In the Middle of the Storm: Development and Governance in the Arab World

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Conference Report

On Tuesday December 6, 2011, the Program on Arab Reform and Democracy at Stanford University’s Center on Democracy, Development, and the Rule of Law and the Safadi Foundation USA launched the Safadi-Stanford Initiative for Policy Innovation with a conference hosted by the Woodrow Wilson International Center for Scholars in Washington, DC and supported by the Center for International Private Enterprise.

The conference, titled In the Middle of the Storm: Development and Governance in the Arab World, featured IMF Head Christine Lagarde and Lebanese Finance Minister Mohammad Safadi as keynote speakers, and two panels, on regional Arab reform and on energy reform and economic development in the Arab world. In her speech, Lagarde said that she is “desperately optimistic” about the “historic transformation in the Middle East”, while acknowledging the economic challenges it brings. She said that the Arab Spring “embodies the hopes and expectations of people yearning for greater freedom and dignity and a fairer spread of economic opportunities”, and, regarding the IMF’s position towards the region, stressed that “each country must find its own path. You have to turn your future into what you want it to be”, with the IMF seeing its role as “providing surveillance advice, lending funds, and giving technical assistance to countries in need”. Such assistance is already under way, she added, with the IMF helping reform the tax system in Egypt.

Lagarde listed some of the economic parameters that sparked the Arab Spring, saying it was partly the result of the “ticking time bomb of high youth unemployment, unequal access to opportunities, unequal access to resources, and economic growth that wasn’t shared”. She stressed the importance of sustained growth and economic opportunities as components of stable societies, and that inclusive growth must be a condition for the emerging Arab economies. She particularly flagged the importance of macroeconomic and financial stability as cornerstones of decent transition, because stability “allows people to see a way forward, and governments to respond to the needs of the people”. A problem that the Arab world has faced, she argued, is that governments have often dealt with the urgent needs of their people though increased spending and subsidies--while this was needed for social cohesion, the cost was the depletion of reserves and rising interest rates, factors that are not sustainable in the long term. “Governments need sustainable fiscal policies, including better targeted subsidies to help low-income groups”, she said.

She added that a key way forward is encouraging the private sector to get involved, because “it is the private sector that will create jobs” in the Arab world after the Arab Spring. Lagarde listed four factors that would encourage the private sector, “predictability, a stable legal and tax environment, absence of corruption, and the elimination of regulatory loopholes”. Two immediate measures the international
community can take in this vein are “facilitating trade and removing non-tariff barriers to help countries export and leverage investment”.

Minister Safadi stressed the importance of reform in Lebanon and the region. Echoing Lagarde’s comments, he stated, “Economic and financial support is a necessary component to facilitate democratic transitions. But the effectiveness of this aid is not guaranteed on its own. Development without institution building and transparent accountable governance practices will likely fail to achieve any meaningful objectives. New Arab governments and/or those that are seeking to reform will more likely facilitate a stable democratic transition if domestic policies are in place to support the direction of that aid.”

The morning panel on regional Arab reform featured Deputy Assistant Secretary of State for Near Eastern Affairs Tamara Wittes, who spoke about the Arab Spring as both “a moment of uncertainty and a moment of opportunity”. The Arab Spring, she said, presents a “strategic opportunity for the United States to advance lasting stability through encouraging a new social contract between governors and the governed”. Democracies are stable, making them “good strategic partners for the United States”, she said. She lauded the young people driving change through non-violence in the Arab world, saying that “what is happening in the region is about the people writing their own story. The United States has to approach this with a sense of humility. But we have a role to play because we are a major presence in the region and have a stake in the outcome”. What this means for US policy is that “we engage based on core principles: Democracy is about the values of pluralism and tolerance, democratic institutions, and the rule of law. We reflect on those principles based on the perspectives of the people in the region”.

Wittes acknowledged that “underlying the political demands [of the Arab Spring] are development challenges”, and Mara Rudman, Assistant Administrator for the Bureau for Middle East at USAID, followed Wittes’ talk through addressing what USAID is doing in the region. “USAID’s strength is that it already has partners in the region, but it recognizes that it needs to reach out to new partners”, she said. She gave concrete examples about how USAID has started reaching out to new audiences after the Egyptian Revolution of January 25, saying that not only has the allocation of funds within USAID been shifted, but also that “40% of USAID grants have now gone to new recipients, many of whom are outside Cairo”. The current priority for US development assistance is to put resources that both “respond to policy objectives, and respond to citizen needs”.

