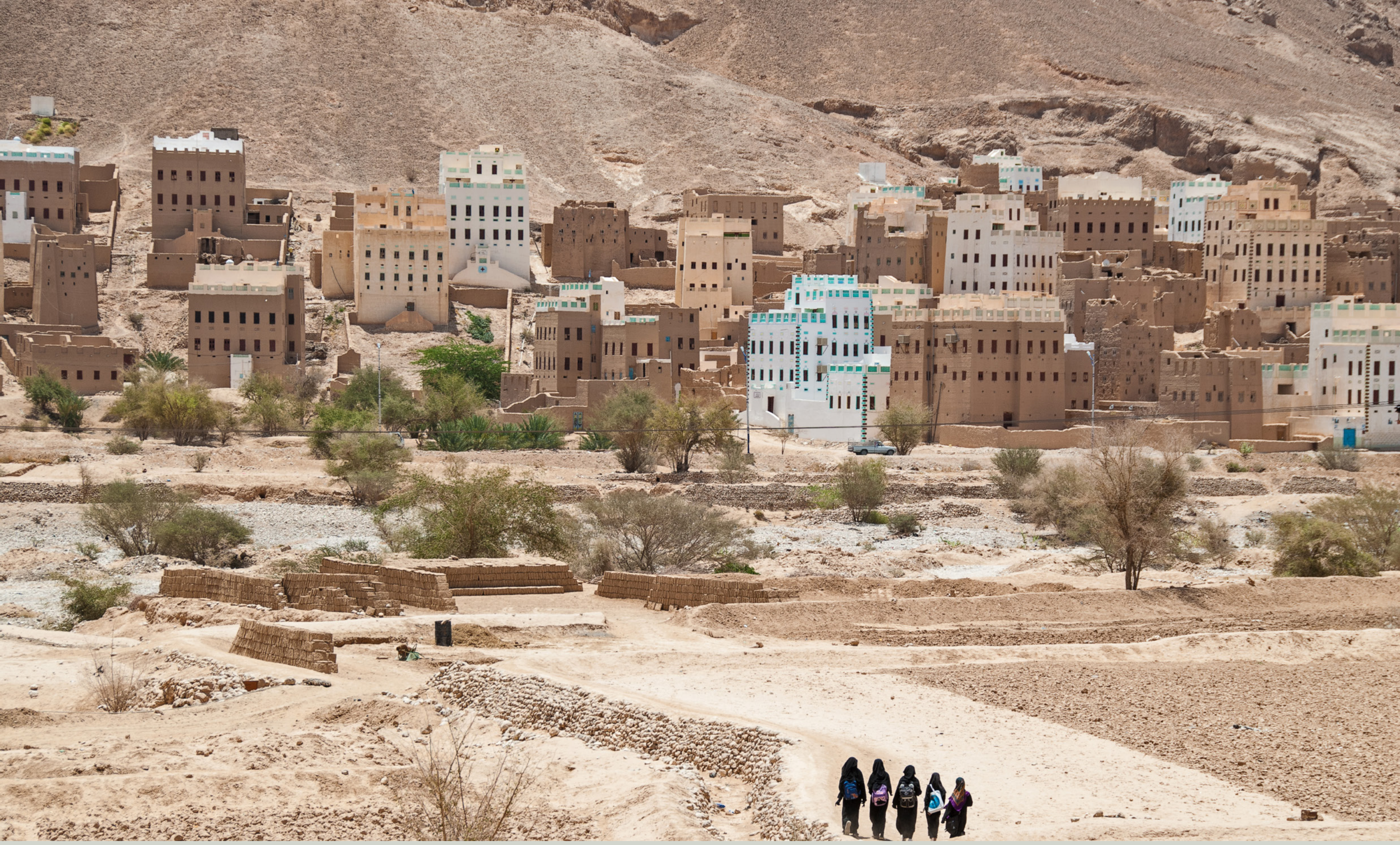

The Case for a WANA Regional Development Bank

WANA Institute

"Knowledge from the region, action for the region"

