

European Instruments and Programmes Towards Southern Mediterranean

A general overview

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NB I: This is a general overview; most of the information has been obtained from official EC documents. For more complete picture of the ENPI, I may suggest to consult a more specific paper, such that by Battistina Cugusi (*“Lo strumento europeo con i paesi vicini: un nuovo quadro di riferimento per gli attori italiani”*, February 2006).

NB II: With the entry into force of the ENP and its instrument (ENPI) in January 2007, some of the EU instruments towards the Mediterranean Partner Countries here described will disappear at the end of 2006 (i.e. MEDA) and at least, will be necessarily reviewed and redefined (i.e. INTERREG, FEMIP). Nonetheless, a general overview is valuable, since many of the specific and operational parts of the ENP are still under elaboration, and more importantly, they may be largely similar to to-date instruments and programmes.

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1. Introduction: Economic Interests towards the Mediterranean

The European Union (EU) is the largest trading partner of the 10 Mediterranean Partners (50 % of the region's external trade in goods and services), which also owe, for a majority of them, the larger part of their foreign debt to EU Member States. The EU is also a major source of service revenue for the Mediterranean Partners as it accounts for more than 40 % of tourists travelling to the region.

The EU is the Mediterranean region's major donor: Euro 7 Billion in grants during the period 1995-2004. Also, total European Investment Bank (EIB) lending to the region amounted up to Euro 13 Billion for the same period, and has risen since then. The Commission proposed to increase the funding, under European Neighbourhood and Partnership Instrument (ENPI) for the period 2007-2013.

In the present document, I will depict the overall scheme of instruments and programmes of the EU towards the Mediterranean region. In the present section, I introduce the overall policy framework to date, the so-called Euro-Mediterranean Partnership (EMP). The second section articulates the main financial instrument of EMP, the MEDA programme, with particular emphasis on activities encouraging Economic and Financial Co-operation. While in the following one, a brief description of the EIB funding through the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) is provided. In the fourth section, I provide a more in-depth description of the industrial co-operation between the EU and Mediterranean Ministries of Industry. Then, the new framework towards the European neighbouring region (which applies to the Mediterranean Partner Countries as well) is described.

a. The Euro-Mediterranean Partnership¹

The Euro-Mediterranean Partnership, also known as Barcelona Process, is a unique and ambitious initiative that represented a turning point in Euro-Mediterranean relations. After twenty years of increasingly intensive bilateral trade and development co-operation between the EU and individual Southern Mediterranean countries, the Euro-Mediterranean Conference of Ministers of Foreign Affairs, held in Barcelona on 27-28 November 1995, marked the starting point of the Euro-Mediterranean Partnership.

The EMP is a wide framework of political, economic and social relations between the Member States of the European Union and 12 Partners of the Southern Mediterranean (**Algeria**, Cyprus, **Egypt**, **Israel**, **Jordan**, **Lebanon**, Malta, **Morocco**, **Palestinian Authority**, **Syria**, **Tunisia**, and Turkey). The EU enlargement in 1 May 2004 brought two Mediterranean Partners (Cyprus and Malta) into the European Union, while adding a total of 10 to the number of Member States. Turkey has to date status of EU candidate country. Thus, as from January 2007, the Euro-Mediterranean Partnership comprises 37 members (EU25+Bulgary, Romania), 10 of them Mediterranean Partners (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestinian Authority, Syria, Tunisia, and Turkey, the latter as candidate). **Lybia** is not member of the EMP, but it has the status of observer and attends the Foreign Affairs Ministerial meetings, the high level political dialogue meetings, and the Euro-Med Committee (see text box below).

¹ Information has been obtained from: ec.europa.eu/comm/external_relations/euromed

Libya and EMP

Libya is not member of the EMP, but it has the status of observer and attends the Foreign Affairs Ministerial meetings, the high level political dialogue meetings, and the Euro-Med Committee

After a period of difficult relations with the International community, the UN Sanctions against Libya were lifted in 2003. Contacts at political level have been re-established between EU authorities and Libya, but no negotiations for Association Agreement on membership to EMP has been started yet. In 2004, the European Council stated that progress towards a compromise remained subject to Libya's readiness to accept in full and unconditionally the Barcelona Declaration adopted at the Euro-Mediterranean Conference of 27/28 November 1995 and the Barcelona acquis. Accordingly, Libya, though being geographically eligible, Libya has not benefited from financial co-operation under the MEDA programme, nor takes part in the European Neighbourhood Policy.

Currently, main issues at stake are illegal immigration and the case of the Bulgarian and Palestinian medical workers at the Benghazi Hospital's HIV/AIDS infections. While for the former, some steps were undertaken towards a comprehensive approach on management of migration flows, the issue of the five Bulgarian nurses and the Palestinian doctor sentenced to death for injecting hundreds of children with the HIV virus remains as one of the last remaining obstacles between better relations between Libya and the European Union. Particularly now, Bulgaria has joined the EU, and hence, carries more diplomatic weight on the issue. This conflict could overshadow the strategic importance of Libya, especially in terms of energy links.

Source: ec.europa.eu/comm/external_relations/lybia; Council of the European Union, NOTE from the General Secretariat to Permanent Representatives Committee, "Technical Mission to Libya on Illegal Immigration", Brussels, 4 April 2005, 7753/05, "Bulgaria looks to EU for help to free Libya nurses", Financial Times, Published: Jan 01, 2007; "Obstacles remain to lifting Libya death sentence on nurses", Financial Times, Published: Jan 05, 2007.

Compared to previous European approaches towards the Mediterranean region, the Barcelona Declaration is a more integrated approach including both trade and aid as important parts, as well as cultural measures and political co-operation on issues of human rights and democracy.

In 1995, the Euro-Mediterranean partners established the three main objectives of the Partnership:

1. The definition of a common area of peace and stability through the reinforcement of political and security dialogue (Political and Security Chapter).
2. **The construction of a zone of shared prosperity through an economic and financial partnership and the gradual establishment of a free-trade area (Economic and Financial Chapter).**
3. The rapprochement between peoples through a social, cultural and human partnership aimed at encouraging understanding between cultures and exchanges between civil societies (Social, Cultural and Human Chapter).

The Euro-Mediterranean Partnership comprises two complementary dimensions:

- **Bilateral dimension.** The European Union carries out a number of activities bilaterally with each country. The most important are the Euro-Mediterranean Association Agreements that the Union negotiates with the Mediterranean Partners individually. They reflect the general principles governing the new Euro-Mediterranean relationship, although they each contain characteristics specific to the relations between the EU and each Mediterranean Partner.
- **Regional dimension.** Regional dialogue represents one of the most innovative aspects of the Partnership, covering at the same time the political, economic and cultural fields (regional co-operation). Regional co-operation has a considerable strategic impact as it deals with problems that are common to many Mediterranean Partners while it emphasises the national complementarities.

This multilateral dimension supports and complements the bilateral actions and dialogue taking place under the Association Agreements.

As for the Economic and Financial Partnership, along this principle objective, the Barcelona Declaration establishes the following long-term objectives:

- **Acceleration of the pace of sustainable socio-economic development;**
- **Improvement of the living conditions, increase of employment and reduction of the development gap in the Euro-Mediterranean region; and**
- **Regional integration and co-operation.**

The Partners decided to achieve these objectives based on:

- **The Progressive establishment of a Euro-Mediterranean Free Trade Area (EMFTA), with the conclusion of Association Agreements between the EU and the Mediterranean Partners;**
- **Economic co-operation and concerted action in relevant areas**, with the setting up of economic co-operation programmes and the promotion of reforms, including economic reforms;
- **A Substantial increase in the EU's financial assistance to the Mediterranean Partners**, with the establishment of the **MEDA** budget line. MEDA I, for the period 1995-1999, committed Euro 3,435 Million. The financial allocation under MEDA II amounts to Euro 5,350 Million for the period 2000-2006. The European Commission's role in the management of the MEDA Programme is to support the economic transition and modernisation of partner countries and to supply financial and technical assistance where necessary.

EMFTA 2010

In the Barcelona Declaration (1995), the Euro-Mediterranean Partners agreed on the establishment of a Euro-Mediterranean Free Trade Area (EMFTA) by the target date of 2010. This is to be achieved by means of the Euro-Mediterranean Association Agreements negotiated and concluded between the European Union and the Mediterranean Partners. The EMFTA foresees free trade in manufactured goods and progressive liberalisation of trade in agricultural products and services. Together with EFTA this zone will include some 42 States and 600-800 Million consumers, i.e. one of the world's most important trade entities.

