following vision a objectives:

- ***Project Vision***: To (i) re-establish Egypt position among the top five O&O locations worldwide (ii) create 500,000 jobs (iii) and to generate US$ billions through exports of O&O services (creating value for Egyptian economy and interested investors).

- ***Project Objectives***: To (i) create an additional 200,000 direct and 300,000 indirect jobs by 2020 (ii) grow O&O of IT & ITeS exports from of US$ 1.1 in 2010 to US$ 5 billion in 2020 (iii) expand Egypt domestic IT & ITeS outsourcing market to US$ 1.7 billion by 2020 (iv) restore Egypt's "Brand" in IT-ITeS in targeted markets and (v) create technology and outsource campuses in Alexandria, Mansoura and Assuit. These locations were identified due to the location of the talent pool, necessary basic infrastructure (except for office space) and competitive cost structure.

Egypt O&O Strategy Background

On June 8th, 2006 Egypt announced its national strategy to grow its exports of IT & IT enabled services, setting its target to achieve exports of those services worth US$1.1 billion and create an additional 50,000 direct jobs by the end of 2010. The diagram below provides the overall strategy framework and the different aspects of focus in order to realize both the wider O&O objectives, and those of this project. The strategy included 45 programs, 32 out of which were executed (either fully or partially) by 2010 achieving US$1.1 billion worth of exports in

[11] AT Kearney Global Service locations Index 2011

IT & ITES, as stated, creating an additional 60,000 direct professional jobs addressing both the global O&O market and the national outsourcing market in addition to creating 150,000 indirect jobs.

Proposed Project Structure

In order to ensure a quick start and high degree of success the project would need to deploy the Phase II Strategy, with modifications as required, to reflect the post 2011-2012 environment in Egypt. To highlight project focus areas the strategy framework provided below provides for (i) programs that will be implemented and managed by the Project (ii) programs that will be implemented in coordination with the government and (iii) programs that will only be monitored by the Project to ensure coherence and consistency, as illustrated in Figure 8 below.

The New co. will have the initial mandate to establish the following critical infrastructure investments to build the necessary delivery environment:

- Developing and constructing 3 Large Campuses “Outsource Zones”;
- The Campuses Management Company;
- Anchor Mega Outsource company;
- Anchor Mega ICT Services company; and,
- Anchor Training & Development Academy.