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Executive Summary

New and better solutions are needed to respond to the economic challenges that are affecting the West Asia-North Africa (WANA) region and potentially maintaining it in a conflict trap. These solutions must evolve from the region itself, both for sustainability and to galvanise the political will necessary for needed policy changes to take hold. The good news is that region does have the capacity to resolve its economic challenges; resources are simply under-tapped and poorly managed. First, the massive foreign reserves accumulated by oil-exporting Gulf States could be better channeled into development projects in resource-scare and conflict-affected countries to raise economic activity and create jobs. Second, public-private partnerships could serve as a vehicle to for governments to obtain much-needed infrastructure without raising taxation or utilising other public funds, and promote engagement by the private sector in the region's development agenda. Third, despite its enormous potential, *zakat* has not been effectively used as a development tool. Instead, insufficient checks and balances to guard against corruption and distribution methodologies that prioritise charitable giving over sustainable and inclusive development have done more to entrench poverty traps than solve them. Gulf finance, public-private partnerships and zakat might be brought together in a Regional Development Bank operating on the economic principles of integration, comparative advantage and specialisation to deliver new economic opportunities. Such a Bank would not only finance development projects, but also initiatives to promote resilience, social cohesion and conflict avoidance. The Bank would also act as a hub of critical analysis on development theory specific to the region to guide loan making, investments and projects. This paper makes the case for a regional development bank, outlines its constitutive elements and presents a series of next steps for realising the Bank concept.

Key take-aways

- The benefits of investment-driven economic integration respond to the region's development needs and aspirations, yet remain largely untapped
- Oil rents, while traditionally rendered as an unproductive source of income, can generate productive economic activity. Given the availability of surplus capital in the region, the opportunity for establishing a regional developmental bank that transforms oil rents to value-added economic activity is ripe
- The economic challenges facing the WANA are too complex to be tackled by either the public or private sector separately. A better model for development projects is public-private sector cooperation and under the auspices of a supranational development bank
- A regional bank would not only promote and facilitate physical infrastructure projects, but also projects that advance social cohesion. A more equitable distribution of resources through a *Shari'ah*-compliant *zakat* fund would fill a persistent financing gap in WANA in a manner that respects the region's religious and cultural specificities
- Establishing a regional development bank means putting in place the required institutional framework for democratisation to thrive

1: The Economies of the WANA Region

The WANA region is facing unprecedented and multi-faceted development challenges. These include weak governance, chronic conflict, gender inequality and an emerging threat of violent extremism. One challenge linking each these issues is varying levels of economic development and functionality. WANA has become synonymous with deficits such as unemployment, rentierism and stunted private sector growth. Moreover, while the region is home to vast wealth, it is also one of entrenched economic and social inequality: in 2013, Qatar's GDP per capita stood at USD 93,714 compared to Yemen's meagre USD 1,473.[1] Another set of challenges relates to employment and entrepreneurial opportunity. Despite high secondary and tertiary education rates in many Arab states, youth unemployment sits at 22 percent for men, and as high as 40 percent for women. Members of the informal economy, which make up 60 percent of the Arab workforce, are exposed to unsafe working conditions (especially in the garment-making and domestic labour sectors), and suffer from poor access to entitlements such as minimum wages, social security and insurance. A review of where Arab countries sit on the Ease of Doing Business Index illustrates the stifling of entrepreneurialism caused by difficulty in obtaining credit, enforcing contracts, and accessing training and skills development. These concerns must be considered against a poor economic outlook with inflation as high as 11 percent in some countries, and one-fifth of the Arab population living beneath the poverty line.