The European Commission, being in charge of trade and economic co-operation with the South and Eastern Mediterranean, is responsible for preparing, negotiating and implementing Association Agreements. This generation of Euro-Mediterranean Association Agreements provides for the gradual implementation of bilateral free trade. These agreements cover a large variety of political, security, economic, social, cultural and financial co-operation themes as well as free trade. (See text box)

The **Euro-Mediterranean Association Agreements** are free-trade agreements, but they have a much wider scope. The details differ from one Partner to another, but they contain certain common features:

- Political provisions: political dialogue at various levels and at regular intervals, respect for human rights and democratic principles (the architecture of each Agreement is such that as to enable the suspension in the event of major human rights violations)
- Trade: free trade is to be established in accordance to WTO rules over a transitional period which may last up to 12 years as regards as tariff dismantling by the Partners. Agriculture and services are to be gradually liberalised.
- Economic provisions: these provisions aim at the greatest possible harmonisation between the EU and the Partners. Protection of intellectual property rights, gradual liberalisation of public procurement, adjustment of provisions relating to competition, state aid and monopolies, provisions on the liberalisation of capital movements, economic co-operation in a wide range of sectors (industry, environment, energy, transport, customs, etc).
- Financial co-operation: EU financial assistance is included in the Agreements, except for Israel and Turkey).
- Social and cultural co-operation: Provisions on workers' rights and other social matters, on the readmission of nationals and non-nationals illegally arriving on the territory of one party from the other.
- Institutional and final provisions: An Association Council (ministerial) and Committee (officials) are set up as an arbitration procedure. The Agreements are of unlimited duration and may be denounced with a six month period notice. After signature, each Agreement has to be ratified by the European Parliament, by each EU Member State and the Mediterranean Partner before it enters into force.

It is worth recalling that while the Association Agreements are heterogeneous and do not always specifically refer to the Barcelona process and the MEDA programme but are structured around the three pillars, which are the core of the Barcelona partnership process.

Also, while trade liberalization of agriculture and of services are mentioned in the agreements and both are relevant sectors for the economic development of the region, no relevant advances have been reached in this areas.

Source: EU Commission – DG Relex (website); IEMed (2005): “Diez años del Proceso de Barcelona. Balance y perspectivas”, IEMed, MED2005 Dossier; Youngs, R. and H. Amirah Fernández (Eds.) (2005): “The Euro-Mediterranean Partnership: Assessing the First Decade”, FRIDE and Real Instituto Elcano.

Agreements are negotiated by the EU Commission and each Mediterranean partner. Then they are adopted by the EU Council and the Mediterranean partner concerned. In fact, Agreements have already been signed for all Mediterranean partners over time (between parenthesis, year of signature): Tunisia (1995), Israel (1995), Morocco (1996) , Jordan (1997), Egypt (2001), Algeria (2002), Lebanon (2002) and Syria (2004). After signature, and before it enters into force, each Agreement has to be ratified by all EU Member States and the Mediterranean Partner concerned and obtain the assent of the European Parliament. This explains the impressive delays of their entry into force, more than three years on average. Nonetheless, ratifications and entries into force have progressively been achieved: Tunisia (1998), Morocco (2000), Israel (2000), Jordan (2002), Egypt (2004), Algeria (2005) and Lebanon (2006). Ratification process in Syria is to date on-going still. Finally, an Interim Euro-Mediterranean Association Agreement has been signed with Palestinian Authority (1997) concerning trade related matters, and it is in force since then.

The conclusion or the prospect of conclusion of Association Agreements with the EU has been a catalyst for change in the economies of the region. The opening-up to external competition, in particular with the EU as largest trading partner, has been a factor that has promoted transition and increased awareness of the need for policy and structural reforms in the region.

As well as bilateral "vertical" trade liberalisation with Europe, the Mediterranean Partners are committed to implement free trade among them ("horizontal" or South-South integration). As for example the Arab Maghreb Union (Morocco, Algeria, Tunisia, Mauritania and Libya) and more recently the Agadir Agreement signed in February 2004 by Morocco, Tunisia, Egypt and Jordan. (See text box)

South-South integration matters in terms of market-size, and hence, in terms of economies of scale and scope. It should facilitate the attraction of investments towards better infrastructure among the members. Leaving the doors open to new members, other countries can opt to join the club as their economies catch up and ultimately, will serve to gain access to other markets and a wider range of products at lower prices.

AGADIR PROCESS

The so-called Agadir Declaration was signed in May 2001 and, in February 2004, the agreement for a sub-regional FTA (Med-Arab FTA –MAFTA) was signed by Jordan, Egypt, Morocco and Tunisia. The area is expected to create a market of more than 100 million people, which is expected to create incentives for foreign investors towards the region. This initiative is also significant since it establishes a link between Maghreb and Mashreq countries. The process is open to other Mediterranean countries partners, provided they signatories of Association Agreements with the EU.

It is by no coincidence that it involves these four countries. In fact, the four participant countries were among the most advanced in the EMP Association process - they were among the first to sign the Association Agreement with the EU. Moreover, EU is major commercial partner for all of them. And finally, they all had previously established bilateral agreements among them, which were signed by the second half of the 1990s; but these compromises were not sufficient to boost commercial ties at sub-regional level.

The Agadir Agreement allows Jordan, Egypt, Morocco and Tunisia to cumulate origin to export to the EU duty-free and quota-free. This means that even if Jordanian input into a product is not large enough for that product to be exported freely to the EU, Egyptian, Tunisian or Moroccan input can be added, so that the required value-added percentage is reached and the product can enter the EU market duty-free and quota-free.

Intraregional trade and economic integration is considered an necessary condition for the creation and well-functioning of the EMFTA. Consequently, the EU Commission has provided financial support to the process under the programme “Helping the Association Agreement signatories to develop free trade among themselves and with the EU”. In December 2004, EU and Jordan signed a financing agreement worth Euro 4 million for the creation of a Technical Unit in Amman, which would supervise and coordinate the Agadir Agreement.

Source: EU Commission – DG Relex (website), Youngs, R. and H. Amirah Fernández (Eds.) (2005): “The Euro-Mediterranean Partnership: Assessing the First Decade”, FRIDE and Real Instituto Elcano, and Hamoudeh, M. (2002) : “The Aghadir Process”, XIIth Euro Med Information & Training Seminar for Diplomats, 3rd- 6th May 2002

Pan-Euro-Mediterranean cumulation of origin

Pan-Euro-Mediterranean cumulation of origin² is a significant step towards the establishment of EMFTA. It refers to the initiative launched by the Euro-Med Trade Ministers in Palermo (2003) to extend the system of pan-European cumulation of origin to all Mediterranean partners.

It involves the replacement of the current protocols on rules of origin by the "pan-Euro-Mediterranean" protocol, both in the agreements of the EU with each of the partner countries, and in the agreements between the partner countries. Consequently, this initiative is aimed at reinvigorating trade and economic co-operation among Barcelona partners and other European Countries.

b. Barcelona +10 and ENP

i. Re-launch of the EMP

The 10th Anniversary of the Barcelona Declaration, November 2005, allowed for a comprehensive evaluation of the process and at the same time encouraged a debate on the instruments and objectives of the EMP. The Barcelona+10 Summit concluded with two important decisions: the adoption of a Code of Conduct on Countering Terrorism and a **Work Plan for the next 5 years**.

The Work Plan aims to implement the objectives agreed by the Partners in 1995³. The partners agreed on several issues such as: the Governance Facility to support and accompany political reform; liberalisation of trade in services and agriculture; migration-related issues and the fight against illegal migration, increasing resources for education, establishing a scholarship scheme for university students and promoting gender

²“Rules of origin” are the criteria used to define where a product was made. They are an essential part of trade rules because a number of policies discriminate between exporting countries: quotas, preferential tariffs, anti-dumping actions, countervailing duty (charged to counter export subsidies), and more. Rules of origin are also used to compile trade statistics, and for “made in ...” labels that are attached to products. (World Trade Organisation, Understanding the WTO, Non-Tariff Barriers) This is complicated by the increasing number global production chains, which has multiplied the ways a product can be processed, it passes through several countries before it is ready for the market.

³ Council of the EU (2005): “Five Year Work Plan” adopted in the Barcelona Summit 27-28th November 2005 (Brussels, 15074/05 (Press 327), 28th November 2005)

equality; reinforcing the role of civil society and improving its interaction with Governments and Parliaments.

The Work Programme will allow work in the regional Euro-Med framework to progress in full synergy with and complementary to the bilateral Action Plans developed under the European Neighbourhood Policy. The instruments supporting the implementation of this plan, as well as that of the Association Agreements and the European Neighbourhood Policy Action Plans, is the MEDA Programme (until the end of 2006), the future European Neighbourhood and Partnership Instrument (ENPI) (as from 2007), bilateral contributions from Member States, FEMIP and other relevant financial instruments.

In the last Euro-Mediterranean Conference of Ministers of Foreign Affairs in Tampere, 27-28 November 2006, the new guidelines for action for the implementation of the Work Plan were discussed⁴ and the initiatives for 2007 were approved (see box).