Project Duration and Phases

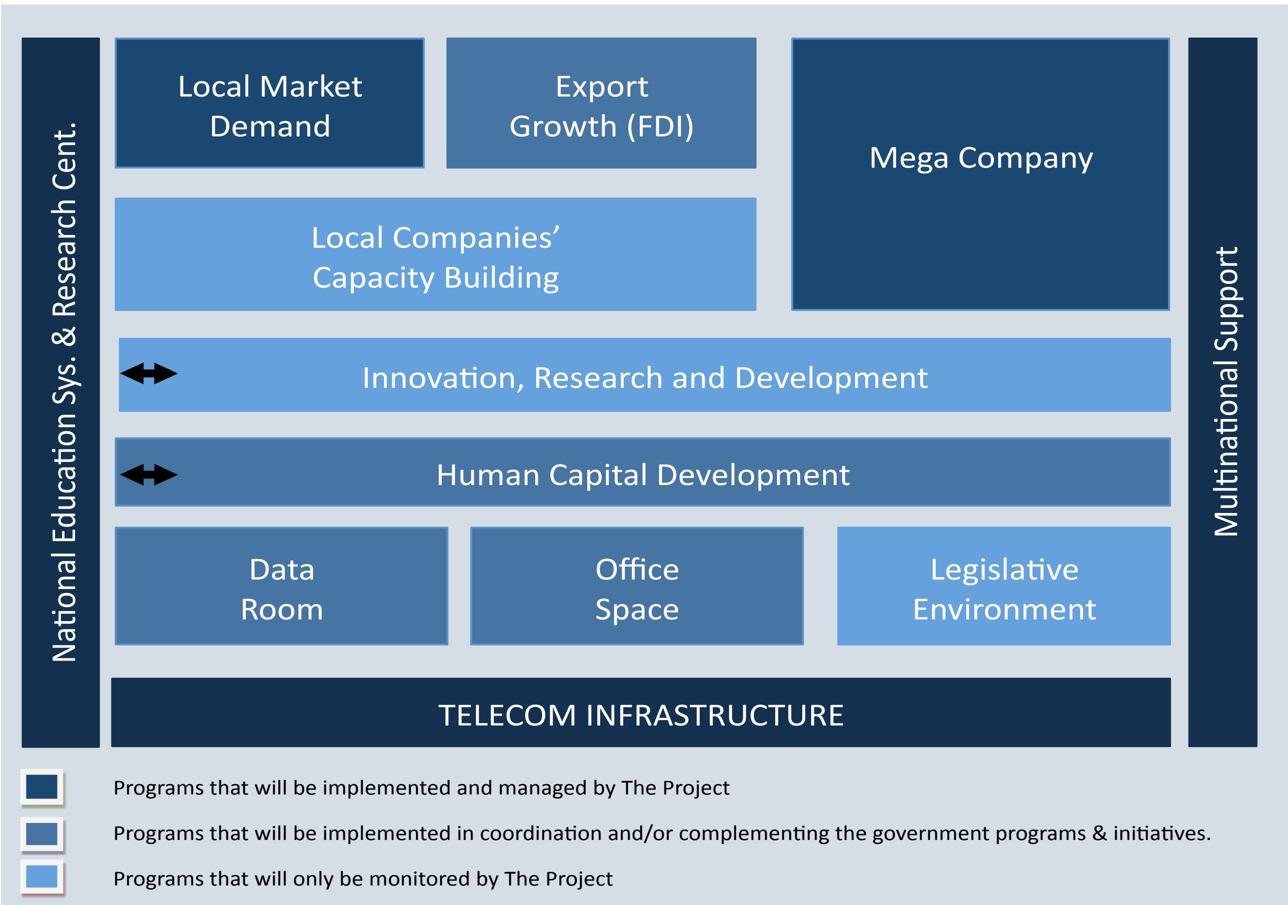
The total duration of this project would be 7 years, commencing Q1 2013 until end of 2020. In this period, the project would have four Phases and focus on:

- ***Phase 1***: Strategy, plan and business case development;
- ***Phase 2***: Establishment the New Company and Securing Government Commitment - “mainly land & infrastructure”;
- ***Phase 3***: Construction and business development; and,
- ***Phase 4***: Operations.

Projected Revenues, GM & Capital Breakdown

The project would have considerable rates of return to growth and employment, the details of which would need to be developed. However, illustrative projected revenues, Gross Margins and Capital Investment needs are provided below.

Figure 8: O&O Program Support Areas



Sample Project : Projected Revenues, GM and Capital Breakdown	
Annual Revenues by 2020	
Export Outsourcing	US$ 1.0 billion (20% market Share)
Domestic Outsourcing	US$ 0.5 billon (25% market share)
Real Estate & FM	US$ 0.3 Billion
Gross Margin	
Average GM on all of the Above mentioned Revenues is 25%	
Capital Investment (total cumulative until 2020)	
Infrastructure	US$ 270 million
Real Estate Development	US$ 400 million
Human capital development	US$ 85 million
Marketing	US$ 55 million
Outsourcing Company	US$ 50 million
ICT Services Company	US$ 50 million
Infrastructure	US$ 25 million
Recruitment	US$ 4 million
Awareness campaign	US$ 2 million
Data Center Facility	US$ 12 million
Total	**US$ 978 million**

10. THE WAY FORWARD

This Expanded White Paper is being presented to support an open discussion and full review by all stakeholders.

A meeting between key stakeholders will need to be agreed, with deliberations focused on:

- Agreeing the scope of country participation in the ASP;
- Agreeing the five core principles of the proposed Arab Common Interest Pact;
- Establishing an initial funding basket to finance ASP development activities;
- Establishing the ASP Trust Fund – including consideration of country location and other administrative matters;
- Projected timing, location and agenda for the first meeting of the ASP Governing Board; and,
- Financing for and location of initial administrative hub of ASP.

Following broad agreement on the above, the proposed Arab Common Interest Pact – to be formally known as ACIP - will be developed by a drafting committee for wider consultation.

A final version of this document would be considered for adoption at the first meeting of the ASP Governing Board.