To understand this complex, and somewhat contradictory, state of affairs, the three economic 'families' of the WANA region need to be more closely examined. First, there are the resource-poor economies of Egypt, Jordan, Lebanon, Morocco, Tunisia, Djibouti, Mauritania and Palestine. These countries suffer from low incomes, poor growth, high unemployment and consequently a net outflow of skilled labour, mainly to the West and oil-producing Gulf countries.[2] Insufficient economic activity coupled with a depletion of skilled labour leaves them unable to compete both with low-income countries producing labour-extensive products, and advanced economies in terms of exporting technological and knowledge-intensive goods and services. They have become fixed in, what Michael Spence has termed, a middle income 'trap'.

The second group is the resource-rich, labor abundant economies of Algeria, Iraq, Syria and Yemen. These countries serve as harsh reminders of how the region's massive economic potential has fallen victim to conflict. Syria's economy has been cut in half since 2011,[3] while Yemen's economy slipped into recession with GDP contracting by 12.7 percent since 2011,[4] and in Iraq, breakdowns in governance, civil unrest and the rise of Daesh shrank the economy by 2.7 percent in 2014 alone.[5]

The final group of countries is the resource-rich Gulf countries of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. They account for around 60 percent of the region's economic activity[6] and enjoy some of the highest GDP per capita rates in the world. They have, however, had difficulty directing their massive windfalls to diversify their markets, raise living standards and address food and water insecurity.

[1] D Sorensen, *An Introduction to the Modern Middle East: History, Religion, Political Economy, Politics.* Westview Press, 2008. *The Middle East is home to extremes of wealth and poverty, as measured in per capita income- the GDP per capita for the United Arab Emirates in 2006 was $ 45,200; for Yemen it was $900*

[2] According to a 2014 UN Development Programme (UNDP) report, Arab 'brain-drain' is worsening, from an estimated 10-15 percent loss in workforce in 2012, to 20-25 percent today R James, 'Arab 'brain drain' accelerates after Arab Spring: UN', *Middle East Eye,* 8 May 2015.

[3] M Lobel, 'Syria's economy cut in half by conflict', *BBC News,* 23 June 2015.

[4] The World Bank, 'Country Overview: Yemen' <http://www.worldbank.org/en/country/yemen/overview> at 11 August 2015.

[5] 'Iraq's economy: an empty chest', *The Economist,* 21 March 2015.

[6] Unofficial estimates suggesting that unemployment among the GCC's youth (16–24 years), and especially among university graduates, is more than twice that of the total labor force (more than 35 percent across the GCC region). S Salacanin, 'GCC Sovereign Wealth Funds Manage over USD 1.7 trillion', *Qatar BQ Magazine* (Doha), December 9th, 2014.

Their principal economic challenge is resource over-dependency, the so-called 'oil curse'. Reliance on volatile hydrocarbon markets causes local currency appreciations, making other exports uncompetitive (as the money earned is worth less in terms of local currency).[7] This retards the growth of labour intensive exports that otherwise have the potential to grow rapidly and further technological progress.[8] Over the long term, it is unlikely that the oil benefits can continue to outweigh the costs. Rentierism is broadly incompatible with political resilience and resource insecurity will ultimately become an existential threat. Moreover, it is impossible to ignore that oil revenues have not translated into human development gains. Despite enjoying OECD levels (or higher) of GDP per capita, the Gulf countries lag behind on important development indicators.[9] This abnormal discrepancy between material wellbeing and human development exposes the broader limitations of the rentier welfare state model.

[7] P Collier, *The Bottom Billion: Why the Poorest Countries in the World are Failing and What Can be Done About It?* (2007) 39-40.
[8] ibid 121, 162 ; Hvidt, Martin, Economic Diversification in GCC Countries: Past Record and Future.
[9] For example, while Qatar ranks second in terms of global GDP per capita, it still ranks 36th in terms of HDI (UNDP 2013). The Human Development Index (HDI) which takes into account life expectancy, literacy, education, standards of living, and quality of life for countries worldwide.