“Tampere conclusions”: EMP, Summary of initiatives for 2007

- Orientation course on European Security and Defence Policy of the European Defence and Security College open to Mediterranean countries willing to participate.
- Euromed Senior officials will launch a discussion on joint co-operation, best practices and exchange of experience in the area of elections in order to take these issues forward.
- Euro-Mediterranean Seminar on the role of the media in preventing all forms of incitement to terrorism through effective and professional communication.
- Euro-Mediterranean Seminar on ensuring respect for human rights in the fight against terrorism in accordance with international law.
- Pursue negotiations on the progressive liberalisation of trade in services and the right of establishment, progressive liberalisation of trade in agriculture, processed agricultural and fisheries products, the establishment of a dispute-settlement mechanism. Invite Euro-Mediterranean Trade Ministers to envisage a Ministerial meeting in the second half of the year.
- Programmes and activities conducted in the EU to promote innovation to the participation of Mediterranean partners and start technical assistance in order to accelerate reforms and regulatory convergence with particular emphasis on the approximation of technical legislation.
- First meeting of the Investment ad hoc group during the first half of the year.
- Euro-Med ECOFIN/FEMIP Ministerial meeting is planned for May 2007 in Cyprus.
- 11th Euro-Mediterranean Economic Transition Seminar in Brussels.
- Euro-Mediterranean Energy Conference.
- Euro-Mediterranean Transport Forum and its working groups.
- The implementation of the Horizon 2020 initiative for the de-pollution of the Mediterranean. A steering group will be established to coordinate the Horizon 2020 initiative.
- Euro-Mediterranean Ministerial Conference on Higher Education and Scientific Research in Egypt. Launching of the scholarship scheme open for university students from Partner countries.
- Euromed workshop on employment policy.
- Euromed workshop on surveillance, control of communicable diseases and health systems.
- A Euromed ad hoc meeting at expert Senior Officials level on the role of women in society.
- 2nd Euro-Mediterranean Ministerial Conference on Information Society in Egypt.
- The Anna Lindh Foundation will launch a series of visible initiatives.
- First meeting of the Euromed Youth Parliament.
- Euro-Mediterranean conference to discuss proposals from ‘Euromed and the Media’ initiative.
- Euromed Ministerial meeting on migration.

Source: Conclusions 8th Euro-Mediterranean Conference of Ministers of Foreign Affairs, Tampere, 27-28 November 2006.

⁴ European Commission (2006): “Communication from the Commission to the Council and the European Parliament: the Euro-Mediterranean Partnership: Time to deliver”, COM (2006) 620 final, October 2006

⁵ European Commission (2003): “Communication from the Commission to the Council and the European Parliament. Wider Europe - Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours”, COM (2003) 104 final, Brussels, 11.03.2003

Southern neighbours, offering them a stake in the Single Market in return for concrete progress demonstrating shared values and effective implementation of political, economic and institutional reforms.

European Neighbourhood and Partnership Instrument (ENPI) will constitute from 2007 onwards the financial assistance instrument of ENP. It will follow the current MEDA and TACIS Programmes in the Mediterranean region and the EU's Eastern neighbours, respectively. Drawing on substantially increased funds, it will support the ENP and its Action Plans. It will have a more innovative component catering for the needs of cross-border co-operation at the EU's external borders.

In section 6 of this paper, a more detailed explanation of ENP and ENPI is provided, with particular focus on identifying its potentials in the Mediterranean region.

2. MEDA

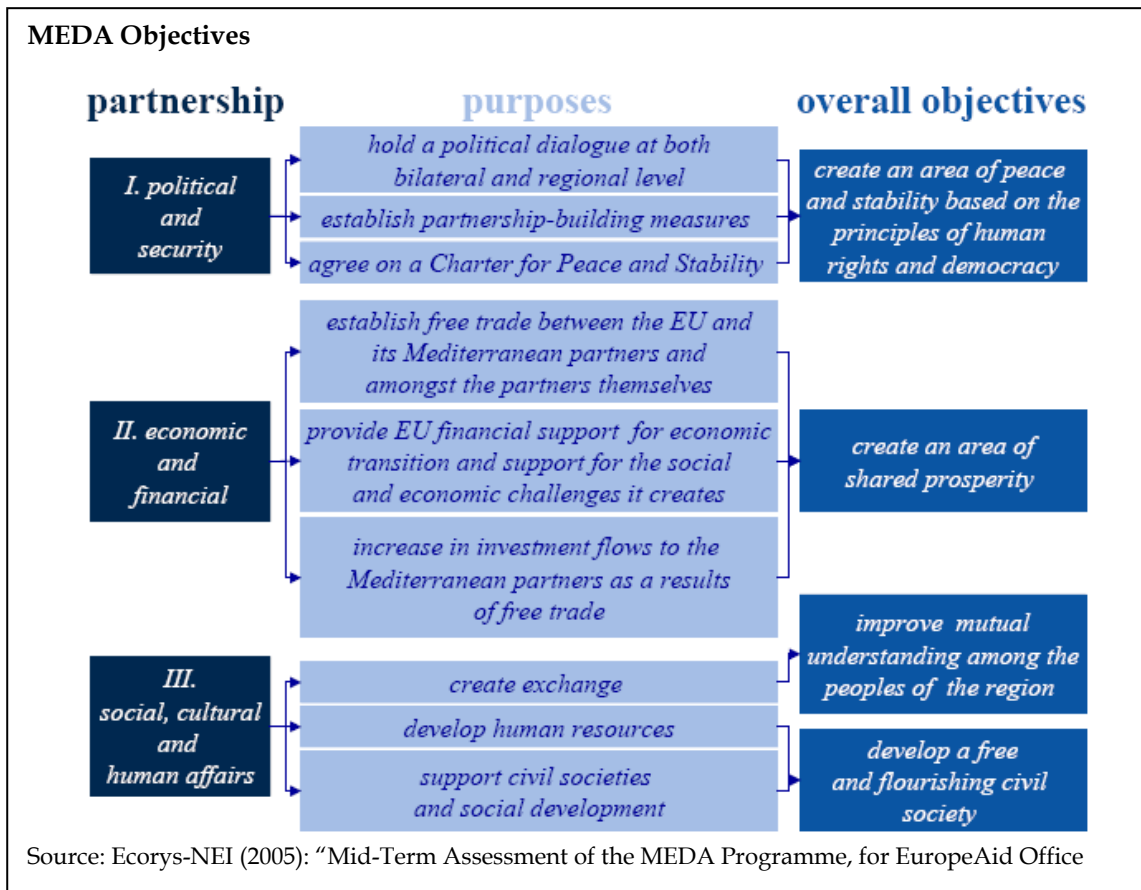
a. From MEDA I to MEDA II

The MEDA programme⁶ (1995-2006) has been to date the main financial instrument of the European Union for the implementation of the Euro-Mediterranean Partnership. After PHARE, it has been the second largest programme for external financial assistance. Indeed, between 1995 and 2006, it has allocated about Euro 8.785 Million.

For the first period of MEDA (1995-1999), the legal basis was 1996 MEDA Regulation (Council Regulation no. 1488/96) and the total budget allocated was Euro 3.435 Million. The so-called MEDA II corresponds to the period 2000-2006, for which a new improved regulation was adopted (Council Regulation (EC) No 2698/2000 of 27 November 2000). The programme's budget amounts to Euro 5.350 Million.

Since its launch, the programme's aim has been to provide technical and financial support the achievement of the goals of the Euro-Mediterranean Partnership by accompanying in the reform of economic and social structures in the Mediterranean partner countries (See box below).

⁶ Information has been obtained from: ec.europa.eu/comm/external_relations/euromed/meda



In line with these objectives, the European Commission's role in the management of the MEDA Programme is to support the economic transition and modernisation of partner countries and to supply financial and technical assistance where necessary. Grants managed by the European Commission are used to finance or co-finance activities, projects or programmes that contribute to the realisation of the MEDA programme's objectives; it can operate in terms of *Budget Support* (financial assistance directly affected to the budget of the beneficiary country, it is granted to support economic reform programmes within the framework of structural adjustment programme), *Project Support* (including projects of technical assistance, training, capacity- and institution-building, seminars, etc; these projects are divided in four types of operations: services, works, supplies and donations), and *Regional projects*. The programme applies to *States, their local and regional authorities public entities, institutions for commercial promotion or private sector development, private entities, cooperatives, associations, foundations, and NGOs*. (See box for more information about the procedure)

The MEDA programme has evolved over time. With the aim of ensuring a direct linkage to the Barcelona Declaration of 1995, MEDA was reassessed after the first years of implementation. Under the amended regulation (MEDA II, 2000-2006)⁷, a more strategic approach was adopted, and decision-making processes were streamlined to increase implementation efficiency. Amongst other things, the programming process was modified to allow for a more comprehensive overview of projects through the introduction of standardised programming documents.

While MEDA I operated on the basis of a single series of programming papers (three-year indicative programmes) and of individual projects, MEDA II used three types of strategy papers at both national and regional level. Specifically: long-term strategic papers (six years), medium-term indicative programmes (three years), and annual financing plans. These plans were foreseeing all projects and actions financed through MEDA. Then, MEDA II assumed that this programming approach could allow the MED Committee, that represents the Member States' interests in the Commission's process of implementing the MEDA Programme, to focus on strategic aspects, while the annual financial plans and simplified contractual

⁷ The amended regulation is the Council Regulation (EC) No 2698/2000 of 27 November 2000. Also, an earlier first amendment, though relatively minor, took place in 1996 (Council Regulation (EC) No. 780/98 of 7 April 1998)

procedures would allow for a shorter timing in proposals evaluation and in project implementation. Ultimately, this ought to contribute to an improved performance of co-operation instruments, as well as increased MPCs' sense of ownership.⁸

Also, improvement of the functioning of MEDA has responded as well to changes at EU institutional level. Firstly, the creation of EuropeAid as Co-operation Office of the EU Commission enabled to increase the effectiveness and efficiency of project management. Secondly, from 2002 to 2003 the decentralization process from Brussels to EC Delegations in third countries took place and has resulted in faster response and higher quality of projects. Bilateral co-operation projects are directly managed from EC Delegations with the support from Brussels.