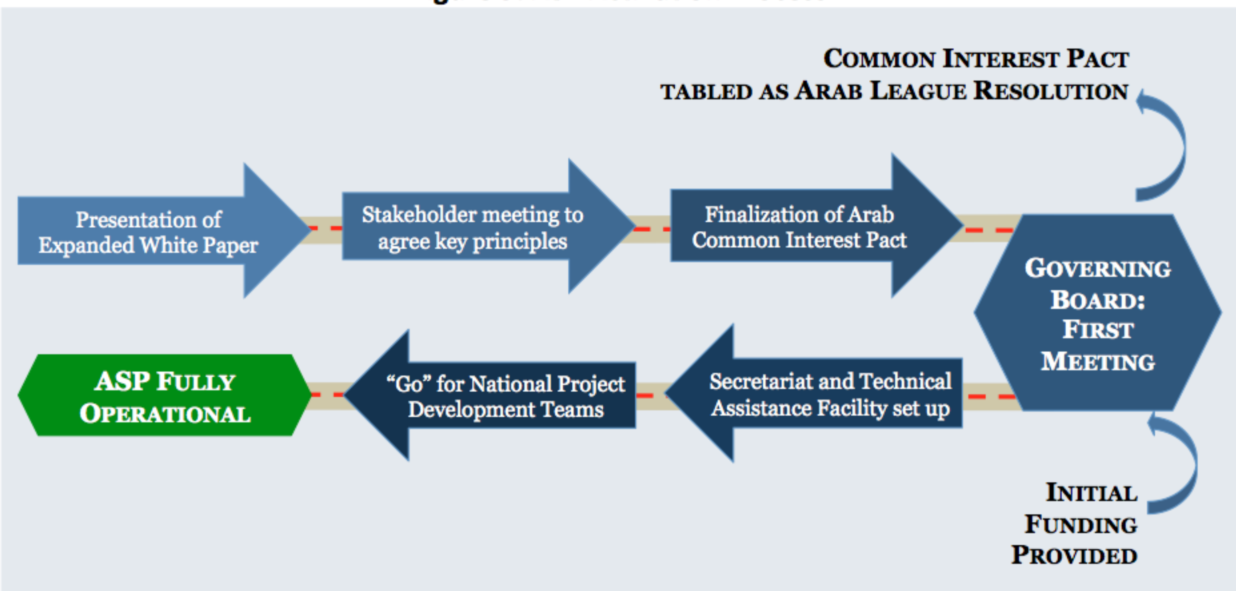
The Governing Board would then table the Arab Common Interest Pact before the Arab League for adoption as a unanimous resolution.
It should be noted however that the ASP process does not depend on an Arab League resolution, and will continue in parallel to Arab League deliberation processes.

Subsequent to the first meeting of the Governing Board, an initial funding allocation would be provided by ASP fund investors to establish the necessary technical and administrative support required to get the ASP mechanism up and running and to build the plans administrative capacity

The funding would allow the establishment of a core secretariat and initial Technical Assistance Facility to begin the necessary ASP administrative processes and determine a rational investment strategy and benchmarks, on a country-by-country, sector-by- sector and project level basis. An ASP Operational Guideline would be developed.

The establishment of the Secretariat would serve as a "green light" for target countries to form National Project Development Teams and, with appropriate support from the Technical Assistance Facility, begin the task of project scoping and investment.

Figure 9: ASP Activation Process



11. WHITE PAPER TEAM & PEER REVIEWERS

This White Paper was conceptualized and financed by ***Majid H. Jafar***, CEO of Crescent Petroleum and Vice Chairman of the Crescent Group of Companies in the UAE, who is also a writer on Middle East economic affairs and a member of the Royal Institute for International Affairs (Chatham House) in London.

White Paper Development Team:

Dr. Peter J. Middlebrook led the White Paper development team. He is the CEO of Geopolicity, an ex World Bank, European Union, UK Government and UN economist specializing in economic growth, emerging markets and stabilization policy. He has worked in more than 40 countries in the MENA region, Central & South Asia and Africa.