2: Why Do We Care? Low Incomes and Resource Dependence as Key Drivers of Conflict

The most obvious reason to be concerned about the performance of WANA economies is because of the dire consequences that stem from under-development and poverty. Poor societies rank badly on a range of development indicators including basic education, infant mortality, malnutrition and preventable disease. Another key reason to be concerned is because two of the key drivers of civil conflict are found in these economies:

2.1 Low incomes and slow (or negative) economic growth

Over a five-year period, a typical low-income country faces a 14 percent risk civil war; each percentage point of growth, however, equally reduces the risk of conflict.[10]

2.2 Dependence on natural resources

The main natural resources prevalent in WANA are oil and gas. In Algeria, Iraq and Syria, oil has played a role in conflicts, either by providing a source of finance for rebels (as in the case of Syria) or a 'honey pot' to fight over (as in the case of Iraq and Algeria). It is important to note that when natural resources are sufficiently abundant, the risk of conflict drops, perhaps explaining the stability of the oil-rich states. This is not to say that over-dependence on natural resources is a positive thing; as explained above, rents inflate local currency, skewing export investment and slowing growth. Rentierism also enables governments "to function without taxing the incomes of citizens, which gradually detaches it from what citizens want".[11]

Once civil conflicts start, they have devastating consequences for national economies. On average, civil war reduces a country's growth by 2.3 percent per year; a typical seven-year war leaving a country 15 percent poorer than it would have been without conflict.[12]

> Syrian economic performance in the decade before 2011 was considered impressive; between 2000-2010 real growth averaged nearly 4.5 percent, inflation was running at less than 5 percent and positive external balances allowed an accumulation of international reserves to USD18.2 billion.[13] Today, it is estimated that Syria's economy has been cut in half,[14] throwing the country back to its economic status in the 1970s.[15] Another striking example is Yemen; when conflict engulfed the region in 2011, the economy slipped into recession with GDP contracting by 12.7 percent.[16] Likewise in Iraq, breakdowns in

[10] Collier (n 7) 20.

[11] P Collier *Wars, Guns and Votes: Democracy in Dangerous Places* (2010) 126.

[12] Research by Collier based on cross-country panel date in the last 50 years suggests that the cost of civil wars range from 1.6 percentage to 2.3 percentage of GDP per year of violence; Collier (n 7) 27.

[13] M Khan and S Milbert, 'Syria's economic glory days are gone', *The Atlantic Council,* April 3 2014 <http://www.atlanticcouncil.org/blogs/menasource/syria-s-economic-glory-days-are-gone> accessed 8 August 2015.

[14] S Heller. "The Cost of Civil War: Syria's Economy After Four Years of Conflict" Global Envision <http://www.globalenvision.org/2015/03/25/cost-civil-war-syria's-economy-after-four-years-conflict> accessed 6 July 2015; see also D Butter "Syria's Economy: Picking Up the Pieces." Chatham House 2.

[15] M Lobel, 'Syria's economy cut in half by conflict', *BBC News,* 23 June 2015.

[16] The World Bank, 'Country Overview: Yemen' <http://www.worldbank.org/en/country/yemen/overview> at 11 August 2015

> governance, civil unrest and the rise of Daesh shrank the economy by 2.7 percent in 2014 alone.[17]

At the domestic level, such costs accrue in the forms of direct asset and infrastructure destruction, increased spending on health, policing and security, reduced productivity, and the opportunity costs that flow from governments diverting funds earmarked for socially useful forms of investment to cover military and other conflict-related expenditures.[18] Externally, disruption to trade and reduced investment are the main explanations for lost growth. The World Bank has found that investor risk perception in the first year of a war can reduce trade by between 12-25 percent, and up to 40 percent for severe civil wars (those with a cumulative death toll greater than 50,000, as is the case in Syria).[19] Terrorist violence has a particularly sharp relationship with foreign investment;[20] in Lebanon it reduced foreign direct investment by 26.6 percent between 2012-2013.[21] These impacts last long after fighting subsides; recovering to original growth paths takes around 14 years of peace.