Procedure of MEDA

MEDA resources are subject to programming: strategy papers covering a four years period are established at national and regional level. Based on these papers, three-year national indicative programmes (NIPs) are drawn up jointly for the bilateral channel through dialogue with the Mediterranean Partners, EU Member States and other donors, and a regional indicative programme (RIP) covers multilateral activities. Annually adopted financing plans are derived from the NIPs and the RIP. The strategy papers, NIPs and the RIP are established in liaison with the European Investment Bank.

The European Commission's External Relations Directorate-General is responsible for drawing up the strategy papers and the three-year indicative programmes. Based on this input, the EuropeAid Co-operation Office establishes the annual financing plans and manages the projects and programmes from the identification to the evaluation phase.

The annual appropriations for financial commitments and payments of the MEDA line in the EU budget are authorised by the budgetary authority (EU Council and European Parliament) on a proposal from the Commission within the limits of the financial perspective.

The beneficiaries of support measures may include not only the Euro-Mediterranean partners but also local authorities, regional organisations, public agencies, local or traditional communities, organisations supporting business, private operators, cooperatives, mutual societies, associations, foundations and non-governmental organisations. EuropeAid regularly publishes information on tender forecasts, notices and awards for service, supply and works contracts as well as calls for proposals for projects to be subsidised: see tender opportunities site.

Source: EU Commission – EuropeAid Office (website)

b. Bilateral and Regional Co-operation

MEDA has both a bilateral level and a regional level. The bilateral is allocated the main share of resources (during the period 1995-1999, some 86 % of the MEDA resources), while 12% was devoted to regional activities. The remaining two percent were set aside for technical assistance offices.

All Mediterranean Partners were eligible for **bilateral co-operation**, except for Israel and Turkey.⁹ Bilateral co-operation covers all three chapters of the EMP. The priorities at bilateral level are determined taking into account the stage of the development of each country's economy and society as well as the capacity of its institutions.

At the bilateral level the priorities for MEDA are:

- support to economic transition: the aim is to prepare for the implementation of free trade through increasing competitiveness with a view to achieving sustainable economic growth, in particular through development of the private sector

⁸ European Commission (2001): "From MEDA I to MEDA II, What's new?", EuroMed Special Feature, Issue No. 21, 3rd May 2001; Ecorys-NEI (2005): "Mid-Term Assessment of the MEDA Programme, for EuropeAid Office. In Philippart, E. (2003) a comparative table (table 3, p. 26) is provided depicting the main changes from one regulation to the other (Philippart, E. (2003): "The Euro-Mediterranean Partnership: Unique Features, First Results and Future Challenges", CEPS Working Paper No.10, April 2003).

⁹ Israel is not a beneficiary of bilateral MEDA co-operation due to its high level of economic development, and Turkey receives bilateral funding from the EU as a candidate to accession. For Turkey, the Enlargement Directorate-General both plans and implements the co-operation activities, which, since 2002, do not come from MEDA, but from a separate financial envelop.

- strengthening the socio-economic balance: the aim is to alleviate the short-term costs of economic transition through appropriate measures in the field of social policy.

On the other hand, regional and multilateral co-operation complements and reinforces the bilateral approach. Like for bilateral co-operation, regional programmes cover the three pillars of the Euro-Med Partnership, but priorities at regional level point towards questions of common interest in accordance to what is foreseen in Barcelona's Declaration. Hence, the regional co-operation aims:

- to be a catalyst to reinforce the effects of bilateral co-operation;
- to intensify "South-South" co-operation (i.e. co-operation among the Mediterranean Partners themselves starting, where appropriate, on a sub-regional basis); and
- to tackle issues that have a transnational dimension (e.g. infrastructure interconnection or harmonisation of standards).

And, while the regional programmes are open to participation of all Partners, they are implemented in a flexible way with individual activities often open to smaller groups of Partners (sub-regional or cluster approach).

c. Economic and Financial Partnership

As explained earlier on, one of the main objectives of the Barcelona Process is the construction of a zone of shared prosperity. This is to be achieved through the progressive establishment of a free-trade area, economic co-operation and concerted action¹⁰.

Financial support was supposed to cover all three chapters of the Barcelona Process. However, in 2000, it was concluded that it was critical to put emphasis in economic and social reform, crucial for a balanced implementation of the Association Agreements (4th Euro-Med Conference, Marseille, November 2000). For that reason, within the Economic and Financial Chapter, MEDA has directed resources to support those reforms leading to an environment more conducive to job creation and economic growth:

a) ECONOMIC DIALOGUE AND ECONOMIC TRANSITION

The EC Commission supports economic reforms through structural adjustment or sectoral facilities in the form of *direct budgetary support*. Moreover, high-level meetings are organised to discuss about major issues concerning economic transition in the Mediterranean region.

This aid is expected to encourage the adoption of structural or sectoral reforms deemed necessary for the economic modernisation of MPCs. Specifically, assistance is granted under the MEDA II regulation and is available directly to the budgets of the beneficiary states to support the implementation of reforms.

The main areas in which reforms have been adopted are:

- macro-economic stabilisation,
- privatisation and de-regulation,
- liberalisation of international trade,
- streamlining of regulations and administrative procedures,
- and improvement of social protection systems.

While during 1995-1998, emphasis was placed on programmes that supported macro-economic stability and the quality of public financial management, programmes have increasingly taken the shape of Sector reform programmes¹¹.

In fact, following the signing and entry into force of the Association Agreements (since 1999 to date), assistance to reform has increasingly been oriented towards sector adjustments (so-called, Sector Adjustment Facilities, SAF) such as public sector services, business environment, transport, telecommunications and water infrastructure, taxation and financial sector, as well as social services. The idea was to support specific sectoral reforms which had already been launched by national governments. Morocco, Tunisia and Jordan

¹⁰ Information has been obtained from: www.euromedinfo.eu

¹¹ European Commission (2005): "Euro-Mediterranean Partnership and MEDA Regional Activities", EuroMed Information Notes, June 2005.

have benefited substantially from these programmes, but so have Egypt and the Palestinian Authority in recent years.

These bilateral actions for economic modernisation include¹²:

In general, programmes of support to the implementation of the Association Agreements are increasingly a standard feature of bilateral programmes under MEDA. One of the main instruments is the **institutional twinning** between public administrations of Mediterranean Partners and the EU Member States. “Twinning” is a recent innovation consisting of EU Member States sending experts to help boost the capacity of Mediterranean Partners’ public administrations. Actually, it is a formula that worked for countries that joined the EU in 2004. It includes short-term specialist services and training, and even traineeships. Twinning is project-based, but it also contributes to building-up long-term relationships. These programmes aim at bringing the public sector of the Mediterranean Partners up to standards that will enable them to fully implement the Association Agreement. Twinning projects have been launched in Jordan, Morocco, Tunisia and Lebanon. (see box below)

¹² On the website of the European Commission’s EuropeAid Office, information on the background of co-operation and main projects is available. Bilateral co-operation between the European Union and the Southern Mediterranean, Near and Middle East countries is presented by country.

Twinning Projects in the Mediterranean Region

Twinning is a tool of knowledge transfer and capacity building, where EU Member States Administrations and Beneficiary Countries Administrations share their experiences in the purpose of enhancing their capacities within wider institutional reforms. In particular, the twinning method was used successfully in the accession countries of Central and Eastern Europe, Cyprus and Malta, as well as in the Balkans. Applied to Mediterranean partners is expected to contribute to the implementation of Association Agreements and keep with the European Neighbourhood Policy approach, through the exchange of experiences, it gives those countries the opportunity to adapt to EU standards and rules.

The two first Twinning Projects in the Mediterranean Region were launched by Jordanian Administration. These two projects are part of the Programme of Support to the Implementation of the EU-Jordan Association Agreement. These two projects are supported by MEDA and involved "twinning" of a Jordanian institution (the Food and Drug Administration and the Ministry of Agriculture respectively) with its counterparts in a number of EU Member States,

Jordan's Food Inspection Services, Food Chain Laboratories, and Veterinary/Phyto-sanitary Services should be then upgraded by means of these two MEDA funded projects

The MEDA allocation is € 1.9 million for the Food Inspection Project and € 1.6 million for the Veterinary/Phyto-sanitary Project. Both projects had a two year duration, starting from January 2005.