The ASP development team included ***Claire Hajaj*** (Geopolicity consultant), a specialist in post-conflict and recovery dynamics, with extensive expertise in partnership-building across public and private sectors. She is an ex UN senior advisor, specializing in stabilization, with support to the International Compact for Iraq), ***Dr. William Byrd*** (Geopolicity consultant and ex World Bank Country Economist and Trust Fund expert) with considerable experience in growth and stabilization policy, ***Sharon Miller*** (Managing Director of Geopolicity and Corporate Finance Lead) and ***Diana Stellman*** (Senior Researcher at Geopolicity).

The Arab Stabilization Plan development team including, ***Majid H. Jafar***, ***Ambassador Ahsan Ullah Khan***, Advisor to the ASP and former Ambassador of Pakistan to the UAE and Special Envoy to the Middle East and ***Patricia McCall***, ***Executive Director of the ASP***, formerly with both the IFC (World Bank Group) and the United Nations as well as Duke University, worked closely with Geopolicity in the development of this White Paper.

Egypt O&O Project Summary:

The project summary was prepared to support the ASP White Paper by ***Wael El-kabbany***, ***Managing Director*** of ***BT MENA***. The paper took into consideration the input of several regional corporations and business leaders.

Peer Review:

Dr. Gary Sick is analyst of Middle East affairs, who served on the U.S. National Security Council under Presidents Ford and Carter. He is Research Scholar at Columbia University's Middle East Institute and an adjunct professor at the School of International and Public Affairs.

Dr. Parag Khanna is a Senior Research Fellow at the New America Foundation, Senior Fellow at the European Council on Foreign Relations, Visiting Fellow at LSE IDEAS and Director of the Hybrid Reality Institute. He is author of the international bestseller The Second World: Empires and Influence in the New Global Order (2008) and How to Run the World: Charting a Course to the Next Renaissance (2011).

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ANNEXES

ANNEX I: ILLUSTRATIVE LIST OF PROJECTS TO BE FINANCED

Sector	Country	Project	Objective	Size (Million USD)	Illustrative Employment Outcome	Jobs Created
Egypt	Transport	Urban Transport Infrastructure Development	To enhance the urban transport system in Egypt through the implementation of cost effective and clean technology investments that support modal shifts.	250.0	Direct, indirect and long term spillover employment, and market efficiency gains.	Up to 27,500 infrastructure jobs created.
	Water/ Agriculture	Improvement of Water and Wastewater Services	To provide for capital investments to rehabilitate, upgrade or install new infrastructure (water treatment plants, waste water treatment plants and water and sewer networks) as well as accompanying measures to strengthen the institutional capacity in the sector.	392.8	Generation of significant short-term gainful employment, with impacts on health and workforce productivity and spillover effects.	Up to 43,200 infrastructure jobs created, long and short term.
		National Drainage Improvement	To improve the country exists drainage infrastructure in order to increase agricultural productivity and reduce the income variability among farmers.	3.1	Generation of short-term gainful employment, impacts on health and workforce productivity.	Up to 217,000 labor days generated.
Morocco	Energy	Improving the Electrical Network	To enable the integration into the grid of new generation resources, including renewable energy, extend the transformation capacity to the distribution grid and contribute to improve the reliability of supply.	378.0	Studies of other countries indicate that the spillover and indirect impacts of access to reliable electricity are large. Power provision remains a major constraint to private sector growth, particularly for small to medium enterprises.	Unknown number of jobs but significant induced and spillover effects on employment.
	Transport	Second Rural Roads Development	To further increase the access of the rural population to all-weather roads.	191.4	Rural roads are highly labor intensive (60-70% labor costs), open up markets, lower transaction costs and limit social exclusions.	Up to 14 million persons days of work generated.
		Road Asset Management	To enhance and preserve the road assets conditions, and to provide an efficient road infrastructure to facilitate connection to markets and link together major ports and development poles.	200.0	Essential for market efficiency, for exports and imports and increasing FDI in certain sectors.	Up to 22,000 infrastructure jobs created.
Tunisia	Energy	Improving Gas	To further develop gas transmission and	196.4	Significant spillover and indirect	Up to 21,560