The destruction, slowed growth and weakened civic cohesion that accompanies conflict manifests in increased poverty.[22] Social and economic development is near impossible in the context of war, and war tends to create legacies of crime and violence that are profitable and hence difficult to shed.[23] This relationship has evidential support. Countries experiencing conflict have, on average, a poverty rate 21 percentage points higher than those that are conflict-free.[24] The key issue is that slow growth and poverty — the *consequences* of conflict — are also key *predictors* of conflict. Conflict, reduced growth and poverty hence work in a destructive and mutually constituting cycle. This theory is supported by strong data on conflict recurrence; 39 percent of states emerging from conflict return to war in the first five years, and another 32 percent return to conflict in the following five years.[25]

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[17] 'Iraq's economy: an empty chest', *The Economist,* 21 March 2015.

[18] Military spending typically increases by 2.2 percent during civil war; a civil war reduces a country's average rating on the International Country Risk Guide by around 7.7 points (on a 100-point scale); World Bank, *World Development Report* (2011) 64-65.

[19] id.

[20] ibid 65.

[21] International Monetary Fund, UNCTAD World Investment Report (2014). A key reason why conflict impacts growth so severely is that the costs of war do not end with a cessation of hostilities. Three years after peace, investor risk perception remains 3.5 points lower that non-conflict affected countries and, on average, it takes 20 years for trade to recover to pre-conflict levels; ibid 64.

[22] The World Bank has established that "a country that experienced major violence over the period from 1981 to 2005 has a poverty rate 21 percentage points higher than a country that saw no violence" Saferworld (2013) *Addressing Conflict and Violence from 2015;* see further Figure 1.6, World Bank (n 18) 60-62.

[23] Collier (n 11) 138; Collier (n 7) 33-34.

[24] "People in fragile and conflict-affected states are more than twice as likely to be undernourished as those in other developing countries, more than three times as likely to be unable to send their children to school, twice as likely to see their children die before age five, and more than twice as likely to lack clean water." World Bank (n 18) 5. "Poverty reduction in countries affected by major violence is on average nearly a percentage point slower per year than in countries not affected by violence. After a few years of major violence, the contrast can be quite stark: countries affected by violence throughout the 1980s lagged in poverty reduction by 8 percentage points, and those that had experienced major violence throughout the 1980s and 1990s lagged by 16 percentage points". ibid 60.

[25] ibid 57; "90 percent of the last decade's civil wars occurred in countries that had already had a civil war in the last 30 years" ibid 2.

3: The Economic Case for a WANA Development Bank

As intimated above, the diverse challenges impacting the economics of the WANA region require a diverse set of solutions. Resource poor and conflict-affected states need to make structural changes towards value-added activities (such as manufacturing),[1] and at the same time attract large-scale capital inflow investments to counter unemployment and increase growth rates.[1] For such investment to take place and be effective, however, stability must be consolidated, deficits in opportunity addressed and governance strengthened. Oil exporting countries, by contrast, need to move away from retail, real estate and services and into sectors that generate value-added economic activity, a more inclusive and resilient form of governance will need to be adopted, and a local, high productivity labour force needs to grow.

Economists argue that the way forward is elaborated regional economic integration. Currently, inter-Arab financial linkages principally exist as functions of remittance and aid flows. A healthier driver of economic integration is Foreign Direct Investments (FDI's). The theory is that FDIs foster economic growth and development by bridging the gap between domestic savings and investments and transferring the latest technologies and management know-how from developed to developing economies.