In Lebanon, three twinning projects were launched in May 2006. In particular: a project for Institutional Strengthening of the Consumer Protection Directorate (twinning the Ministry of Economy and Trade, Lebanon with NI-CO, Northern Ireland, United Kingdom; budgeted Euro 1.050.000 ; a project for Institutional Building of the Insurance Supervisory Authority (twinning the Ministry of Economy and Trade, Lebanon with the Ministry of Foreign Affairs, Spain; budgeted Euro 995.500); and a project for Capacity Building / Modernisation of the Petroleum Warehousing Operations (twinning the Ministry of Finance / Directorate General of Customs, Lebanon with the Ministry of Economy and Finance / Italian Customs Agency; budgeted Euro 125.000).

In Morocco, three twinning projects were agreed in November 2005. They had to support Morocco in customs administration (twinning project with Italy), sea security (with France) and environmental protection (with Italy). A fourth twinning was agreed later on with France for the capacity building of border-control police.

In Tunisia, in 2006, it was announced that an Italian/French consortia shall be twinned with Tunisian bodies (Organismes de Développement Regional - ODR) for the implementation of a project improving skills related to regional development, specifically: private investment promotion and private/public partnership.

Egypt has more recently signed two twinning projects, while under the new financial framework (i.e. ENPI). These projects are in the sectors of tourism and postal services and were signed in February 2007. Respectively, France for postal services and Austria for tourism have been selected as twinning partners. The overall funds allocated for the twinning program are Euro 27 Million; of which Euro 2, 3 Million will be for the tourism twinning and Euro 1,4 Million euros for the postal twinning.

All twinning projects are carried out under the umbrella of the Programme of Support to the Implementation of the Association Agreements, which involves a Project Management Unit on the ground, one National Contact Point in each EU Member State, and European Commission Delegations in the Partners concerned. Tools made available to the Partners' administrations include a Twinning Handbook, a Thesaurus consisting of project factsheets covering over 300 successful twinings carried out in acceding countries, and a Vademecum for internal procedures

Source: EU Commission, EuroMed Synopsis, Issue No. 242, 2 October 2003; EU Commission, EuroMed Synopsis, Issue No 267, 15th April 2004; EU Commission, EuroMed Synopsis Euromed, Issue No. 338 , 8 December 2005; "Egypt, EU sign first twinning arrangements", Article in Egypt Daily Star, 27th February 2007 EC Delegation in Jordan (website); EC Delegation in Lebanon (website); EC Delegation in Morocco (website); EC Delegation in Tunisia (website).

b) PRIVATE SECTOR DEVELOPMENT AND INDUSTRIAL CO-OPERATION

Over the years, it has been recognised that Private Sector Development is essential for economic growth in MPCs. Once again, the signature and consequent entry into force of Association Agreements with the EU has been expected to act as catalyst for the opening of the economies to foreign competition and hence, to economic change.

Private Sector Development Programmes support is mainly provided through Business Centres and Industrial Modernisation Programmes, and it is extended also to Small and Medium-sized Enterprises (SMEs). All Mediterranean Partners receiving bilateral assistance are actually benefiting from this form of co-operation. For instance, projects have been launched in Morocco and Lebanon to upgrade quality

standards of production to European levels. Other key programmes under the Economic Chapter concern support for the development of the financial sector (for example in Egypt and Algeria) programmes in support of privatisation and private sector participation in infrastructure, as well as trade facilitation programmes.

As it will be described further in detail in the next section, the Facility for the Euro-Mediterranean Investment and Partnership (**FEMIP**) was created in 2002. It is managed by the EIB, and it plays an important role under the economic-financial chapter of the Euro-Mediterranean Partnership. Under MEDA; FEMIP supports risk capital operations, interest rate subsidies and technical assistance. Examples of loans signed by the European Investment Bank (EIB) are: projects to improve waste water treatment and management of water resources in Egypt, Lebanon, Jordan, the West Bank and Gaza Strip, and Morocco; measures to reduce pollution and modernisation of traffic control systems at airports in Algeria; renovation of a train line in Tunisia; post-earthquake reconstruction of infrastructure and industry in Turkey. (Next section provides a more detailed overview of this instrument)

Given the increasing importance conferred to private sector development and industrial modernisation in the Mediterranean region, we dedicate the fourth section of this paper to provide further information on Industrial Co-operation initiatives.

Regional level

The objectives for the economic and financial co-operation at regional level are to conduct a dialogue on the alignment of sectoral economic policies, to foster co-operation between non-governmental entities - chambers of commerce, economic institutes and trade promotion bodies, and to carry out regional projects complementary to bilateral measures. And, in the last years, the overall goal has been to support the setting up of the EMFTA by 2010, including encouragement of sub-regional FTAs.

In order to achieve these goals, regional co-operation is divided into two main areas of activity, each one fostering different programmes:

- a) economic and trade co-operation
- b) social and human development

The European Commission (2005) recalls some interesting programmes under the regional component of MEDA II¹³:

- Euro-Mediterranean SMEs Co-operation, which aimed to encourage links among SMEs and to strengthen the private sector in the Southern Mediterranean and the Middle East. Since 1998, it implemented three types of activities: 1) the participation of Mediterranean companies in Euro-Partenariats, 2) the Med-Partenariats and 3) Med-Enterprise events. This programme was budgeted with Euro 2,8 Million, for 6 years.
- UNIMED Business Network (UMCE). Network to facilitate the exchange of best practices, training and visits exchanges for staff of Mediterranean employers' associations, and to establish permanent communication between network members. Started in 2000, with a budget worth Euro 2,5 Million for 3 years. (See section on Private Sector Participation)
- FEMISE (Euro-Mediterranean Forum of Economic Institutes) network of economic research institutes that assess the social and economic impact of the Euro-Mediterranean Association Agreements and the institutional and economic progress made by Mediterranean Partners towards the Euro-Mediterranean free-trade area and South-South co-operation. The programme has been divided in two phases: phase I (1998-2001) with a total budget of Euro 2 Million, and phase II (2002-2006) with Euro 6,3 Million.
- Euro-Mediterranean Industrial Co-operation: This programme for enhancing Industrial Co-operation in the region managed a budget of Euro 30 Million for a period of ten years. Under this framework, 4 regional programmes were set up: Euro-Med Market (aims at facilitating the establishment of EMFTA, as well as to promote deeper economic co-operation among the Mediterranean Partners); ANIMA (the goal is to increase foreign direct investment (FDI) in the 12 Mediterranean Partners through reinforced co-operation between European and Mediterranean Investment Promotion Agencies); Euro-Med Quality (encourages the development and marketing quality products that can withstand foreign competition and export markets); and Euro-Med Innovation and Technology (the

¹³ European Commission (2005) and EuropeAid's Website.

overall objective is the implementation of a framework to facilitate the development and marketing of innovative products). (See section on Industrial Co-operation)

- Education and Training For Employment, implemented by the European Training Foundation with the aim of reinforcing Education and Training systems in Mediterranean partner countries.
- Euro-Mediterranean Regional Programme for Environment was known as SMAP (Short and Medium term priority environment Action Programme). It had five priority areas: Integrated water management, Integrated waste management, Hot spots, Integrated coastal zone management, and Combating desertification. Financing of the programme under MEDA was structured in three phases: SMAP I (budget Euro 6 Million for three years, starting in 1997); SMAP II (budget Euro 30 Million for four years, starting in 2001); SMAP III (budget: Euro 15 million for three years, starting in 2005).
- Euro-Mediterranean Co-operation in the Energy Sector, following the Energy Action Plan (1998-2002), seven energy projects were launched. The Action Plan comprises two main axes: first, co-operation at political and administrative level aiming to strengthen the institutional and legislative framework of the Mediterranean Partners and to draw up policy guidelines; and second, Industrial co-operation aiming to adapt energy companies to developments in demand, to increase energy efficiency in industry, and to facilitate co-operation among businesses across the Mediterranean. Under MEDA I, the programme had a budget of Euro 13,8 Million, for seven years (starting in 1997). A second phase of three years started in 2005, under MEDA II, with financial assistance worth Euro 4 Million.
- EUMEDIS (Euro-Mediterranean Information Society Initiative), designed to reduce the region's informational and technological gap vis-à-vis the neighbouring countries. It started in 1999 with a budget of Euro 65 Million for 8 years. EUMEDIS provides basic resources for the development of the information society, such as the creation of a network of Mediterranean Information Society Focal Points; and also, funds pilot experiences applying the information and communication technologies.
- Euro-Mediterranean Regional Transport Programme, consisted of several separate projects that would run in parallel for 4 years (start in 2001). With a budget of Euro 20 Million, the programme's general aim is to increase the efficiency of the Mediterranean transport system, and hence, it aims to support priority multi-modal transport infrastructure investment projects that will support an efficient regional transport system

d. Statistics: Assessment¹⁴.

As mentioned earlier on, MEDA I had a total budget to allocate worth Euro 3,435 Billion, while MEDA II was endowed with Euro 5,350 Billion. In the following paragraphs, we will give a look at some data which shall provide us with a picture of the actual relevance and impact of MEDA in the Mediterranean region, as well as its coherence with the EMP objectives. Even if the present document just provides with a general overview of EU instruments towards MPCs, a brief review of some data on MEDA can be useful to complement information presented till now¹⁵.