Miriam Allam, economist with the OECD and Safadi Scholar First Runner Up., followed by speaking about the importance of public consultation in the current period in the Arab world. “Good regulation is based on local input and stakeholder involvement”, she said. “Public consultation builds on the people’s right to know, but also provides information to come up with evidence-based policymaking”. She acknowledged that this requires “financial and human resources and political will”, but stressed that public consultation is important for “active, democratic citizenship” and that “it fills a democratic gap”. She gave the example of how the electoral and media laws were recently prepared in Tunisia, with multiple stakeholder involvement, as an example of the way forward. As with the previous speakers on the panel, Allam stressed the importance of inclusion, and advocated the creation of a code of practice for public consultation that addresses “who gets consulted and how”, including “those who are willing
but unable to participate, and those who are able but unwilling to participate”. She concluded by calling on the international community to provide training for capacity building for stakeholders, and Tamara Wittes responded by highlighting the United States’ work with both governments and civil society in the Arab world so that “the supply can incentivize the demand”.

The second panel began with a speech by Undersecretary of State for Economic, Energy, and Agricultural Affairs Robert D. Hormats, who echoed the words of Lagarde by saying that “people in the region have not had a chance to participate in upward mobility, economic growth did not reach them”. He added that “gender gaps have affected economic equality” and thus “economic reform must match social and political change”. Ousted governments in the Arab world lacked legitimacy, he said, and therefore there is a need for “improvement in financial management” because it “affects the credibility of governance”, for example, in oil-exporting countries, where “transparency in oil production is needed”. He said that the United States should work with governments in the Arab world “to modernize the economy, ensure broad access to sustainable energy, and create diverse economies supporting sustainable growth, investment, and trade”. He said that there is now a “historic opportunity for the region and the United States government” through which the United States can “mobilize countries” to spur economic reform but where US engagement is “a partnership, where the United States is reaching out to governments and civil society. The United States does not tell people what to do. We learn from them and provide opportunities to support what they want to do. We need to listen, lead, and respond”.

Inger Anderson, Vice-President for MENA at the World Bank, followed by praising the United States’ attention to the economy in the Arab world while “the Eurozone has its attention elsewhere at a timewhen the Arab world needs it the most”. She said that funding shortages in European countries are resulting in low investment in the Arab world, while Arab countries undergoing transition are finding it difficult to attract private investment. Focusing on energy, she highlighted a number of problems facing the region, such as the absence of energy reliability, and accessibility and cost constraints, all of which hamper entrepreneurship, as “40% of enterprises in the MENA region rely on generating their own electricity”. “Government subsidies”, therefore, “must be targeted, not blanket subsidies, so they reach different segments of the population”. Regarding energy, she said that the region is in need of instruments to empower consumers to demand their energy needs, and of renewable resources. She proposed the establishment of a Mediterranean energy ring as a way forward, and concluded by saying that she is optimistic that “there is understanding and leadership about subsidies and reforms” in the MENA region.

Katarina Uherova Hasbani, Safadi Scholar of the Year, concluded the panel through presenting her CDDRL Working Paper “Electricity Sector Reform in Lebanon: Political Consensus in Waiting”, the research she completed while a visiting scholar at Stanford University’s Center on Democracy, Development, and the Rule of Law in October 2011. She began her presentation by stating that “reliable and stable electricity supplies are a pre-condition for economic development”, and showing how, in Lebanon, “the electricity problem is a symbol of failing state institutions”. This has serious consequences, she said. Not only does the situation present constraints for economic enterprises, it also “deepens social inequalities, while the high percentage of the state budget spent on electricity subsidy
limits other state expenditures such as on social development and education”. The Lebanese situation is further complicated by “frequent political crises that delay reform, the close link between politics and business, where the economic reform process is subject to political control, and citizens who have little access to information and who are not engaging in bottom-up demand for reform”. She concluded by listing three key recommendations: 1. Political consensus is needed so that reform measures are carried forward across consecutive governments. 2. Civil society should monitor timely reform implementation. 3. International donors should help through building Lebanese civil society’s expertise on electricity governance, improving the technical capacity of state institutions, and building public-private initiatives for innovative finance in renewable energy and energy efficiency.

The full text of Katarina Uherova Hasbani’s paper can be downloaded from the CDDRL website here:

http://cddrl.stanford.edu/publications/electricity_sector_reform_in_lebanon_political_consensus_in_waiting/