And perhaps the solution lies close to home. While the Gulf oil economies have traditionally directed their foreign investments towards American and European markets, they are increasingly investing their funds closer to home.[26] It is not only the quantity and location of their investments that is changing but also their nature — the pattern is a transition from low-risk to high-risk portfolios.[27]

Facilitating inter-regional investments within the South-South context of the WANA region may unleash unprecedented developmental opportunities. This could be managed through a regional development bank operating on the economic principles of integration, comparative advantage and specialisation. In short such a Bank would link up the account deficits in resource-poor and resource-rich labor-abundant countries, with the record surpluses in the resource-rich countries, creating compatible and mutual opportunities for economic advancement. Poor and conflict-affected economies would receive the investment needed to promote growth, create jobs and raise incomes, thereby bolstering their resilience to conflict; while Gulf States would diversify their markets and move away from the rentier-state model to one that generates productive and sustainable economic activity.[28] This would not be the Bank's only source of funds. *Zakat* contributions and public-private sector partnerships would also feature in the Bank's operational modalities, allowing for broader project opportunities and a range of aid-based development interventions.

3.1 Why a Regional Bank?

Despite its economic, chronic conflict and governance challenges, WANA is the only region without a development bank. Existing development funds, such as the Arab Fund for Economic and Social Development and the Kuwait Fund for Arab Economic Development, operate primarily on a bilateral basis and focus on

[26] At the same time, the region is experiencing an unprecedented trend where a "new phase of integration is characterized by three secular shifts: business is playing a more important role than government, foreign direct investment (FDI) is more important than trade, and the Gulf is a pivotal player. S Hertog, 'The GCC and Arab Economic Integration: a New Paradigm' 14(1) *Middle East Policy* 14 (2007), 53. *Emerging Trends in the regional SWF landscape*, KPMG report (2013). <http://www.kpmg.com/AE/en/Documents/2013/Emerging_trends_in_the_regional_SWF_landscape.pdf>
[27] A Babood, 'The Growing Economic Presence of Gulf Countries in the Mediterranean Region', *Gulf Research Centre, University of Cambridge* (2009): 203- 209.

[28] Despite having massive start-up costs, infrastructural projects, for example, are economically proven to generate consistent financial returns in the long-term. Hence, by making investments in their neighboring countries' sectors that generate value-added economic activity, catering the Gulf's surplus capital towards regional developmental needs, also presents a real opportunity for the Gulf economies to diversify their sources of income for the long-term.

'traditional' sectors of the economy. They do not have a multilateral function nor do they engage both the public and private sectors. There is also an insufficient linking up between policy scholarship on resilience and development and the way these funds operate.

Arguably, a redistribution of WANA resources conducive to development is not possible without the establishment of a regional Bank on the lines of the European Bank for Reconstruction and Development or the Asian Development Bank. Moreover, only a supra-national structure with a development mandate would be capable of facilitating regional integration and spearheading necessary economic, political and social reforms.

3.2 What would the Bank do?

The main mission of the Bank would be to incentivise, finance, and facilitate investment projects that would contribute to the region's developmental needs, and specifically those that would: generate value-added economic activity; create employment opportunities; advance key sectors such as education, manufacturing and infrastructure; and promote cross-border investments and developmental projects.

Second, as the agent linking capital flows to regional development priorities, the Bank would be in a strong position to promote policy and economic reforms. It could do this through conditional investments and financing; i.e. the financing of developmental projects would not only be linked to economic needs, but also to good governance reforms.

Third, the Bank would also act as a hub for critical analysis and region-specific knowledge generation on economic development, policy reform and market restructuring. This regional outlook would provide it with a comparative advantage over other financing mechanisms in guiding loan-making, investments and projects.

Finally, the Bank would go beyond the traditional function of advancing physical infrastructure and economic opportunities, to work on the advancement of 'social' infrastructure, specifically resilience, social cohesion and conflict avoidance. Critically, as the Bank would receive and allocate *zakat* funds, it could also invest in and undertake social redistributive projects, microcredit and other forms of social development financing.

3.3 How would the Bank be financed?

The region's economic challenges are too large and complex to be tacked by a single entity, be it public or private. A bank would most likely require donor government support, but the majority of funds would be Gulf investment, along with *zakat* contributions and public-private partnership investment.