Policy priorities concentrate in the economic partnership

MEDA II streamlined objectives and increased attention towards issues related to economic transition (liberalisation, privatisation), but also towards social impacts of this process and governance issues

¹⁴Much of the information has been obtained from official Commission documents and in particular, from: Ecorys-NEI (2005): "Mid-term evaluation of the MEDA II programme, Final Report", Ecorys-NEI for EuropeAid Office, July 2005; European Commission (2004): "MEDA II: Reinforced effectiveness", EuroMed Special Feature, Issue No. 41, 18th October, 2004; European Commission (2003): "A First Assessment of MEDA Economic Co-operation", EuroMed Special Feature, Issue No. 36, 23rd April 2003; UMCE/Daif Conseil (2006): "Impact Study of Barcelona Declaration on the Private Sector"; Mañe Estrada, A. and I. Maestro Yarza (2002): "Financiación Euro Mediterránea, Es posible una alternativa?", documentos CIDOB, Diálogos Mediterráneos No. 2.

¹⁵ Also, it is rather difficult to calculate the full impact of MEDA on beneficiary countries, not only because of lack of data on real disbursements for all MPCs over time and the heterogeneity of the bilateral relations, but also due to the complexity in isolating the impact of the programme from other phenomena affecting the development of the region.

(strengthening of democracy, rule of law and civil society). Hence, MEDA II programming included civil society/ human rights, migration and justice and police.

Nonetheless, at operational level, it is generally perceived that the MEDA programme is geared towards the economic partnership goals at the expense of civil-society based initiatives:

“Commission staff do recognise the importance of the political and human partnership but especially EuropeAid is reluctant to give higher priority to funding civil society based projects. This reluctance is based on their assessment that for example Cross-border Co-operation Programmes, as implemented under the Phare and Tacis Regulation are labour intensive to run and have had relatively little impact compared with budget support and large institution and capacity building projects which require similar or even substantially less manpower to manage.” (Ecorys-NEI, 2005: p.46)

This would be in line with the emphasis placed as from 2000 on economic and social reforms necessary for the implementation of the Association Agreements. Hence, MEDA actually focuses on the second chapter of the Euro Mediterranean Partnership¹⁶.

Núñez (2005)¹⁷ also states that this may be also a conscious choice of the Commission herself, on the grounds of preference for stability in the region.

Bilateral component shows mixed results while Regional Component is a relative success

Bilateral co-operation shows mixed results. While this could indicate that the European Commission’s support may have neglected existing political and cultural barriers to reform (Ecorys-NEI, 2005), it also shows the different evolution of the bilateral relationship of the EU with each of the MPCs. In fact, the Association Agreements have been favoured as the basis from which guide MEDA assistance towards areas relevant to the implementation of this agreements. On the other hand, this may have limited MEDA programmes to less sectors than foreseen under the Barcelona Declaration.

Regarding the regional component of MEDA, the evaluation by Ecorys-NEI (2005) points that it has evolved positively, especially considering the political difficulties and outstanding heterogeneity across the region. Its interventions have gained focus and it has managed to establish regional networks and productive relations.

MEDA I to MEDA II: Commitments to Payments show improvement

At financial level, MEDA II has performed better than MEDA I for the period 1995-2004. From data in the table here below, the MEDA Programme produced total actual commitments of Euro 6.156 Million for the period 1995-2004, with payments of Euro 3.261 Million during the same period. And of these, Euro 2.386 Million corresponded to payments of MEDA II, compared to Euro 875 Million under MEDA I. Hence, after the first five years of MEDA II (2000-2004), total amount paid was already more than double than total paid during all MEDA I (1995-1999).

While average annual commitments are similar under MEDA I (1995 – 1999) and under the first five years of MEDA II (2000- 2004), at Euro 613 and Euro 618 Million respectively, respective year-to-year evolutions show different paths. Under MEDA I the programme started up gradually with Euro 173 Million in 1995, to peak at Euro 912 Million in 1997. Conversely, annual commitments under MEDA II were more even, varying between Euro 569 Million (2000) and Euro 697 Million (2004).

MEDA I vs. MEDA II, Commitments and Payments			
Year	Commitments Million Euro	Payments Million Euro	P/C %
1995	173	50	29
1996	370	155	42
1997	911	208	23
1998	809	222	27
1999	797	240	30

¹⁶ Tejada Chacón, L. (2000): “La Cooperación MEDA en el período 1995-1999”, Boletín Económico de Información Comercial Española, No. 2655, 2000

¹⁷ Núñez Villaverde, J. A. (2005): “Las relaciones de la UE con sus vecinos mediterráneos. Entre la frustración y la esperanza”, Icaria Editorial-CIDOB edicions, Enciclopedia del Mediterráneo.

Total MEDA I	3.060	875	29
2000	569	315	55
2001	603	318	53
2002	612	454	74
2003	615	498	81
2004	697,6	801,1	115
Total MEDA II	3.096	2.386	77
Source: European Commission (2005): EuroMed Info Notes Note: This table does not include amounts for Turkey.			

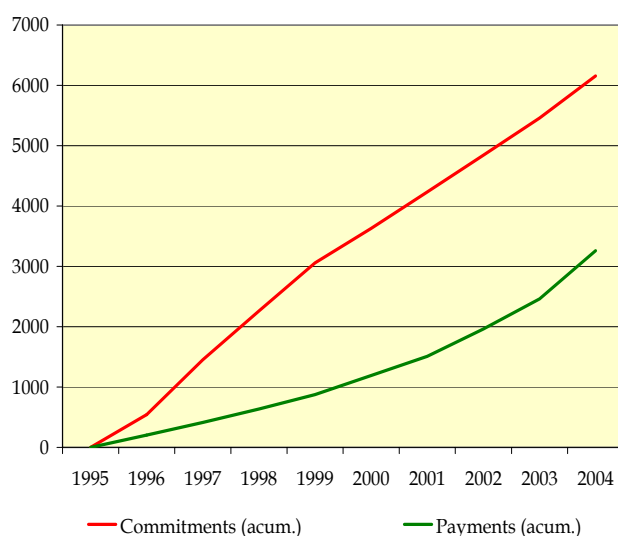
Payments-to-commitments ratio is an indicator usually referred by the EC Commission to value the performance of the programme. It is considered a more tangible indicator of the actual realisation of investment projects on the ground and for the efficiency of the programme. From MEDA I to MEDA II, the ratio increased from 29% to 77%. Moreover, the increase has been continuous over MEDA II, from 55% in 2000 to 115% by the end of 2003. Finally, 2004 is a record year for both payments (Euro 801,1 Million) and the payment/commitment ratio (115%).

Another indicator used is the **outstanding balance**, known as “**RAL**” (French initials for “Reste À Liquider”). It indicates the insufficient implementation of a programme. A high RAL means that there is an excessive share of funds committed but *not used in a normal time-frame*. The latter is defined in relation to a project’s scheduled period of implementation. Specifically to MEDA, Richard Weber, EuropeAid¹⁸, notes that: “The average amount for projects within the MEDA Programme is around Euro 10 Million, and the life of those projects is 4 to 5 years on average. The bad and abnormal “RAL” that should not exist thus corresponds to projects for which commitments remain partially unused after 5 or 6 years.” (2004: p. 2) Thus, among EU programmes for external assistance, MEDA I was one of the programmes with higher RAL figures, but MEDA II has managed to bring RAL to residual levels. In fact, Weber (2004: p.2) continues: “The problem of “bad RAL” has been virtually eliminated. We have a € 3 billion portfolio of on-going projects overall, to be seen in connection to a total amount of some € 700 to 800 million of annual commitments. Thus the current portfolio is equivalent to 4 years’ to 4 years ½’s annual commitments, which correspond to the average duration of a MEDA project. Therefore there is perfect correspondence between on-going commitments and the commitments you would expect to see, considering the normal duration of projects.”

Looking at the graph below, this acceleration of the payments over time can be observed. First, growth of commitments preceded growth of payments: while commitments were already peaking by 1997, payments really took off under MEDA II. But, in 2004, the Commission effectuated the largest payments amount in the ten years history of the MEDA programme. And, hence, as payments exceeded new commitments, also the cumulative RAL amount decreased over time.

¹⁸ European Commission (2004), op. cit.

Cumulative payments and commitments
1995-2003, Million Euro



Source: Own elaboration on the basis of Ecorys-NEI (2005: p.57)

Here below, data at country level show that while for West Bank Gaza (WBG), Syria, Algeria, Morocco and the regional activities commitments increased from MEDA I to MEDA II, they decreased for Egypt, Jordan, Lebanon and Tunisia. On the other hand, the evolution of payments to commitments has improved for all, especially in Egypt, Jordan, Lebanon and Tunisia.