ANNEX I: ILLUSTRATIVE LIST OF PROJECTS TO BE FINANCED

Sector	Country	Project	Objective	Size (Million USD)	Illustrative Employment Outcome	Jobs Created
		Transmission Pipelines	distribution infrastructure.		employment created.	infrastructure jobs (permanent and temporary) created.
	Transport	Modernization of Railway Infrastructure	To support the construction and civil works to modernize the railway infrastructure in Tunisia.	90.0	Railway investments lower transaction costs, increases in country value addition and stimulates greater flows in tradable commodities - imports and exports.	Up to 9,900 infrastructure jobs created.
	Water/ Agriculture	Wastewater Reuse	To rehabilitate, extend and create agricultural wastewater reuse infrastructure.	50.0	Generation of short-term gainful employment, impacts on health and workforce productivity.	Up to 5,500 infrastructure jobs (permanent and short term) created.
Yemen	Transport	Road Asset Management	To improve road infrastructure and strengthen institutional arrangements for efficient roads management.	40.0	Essential for market efficiency, for exports and imports and increasing FDI in certain sectors.	Up to 4,400 infrastructure jobs created.

Note: Jobs created are based on World Bank figures for a prototypical basket of infrastructure investments but remains highly indicative, with exact employment impacts (direct, indirect, induced and spill-over) to be assessed in the project design and economic impact assessment phase. For labor intensive public works, a standard international ratio (70:30 labor/capital split) has been used on a daily wage rate of US$10/day, which is above existing standard market rates for many countries such as Egypt.

Annex 2: Selected Development Financing Mechanisms and Relevance to the ASP

Plan / Financing Mechanism	Objective	Time Period	Results / Achievements	Total Funding	Donors / Investors	Target Countries / Beneficiaries	Focus of Investments	Management, Administration	Monitoring & Oversight	Relevance to ASP
European Recovery Plan—'Marshall Plan' (ERP)	Economic revival, political stabilization, anti-Communism, regional integration.	1947-1951	Supported economic revival, political stability, regional econ coop.	Close to US$ 13b, equivalent to over US$ 100b in current prices.[12]	USA	More than a dozen European countries plus Turkey.	Industrial development, Technical Assistance	US-led Economic Cooperation Administration (ECA)	US government, ECA; much aid was repayable loans.	Role of political objectives, regional integration.
Facility for Euro-Mediterranean Investment and Partnership (FEMIP) Trust Fund	To support private sector development, in Mediterranean partner countries of European Union.	2004-present (fully operational since 2005)	Supported better regulation, promoted dynamism in private sector, new financing instruments.	EUR 26m during 2005-10 for TA and small private equity operations.	15 bilateral European donors and European Commission	9 Arab countries bordering on Mediterranean	TA window, private equity window, new democratic transformation window.	European Investment Bank (EIB)	EIB monitoring, independent evaluations.	Focus on catalytic small PSD projects (TA, new/expanded financial instruments).
Afghanistan Reconstruction Trust Fund (ARTF)	State-building and economic development.	2002-present	Strong public financial management, fiscal stability, development progress.	US$ 4.5b raised, US$ 4.4b committed, US$ 3.8b disbursed.[13]	Over 2 dozen donor countries, European Commission	Afghanistan government	Budget support, development projects & progress.	World Bank	Monitoring agent, external audit, and independent evaluations.	Effective management & governance mechanisms.
State and Peace Building Fund (SPF)	Improving state and local governance & peace building in FCS[14].	2008-present[15]	Too early for systematic evaluation.	US$ 128m raised, US$ 115m committed.[16]	5 OECD countries, World Bank	Conflict-affected developing countries (govt, non-govt)	Small projects, especially those missed by large development agencies.	World Bank	World Bank internal control and audit processes.	Involvement of NGO sector; small, targeted projects.
AFFI—Arab Financing Facility for Infrastructure	MENA infrastructure development, jobs	April 2011-present	Just getting underway.	Hopes to raise up to US$ 1b.	Int'l Financial Institutions (IFIs), private companies	MENA countries	Major infrastructure projects including regional	WB, IFC,[17] IDB; private sector fund manager to be selected	Unspecified.	Integrates policy, project preparation, financing (public-private).

[12] This funding was in addition to an almost equal amount of aid provided from the end of World War II until the start of the Marshall Plan.
[13] This information is for cumulative totals as of December 21, 2011.
[14] FCS refers to fragile and conflict-affected states and situations (including conflict-affected regions within countries).
[15] The SPF was an outgrowth of earlier Post-Conflict Fund (PCF) and Low-Income Countries under Stress (LICUS) Trust Fund, which were superseded by and amalgamated into the SPF.
[16] This information is for cumulative totals as of September 2011.
[17] International Finance Corporation (IFC) is the private sector financing arm of the World Bank Group.