3.3.1 Matching surplus capital to development gaps

Following the unprecedented surge of oil prices in the early 2000's, the Gulf States have accrued unprecedented current account surpluses. Like other oil-exporting countries, these states transformed this oil windfall into financial wealth by setting up dedicated investment funds. With 10 sovereign wealth funds (SWF's) and USD1.7 trillion worth of assets under management, the Gulf States have fast emerged as the world's largest net supplier of financial resources.[29]

These account surpluses have also translated into loans, aid, and even oil shipments (at times of crisis) to their non-oil producing and conflict-affected regional counterparts. Such capital transfers are not, however, profitable. Moreover, because they have not been directed into the sectors that generate the most value-added economic activity, like real estate, they have done little to allow both donor and recipient economies to escape renterism and aid dependency traps, respectively.

[29] Salacanin S, 'GCC Sovereign Wealth Funds Manage over USD 1.7 trillion', *Qatar BQ Magazine,* Doha, December 9th, 2014.

At the same time, the SWF Gulf countries are continuously proving that oil rents can, at times and under certain conditions, generate productive economic activity. Gulf wealth, flowing from both governments and private businesses, has translated into developmental projects both at home and abroad. Gulf capital has financed massive infrastructural and educational projects including Jordan's revamping of the Queen Alia International Airport and the ongoing USD90 billion GCC-wide education boom.[30]

The main purpose of a regional Bank, therefore would not be to mobilise additional funding, but to better direct *pre-existing* capital towards the region's economic and social development needs, providing the Gulf with a profitable alternative and ultimately leading to greater economic, financial, and political integration for the region.

3.3.2 Public-private sector partnerships

The public-private partnership (PPP)[31] model for facilitating infrastructural projects is gaining increased legitimacy in the WANA region.[32] They are a particularly viable option for the resource poor and conflict-affected countries because they occur as an 'off balance sheet' project making it possible for governments to obtain much-needed infrastructure without raising taxation or utilising other public funds. The central element of PPP procurement is how it finances projects; in contrast to corporate finance where the project relies on the strength of the borrower's balance sheet or credit history, credit is extended on the basis of the project's projected cash generation. PPPs bring together a consortium of a host government, private sector investors and lenders to undertake projects that would be too large or risky for an individual entity, be they public or private. Because risk, profit, and power are shared equitably, group financing can allow developing countries to pursue projects to heighten growth and expand their economic prospects. Moreover, the model means that creates strong incentives to avoid and prevent corruption and mismanagement. Finally, the PPP model is a means of overcoming long-standing discord between private business and state interests (which have acted as a major obstacle to the region's political reforms), by incentivising owners of private capital to engage with the region's development agenda. In this case the Bank would act as a linking agent; using its vision to match finance to projects that are most needed and strategic for regional development.

3.3.3 Zakat

Zakat — one of the five pillars of Islam — requires that Muslims to donate 2.5 percent of their wealth above a specified amount to eight specified purposes, the most important of which is support for the poor and needy.[33] In most Muslim countries, *zakat* it is collected and administered by the government. Since the 1980s, however, there has been a trend towards dedicated agencies managing and disseminating *zakat*, as well as private collection mechanisms, such as mosques. The potential volume of annual *zakat* collection is enormous; a 2012 study estimated that USD200 billion-USD1 trillion are spent annually in *zakat* and voluntary charity across the Muslim world.[34] This places *zakat* within the 10 highest donors with respect to Official

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[30] 'GCC to spend $150 billion on education reform,' *AlBawaba News,* 14 July 2014.