MEDA I to MEDA II, Commitments and Payments,
by Countries, Million Euro

		MEDA I (1995-1999)			MEDA II (2000-2004)		
		Commit.	Paym.	P/C %	Commit.	Paym.	P/C %
Bilateral	Algeria	164	30,2	18	232,8	74,7	32
	WBG	111	54	49	350,3	327,6	94
	<i>Egypt</i>	686	157,1	23	353,5	360,1	102
	<i>Jordan</i>	254	108,4	43	204,4	242,6	119
	<i>Lebanon</i>	182	1,2	1	73,7	103,4	140
	Morocco	656	127,6	19	677,1	443	65
	Syria	99	0	0	135,7	39	29
	<i>Tunisia</i>	428	168	39	328,6	317,7	97
	TOTAL	2580	646,5	25	2356,1	1908,1	81
Regional		480	228,8	48	739,8	477,8	65
Total		3060	875	29	3096	2386	77

Source: Own elaboration with data from European Commission (2005)

Overall, MEDA's financial efficiency has improved. Explanation can be found not only in the above-mentioned amendments in the MEDA regulation, but also in changes in the management of EU external cooperation. Shorter timings were probably achieved thanks to a more streamlined programming with the MED Committee focusing on strategic aspects, and simplified annual financial plans and contractual procedures. According to Ecorys-NEI (2005), these improvements could respond to an increased use of the budget

support instrument and less bilateral technical assistance programmes. (See further below) These changes were complemented with structural reforms undertaken by the European Commission to improve its external assistance, especially with the creation of EuropeAid Office in 2001 and the decentralisation process started in 2002¹⁹.

Changes in delivery instruments can also explain evolution of results

From 1995 to 2004, there have been changes in delivery instruments of MEDA that could also explain why MEDA appears to have improved its financial efficiency.

Firstly, from MEDA I to MEDA II, (bilateral) budget support operations and regional programmes were committed more resources relative to “traditional” project support programmes. In the table below, the share in the total co-operation of bilateral ‘traditional’ programmes based on project support including technical assistance decreased from over half during MEDA I to roughly a third during MEDA II. The corresponding growth took place mostly in (bilateral) budget support operations but also in the regional programme.

Earlier on it was mentioned that, since 2000, there has been increased focus on the signature and implementation of the Association Agreements with all MPCs. Apparently, this appears to favour budget support through Structural or Sectoral Adjustment programmes over those based on project support²⁰. In fact, MEDA assistance itself is often viewed by MPCs as an incentive for the signature of these agreements (Natorski, 2005²¹). According to the European Commission (2003), MPCs perceive assistance through budget support as a means to compensate for costs incurred in the implementation of such agreements, mostly facing costs of tariff dismantling and privatisation programmes. This could be in line with the emphasis on economic chapter of the Euro Mediterranean Partnership, in view of promoting political change through decentralised co-operation by supporting economic reforms that empower those groups that favour economic liberalisation (Tejada Chacón, 2000: p.10²²).

However, **structural adjustment operations** are traditionally criticised because they tend to cause constraints to partners and most of the times they do not manage to pursue deep and radical reforms. Furthermore, they may overlap with assistance of other international institutions and their emphasis on economic modernisation does not match with the holistic approach adopted under the Barcelona Declaration. Also, the Commission had not appropriate evaluation mechanisms to assess the impact of these operations. (Tejada Chacón, 2000; Mañe and Maestro, 2002; Natorski, 2005)

Still, the EC services²³ argue that these programmes could be suitable in those situations in which the MPC has already reforms featured on their own agendas. Moreover, at operational level, this type of assistance has the advantage of a faster disbursement and less contractual procedures than those applied to project support. Particularly, direct assistance to privatisation processes can also be a means to increase transparency: tranches of structural adjustment earmarked for privatisation can be refrained from disbursing in those cases where privatisation is not pursued in a transparent manner. This acts as a signal not only to other international assistance institutions, but also to the financial markets.

Secondly, demands for increased efficiency of delivery instruments also referred to reinforce the complementarity between MEDA and EIB support. In the table, we note that the share of EIB operations has been stable, hence, gains in efficiency have been pursued through changes in their composition - mostly, decreases in risk subsidy programmes with increases in risk capital operations). (See next section for more information about EIB operations in the Mediterranean)

¹⁹ Since May 2000 the European Commission has been carrying out a radical transformation of its assistance, including programming, adoption of a more integrated approach to project cycle management (from programming to final evaluation), the dismantling of the existing eighty Technical Assistance Offices (TAOs), the creation of a EuropeAid Co-operation Office (2001) and the devolution of project/programme management tasks and responsibilities to Delegations (2002-2004). And also, it has aimed at a better balancing between important projects (related to major reforms in Mediterranean Partners) and more classical TA projects and to give extra emphasis given to partnership decision making has ensured greater ownership of the beneficiaries.

²⁰ European Commission (2003), op. cit.

²¹ Natorski, M. (2005): “El Programa MEDA como instrumento de la Acción Exterior de la Unión Europea: Caso de Marruecos”, Intervention presented at the 1st Congress of Researchers specialised in Arab and Muslim issues, Barcelona, 17-19 March, 2005

²² Tejada Chacón, L. (2000): op.cit.

²³ “A First Assessment of MEDA Economic Co-operation” (2003), op. cit., op. cit.

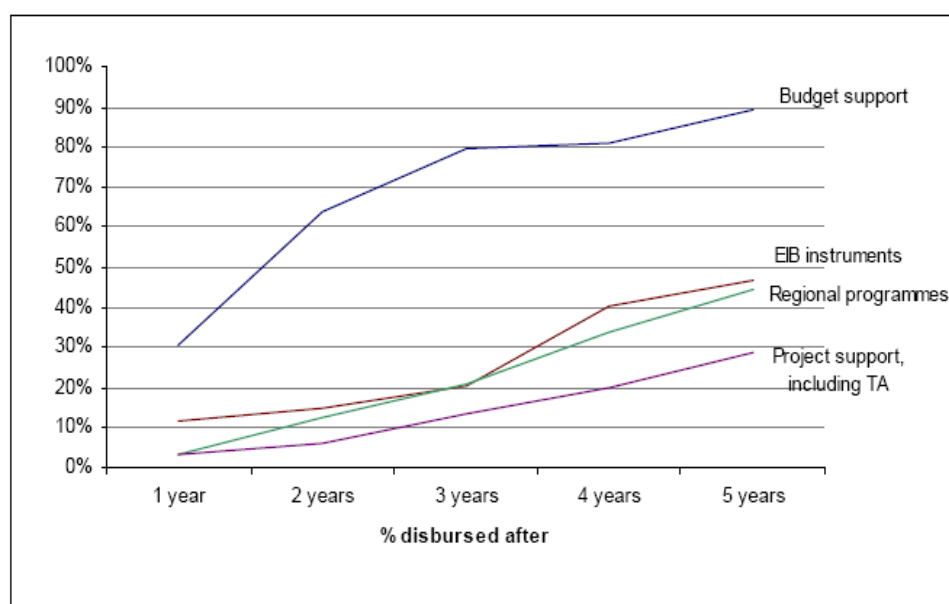
Commitments per instrument, in million €

Commitment year	Project support		Budget support		Regional, non-EIB		EIB		Total	
	M€	%	M€	%	M€	%	M€	%	M€	%
1995	60	46%	0	0%	58	45%	12	9%	130	100%
1996	118	33%	200	56%	20	6%	20	6%	357	100%
1997	542	63%	175	20%	56	7%	90	10%	863	100%
1998	464	61%	175	23%	23	3%	104	14%	765	100%
1999	334	44%	271	35%	117	15%	43	6%	765	100%
2000	111	21%	232	43%	108	20%	86	16%	537	100%
2001	90	17%	200	38%	178	34%	59	11%	526	100%
2002	377	63%	180	30%	19	3%	25	4%	601	100%
2003	199	35%	299	52%	55	9%	22	4%	575	100%
2004	256	37%	254	37%	94	14%	81	12%	684	100%
Total MEDAI	1.517	53%	821	29%	273	9%	269	9%	2.880	100%
Total MEDAII	1.032	35%	1.165	40%	454	16%	273	9%	2.923	100%
total	2.548	44%	1.986	34%	727	13%	542	9%	5.803	100%

Source: Ecorys-NEI (2005: p.37)

Thirdly, there are significant divergences in disbursement between different instruments, as the figure below shows. Despite general improvement between commitments and disbursements from 1995 to 2004, disbursement patterns show that while project support (including technical assistance) commitments disbursed 29% on average during the first five years, budget support programmes reach 89% over the same length of time. As indicated earlier on, budget support is disbursed much faster than other instruments. Both the regional activities and the EIB funds disburse faster than bilateral project support, that remains that one with longer timings. The case of EIB funds is explained by specificities of programme design, which anticipate long implementation periods.

Disbursement patterns of the different MEDA instruments (average 1995-2004)



Source: Ecorys-NEI (2005), p.61

Some concluding remarks

In conclusion, despite the improvements achieved in the last period, there is still scope for improvement the European Commission's assistance to the Mediterranean region. In fact, MEDA funding levels have been low compared to the ambition levels of the EMP. Despite high level commitments to the achievement of the goals in all three pillars of the Barcelona Declaration and always increasing geo-strategic relevance of the Mediterranean neighbourhood, the average amounts per year available for programming in MEDA II are not higher than under MEDA I. Yet, even if more funds could reinforce moves towards deep reforms, it is also true that the Commission services are often uncertain about the feasibility of implementation.