Annex 3: Unemployment - Numbers of People (2007-2011)

Region	'07	'08	'09	'10	2011			2012			2015			2016	
					CI lower bound	Prelim Est.	CI upper bound	CI lower bound	Prelim Proj.	CI upper bound	CI lower bound	Prelim Proj.	CI upper bound	CI lower bound	Prelim Proj.
World	170.7	176.4	197.7	197.3	187.3	197.2	206.8	185	200.2	215.4	186	205	223.9	185.6	206.3
Developed Economies and European Union	29.1	30.8	42.5	44.7	41.7	43.5	44.8	39.7	43.6	47.6	36.2	40.9	45.6	35	40
Central and South-Eastern Europe (non-EU)and CIS	14.5	14.7	18.1	17	14.6	15.5	16.6	13.9	15.5	17.2	13.6	15.6	17.6	13.4	15.6
East Asia	31.6	35.8	36.7	35.6	34	35.5	37.1	34.1	35.9	37.8	34.4	36.6	38.8	34.3	36.7
South East Asia and the Pacific	16.1	15.7	15.5	14.7	13.7	14.6	15.5	13.6	14.9	16.2	13.9	15.6	17.3	13.8	15.8
South Asia	23.6	23.3	24.5	25	23.4	25	26.6	23.6	25.5	27.4	24.8	27.1	29.5	25.1	27.7
Latin America and the Caribbean	18.4	17.9	21.2	20.2	19.2	20.5	21.8	19.1	21	22.9	19.9	22.3	24.7	20.1	22.7
Middle East	6.4	6.6	6.6	6.7	6.7	7.1	7.6	6.8	7.4	8	-	-	-	-	-
North Africa	6.6	6.4	6.5	6.7	7.3	7.8	8.3	7.3	8	8.8	7.3	8.3	9.2	7.3	8.3
Sub-Saharan Africa	24.5	25.2	26	26.7	26.7	27.6	28.5	26.9	28.3	29.7	-	-	-	-	-
Region		**'08**	**'09**	**'10**	**2011***			**2012***			**2015***			**2016***	
					CI lower bound	Prelim Est.	CI upper bound	CI lower bound	Prelim Proj.	CI upper bound	CI lower bound	Prelim Proj.	CI upper bound	CI lower bound	Prelim Proj.
World		5.8	27	26.6	16.6	26.6	36.1	14.4	29.6	44.8	15.4	34.3	53.2	14.9	35.7
Developed Economies and European Union		1.7	13.4	15.6	12.6	14.4	15.7	10.6	14.5	18.5	7.1	11.8	16.5	5.9	10.9
Central and South-Eastern Europe (non-EU)and CIS		0.2	3.6	2.5	0.1	1	2.1	-0.5	1.1	2.7	-0.9	1.1	3.1	-1.1	1.1
East Asia		4.2	5.1	3.9	2.4	3.9	5.5	2.5	4.3	6.2	2.8	5	7.2	2.7	5.1
South East Asia and the Pacific		-0.4	-0.6	-1.4	-2.4	-1.5	-0.6	-2.5	-1.2	0.1	-2.2	-0.5	1.2	-2.3	-0.3
South Asia		-0.2	1	1.4	-0.1	1.5	3.1	0.1	2	3.9	1.2	3.6	6	1.5	4.1
Latin America and the Caribbean		-0.5	2.8	1.8	0.7	2.1	3.4	0.6	2.6	4.5	1.5	3.9	6.3	1.6	4.3
Middle East		0.2	0.2	0.4	0.3	0.8	1.2	0.5	1	1.6	-	-	-	-	-
North Africa		-0.2	0	0.1	0.8	1.2	1.7	0.7	1.5	2.2	0.8	1.7	2.7	0.7	1.8
Sub-Saharan Africa		0.8	1.6	2.2	2.2	3.1	4	2.5	3.9	5.3	-	-	-	-	-

ANNEX 4: UNEMPLOYMENT RATE FOR YOUTH, FOR THE WORLD AND BY REGION (%)