[31] The definition of PPP's, as put forth by the European Investment Bank is as follows, a PPP is "a partnership between the public and private sectors pursuant to a long term contractual agreement and covering the design, construction, financing and on-going operation and maintenance of an infrastructure asset". 'Public Private Partnership: Prospects in the Mediterranean Region', *European Investment Bank, Febraury* 17, 2011. <http://www.eib.org/infocentre/events/all/ppp-in-the-mediterranean-region.htm>

[32] Prime examples include but are not limited to: Jordan's QAIA airport, and energy and irrigation projects in Tunisia: http://www.unece.org/fileadmin/DAM/ceci/documents/2013/PPP/High-level_Consultations/10_Tunisia.pdf

[33] While there is extensive debate among jurists and particularly the different schools of Islam, regarding the uses of zakat, the eight popularly accepted categories are: Al-Fuqara: the Poor, Al-Masakin: the Needy, Al-'Amilina 'Alayha: administrators of Zakat, Al-Mu'allafate-Qulubuhum: people who have embraced Islam or who are inclined towards it, Fir-Riqab: those in bondage/slaves, Al-Gharimin: those in Debt, Fi-Sabilillah: in the Cause of Allah, Ibnas-Sabil: the Wayfarer (those who have left home for a lawful purpose and for whatever good reason does not possess enough money to return home.

[34] https://www.linkedin.com/pulse/20140704205505-28147646-zakat-for-development-z4d

Development Assistance, and up to 15 times more than global humanitarian aid contributions.[35]

Despite such potential, *zakat* as a development tool suffers from three major constraints. First, due to deficits in transparency and accountability, *zakat* administration seems to be particularly prone to corruption and embezzlement, especially where cash disbursements are used.[36] Second, *zakat* contributions are increasingly not reaching their potential; whether this is due to ineffective collection mechanisms or skepticism on the part of contributors regarding the efficient use of funds is unclear.[37] Finally, *zakat* distribution generally follows a charity model, with funds used to support to short-term consumption needs of the poor. It is well established that such charitable giving is not an effective means of promoting longer-term, sustainable and inclusive development, and is more likely to entrench poverty traps than close them.

A Bank could act as a vehicle for *zakat* collection and distribution for the purposes of poverty alleviation and social development. A portion of the funds would be retained and re-invested according to *Shari'ah*, with a *waqf* governance structure overseeing the maintenance of such funds and outlining their proper use, allowing the fund to become independent and self-sustaining. A principal objective would be to shift mentality from private *zakat* giving to centralised giving that invests in long-term, evidence- based methods of combating poverty and vulnerability. Such a mechanism would also revive the concepts of sustainable investment and proper management of trust funds embodied in the Islamic *waqf* institution, as well as the original conception of *waqf* as a long-term funding source for public good. There would be several advantages to such an approach. Principally, understanding *zakat* as a sustainable and indigenous mechanism for social development and poverty reduction is preferable to relying on foreign aid, which operates in the same way as rents, whereas *zakat* operates more like a tax, and hence with fewer deleterious economic side-effects.

It should be noted that the Islamic finance model is gaining increased attention and legitimacy in the international arena. Like PPP's, the risk-sharing feature of Islamic finance creates a wider incentive for countries on both the donor and beneficiary end to participate. Unlike traditional loans, any return donor countries accrue on their financial capital is based on investment returns instead of mere interest. This idea of avoiding interest, and instead receiving returns on capital through investments is the pinnacle of Islamic finance.

[35] http://www.globalhumanitarianassistance.org/understanding-role-zakat-humanitarian-response-5087.html
[36] http://tribune.com.pk/story/862165/financial-indiscipline-auditors-say-zakat-system-vulnerable-to-corruption/
[37] Centre of Language and Culture of the Islamic State University of Jakarta (2005) http://www.irti.org/English/Research/Documents/334.pdf)

4: Realising the Bank Concept

The next step in realising the Bank concept is a broader viability assessment that would examine:

- An optimisation rationale for the establishment of the Bank
- An assessment to gauge the interest of WANA states in joining and financing the Bank's mission
- Structural modalities for the Bank's 'think-tank' department, operation and management
- Country-by-country assessment of WANA states to assess investment and development priorities
- Evaluation of zakat collection and disbursement throughout the region
- Evaluation of potential legal frameworks that would establish and protect the rights and duties of all stakeholders