Youth	2000	2005	2006	2007	2008	2009	2010	2011*		
								CL lower bound	Preliminary estimates	CI upper bound
World	12.8	12.9	12.4	11.7	11.9	12.8	12.8	12.0	12.7	13.3
Developed Economies and European Union	13.5	14.2	13.3	12.5	13.3	17.3	18.1	17.1	17.9	18.4
Central and South-Eastern Europe (non-EU) and CIS	20.0	18.7	18.6	17.6	17.0	20.5	19.5	16.7	17.7	18.9
East Asia	9.1	8.5	8.3	8.0	8.9	9.0	8.8	8.4	8.8	9.2
South East Asia and the Pacific	13.2	17.7	17.0	14.9	14.2	13.9	13.6	12.6	13.4	14.3
South Asia	10.2	10.0	9.3	8.6	8.6	9.1	10.2	9.3	9.9	10.6
Latin America and the Caribbean	15.8	15.7	15.3	14.1	13.7	15.7	14.6	12.5	13.3	14.2
Middle East	23.8	25.4	25.5	24.9	25.7	25.2	25.4	24.5	26.2	27.9
North Africa	28.8	27.2	25.2	23.8	23.0	23.6	23.0	25.7	27.1	28.6
Sub-Saharan Africa	14.2	12.9	12.8	12.8	12.8	12.9	12.8	12.4	12.8	13.2

Source: ILO (2011)

ANNEX 5: EGYPT – EMPLOYMENT MULTIPLIERS BY SECTOR

Egypt – ILO Employment Multipliers by Sector									
Sectors	Employment			Vacancies			Value Added Inducement		
	MI	Empl		MI	Empj		MVA	Empva	
		Total	Direct		Total	Direct		Total	Direct
Agriculture									
- Vegetables	1.517	0.229	0.167	1.222	0.048	0.043	1.418	1.129	0.882
- Livestock	1.518	0.234	0.156	1.254	0.05	0.04	1.414	1.151	0.823
Industry									
- Oil & Mineral Extract.	2.058	0.038	0.019	3.024	0.002	0.001	1.123	1.006	0.942
- Food and Tobacco	2.69	0.199	0.077	5.51	0.022	0.004	4.597	0.796	0.181
- Spinning & Weaving	3.206	0.249	0.092	1.529	0.057	0.045	2.901	0.969	0.398
- Clothing	6.019	0.252	0.042	3.068	0.032	0.01	4.102	0.781	0.192
- Chemical Industry	1.906	0.213	0.121	10.331	0.008	0.001	2.256	0.965	0.462
- Petroleum Products	1.768	0.142	0.081	4.848	0.006	0.001	3.944	1.072	0.274
- Non-Metal Industry	1.429	0.301	0.212	1.825	0.016	0.009	1.606	1.192	0.746
- Base Metals	1.53	0.277	0.189	3.238	0.011	0.003	1.749	1.053	0.63
- Metal Industry	2.358	0.213	0.091	1.469	0.026	0.018	2.188	0.924	0.424
- Eng. & Machinery	2.003	0.197	0.1	1.894	0.016	0.009	1.959	0.748	0.388
- Electricity	1.335	0.277	0.208	1.488	0.018	0.012	1.869	1.103	0.594
- Building	2.939	0.219	0.082	1.629	0.024	0.017	2.401	1.006	0.464
- Roads and Bridges	1.946	0.26	0.133	1.085	0.1	0.092	1.957	1.048	0.536
- Water and Sewage	1.651	0.243	0.147	1.21	0.043	0.036	1.547	1.084	0.701
- Electricity Stations	3.002	0.157	0.052	1.35	0.023	0.017	2.012	0.902	0.448
- Other Constr. & Bldg	1.666	0.388	0.233	1.612	0.027	0.017	2.31	1.065	0.461
- Other Industry	2.91	0.147	0.052	2.182	0.014	0.007	2.499	0.588	0.242
Services									
- Transport & Comm.	1.586	0.206	0.135	1.819	0.015	0.008	1.509	1.088	0.748
- Other Prod. Services	1.597	0.173	0.117	1.693	0.015	0.009	1.418	1.023	0.778
- Social Services	1.407	0.723	0.601	1.526	0.056	0.043	2.114	1.475	0.815

Source: ILO (2010) Measuring the Impact of the Egyptian Fiscal Stimulus Package

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