Moreover, at operational level, it seems that financial disbursement of the individual bilateral project support has not improved as it was expected given the changes in MEDA regulation and European Commission's organisational improvements, mentioned above. According to the evaluations by Ecorys-NEI (2005) and UMCE, (2006), this suggests that certain barriers have not been tackled. Also, there is a direct relation between quality of programming, the feasibility of programme formulation and the absorption capacity of funding, which is different from one beneficiary country to another.

Therefore, future interventions in the Mediterranean region require improving programming quality and feasibility assessments, which should enable to strengthen the dialogue, encouraging more commitment and ownership.

Further donor coordination and MPCs' commitment/ownership should be pursued, as this would improve the overall programme relevance and free more resources for cross-cutting themes (e.g. governance, diversity/gender equality, inclusion, poverty abatement and environmental sustainability).

Finally, it is worth recalling once again that MEDA was substituted by ENPI as from January 2007. Besides, any assessment of European instruments towards the Mediterranean region needs to take into consideration exogenous factors, such as cultural and political issues, as they probably explain for a large share of the reform disparities and differences in financial disbursement patterns across the region. And also, the efficiency and effectiveness of these instruments is also affected by factors common to all EU assistance programmes, such as the delays caused by the institutional framework on the financial regulation.

	Morocco	Egypt	Tunisia	Jordan	WBG	Algeria	Lebanon	Syria	Regional
Population in 2000 (Millions)	28,7	63,8	9,6	5	3	30,6	3,5	16,1	160,3
GDP per capita in 2000 (USD)	1217	1490	2210	1680	1381	1590	4810	990	1529
Total commitments MEDA I 1995-1999 (Million €)	659	685	428	254	111	164	182	101	480
Average commitment per year MEDA I (Million €)	132	137	86	51	22	33	36	20	96
Total commitments MEDA II 2000-2004 (Million €)	675	353	328	204	349	232	73	135	739
NIP 2005-06 (Million €)	275	243	144	110	-	106	50	80	205
Total MEDA II 2000-2006 (Million €)	950	596	472	314	-	338	123	215	944
Average per year MEDA II (Million €)	136	85	67	45		48	18	31	135
Average per year per inhabitant MEDA I (€)	4,59	2,15	8,93	10,17	7,39	1,07	10,41	1,25	0,60
Average per year per inhabitant MEDA II (€)	4,73	1,33	7,02	8,97	-	1,58	5,02	1,91	0,84

Source: Ecodyc-NEI (2005)

Note: Total figures may differ from previous table as these data are based on project lists and not on official totals provided by EuropeAid.

3. EIB- Mediterranean/FEMIP

FEMIP was set up in response to the conclusions of the Barcelona European Council (15-16 March 2002) and Valencia Euro-Mediterranean Conference (22-23 April 2002). In October 2002, it was created the so-called FEMIP (Facilité Euro Méditerranéenne d'Investissement et de Parténariat). In view of the EIB's 30 years experience in Mediterranean Partner Countries (MPCs)²⁴, the Council decided to entrust the setting up and management to the EIB. Since its set up, FEMIP has established itself as a sort of proto-“Euro-Mediterranean Development Bank” (see text box below), striving to foster economic and social modernisation and enhanced regional integration in the partner countries.

Previous experience of the EIB in the Southern shore of the Mediterranean begun in the late 1970s. A series of Co-operation Agreements were signed between the European Community and Mediterranean Partner Countries (MPCs), and they included bilateral Financial Protocols providing for loans from the EIB and grants from the aid budget of the European Commission. In 1992, the Horizontal Financial Co-operation Programme was adopted as an instrument for reinforcing financial assistance to the region. This facility provided for additional financing on EIB own resources and risk capital finance on a “first come first served” basis and was implemented in parallel with the balance of funding under the Third Financial Protocols.

The Barcelona Declaration established a framework for broader and deeper co-operation. As far as the Bank was concerned, it resulted in a new Mandate for operations in the region, as the former Financial Protocols were replaced by the EUROMED resolution. The EUROMED I Mandate covered the period 1997-2000 and established a ceiling on own resources financing of EUR 2.310 million for the period. This mandate was followed by EUROMED II covering the period 2000-2007 and the ceiling on own resources finance was extended to EUR 6.425 million. In addition these mandates include risk capital financing and interest subsidies for environmental projects.

Following the conclusions of the Presidency of the Nice Council in 2000, the Bank was invited to finance projects of mutual interest between EU and Partner countries without recourse to the EU guarantee for political and commercial risk (up to EUR 1 billion).

In 2002, the European Council called for a further initiative in the Mediterranean region, as results FEMIP was created, with special focus on private sector development in the region.

The products at disposal under FEMIP are: loans, investment capital (equity and quasi-equity); and grant aid for technical assistance. All EIB's lending in the Mediterranean Partner Countries is provided under FEMIP. The latter is allocated EIB's own funds (under the existing Euro-Mediterranean mandates allocated by the Council) and MEDA resources (which sustain risk capital and technical assistance and investment aid).

a. Objectives

FEMIP's goal is to support Mediterranean partners to cope with the challenges posed by their processes of economic and social modernization. Hence, the FEMIP has two priority objectives: **private sector development and creation of an investment-friendly environment.**

FEMIP finances projects carried out by the private sector, whether in the form of local initiatives or foreign direct investment. Hence, it is active in infrastructure projects (energy, transport, communications), in investments in human capital (health, education, social housing) and also in projects for environmental protection. For instance, it recognises the importance of access to capital for SMEs and also of sustaining the processes of reform and privatization of MENA countries.

FEMIP also endeavours to enhance regional integration in the run-up to the creation of EMFTA by 2010. And thus, it promotes greater dialogue with all those involved in the Euro-Mediterranean financial partnership, both on the institutional front and with the representatives of the private sector and civil society.

First year of operations brought satisfactory results, and the European Council (December 2003) decided to further reinforce FEMIP, especially its support to private sector development. It had been assessed that

²⁴ Mediterranean Partner Countries: Algeria, Egypt, Gaza and the West Bank, Israel, Jordan, Lebanon, Morocco, Syria, Tunisia, Turkey

economic growth in the region was hindered by uncompetitive and weak private sectors²⁵. In particular, all newly introduced features under the so-called “Reinforced FEMIP” aimed to foster productivity:

- stepping up financial support in the region through a special facility for risk financing for the private sector (the SFE) and by setting up a trust fund;
- diversifying the range of financial products offered, notably by seeking possible ways of providing local currency financing;
- intensifying dialogue with the MPCs by organising meetings of the Committee of Experts to prepare the ground for the deliberations of FEMIP’s Ministerial Committee and by establishing local offices in the Mashrak where the Cairo office was established in June 2003 and, some time in 2004, in the Maghreb²⁶.

b. FEMIP’s Financial Products

1. Medium- and long-term loans

Multi-sectoral, medium- and long-term loans are available for those productive investments that contribute to the economic linkages between MPCs and EU and foster local socio-economic conditions and business opportunities. Under EIB’s external mandate, loans aim at fostering development of MPCs economic infrastructure, with special emphasis on private sector development and the creation of a business “enabling environment”. Under the article 18, loans point to finance large infrastructure projects of common interest to the EU and MPCs which also foster regional integration. For both, private and/or public, large scale investments (over Euro 25 Million) can be eligible for EIB financing. The EIB directly manages the loan, which can cover up to 50% of the investment costs. The EIB never finances more than 50% of the total project cost, but the involvement of the EIB can act as a catalyst, encouraging other banks, financial institutions and the private sector to participate in an investment.

In the industrial sector, the maturities are set up to 12 years, and for infrastructure projects 20 years, or more in exceptional cases. Loans may be disbursed in one or more currencies, depending on the borrower’s preferences. Repayment is structured in semi-annual or annual payments. Rates can be fixed, variable or revisable. Finally, neither processing, commitment nor any other fees are charged.

2. Global loans

Global loans are loans for SMEs through an intermediary. These are credit lines made available to intermediaries (i.e. banks, leasing companies or financial institutions), which on-lend the proceeds for small or medium-scale investment projects meeting the EIB's criteria. Local authorities can also use this instrument for small-scale infrastructure projects.

The projects that can be sustained by this instrument are new capital investment projects worth up to EUR 25 million (it funds a maximum of EUR 12.5 million and up to 50% of the investment costs), undertaken by SMEs or, in the case of small infrastructure projects, by local authorities. In particular, it is directed towards corporate investment, especially by small and medium-sized industrial and service companies, investment in advanced technologies, R&D projects, rational use of energy, environmental protection, water supply and sanitation projects, other infrastructure projects, particularly in regional development areas. The loan conditions and costs are determined by the respective EIB partner bank; typically, maturities range between 5 to 12 years.

²⁵ European Commission (2003): “Communication from the Commission to the Council. Shaping Support for Private Sector Development in the Mediterranean”, Brussels, 16.9.2003, SEC(2003).

²⁶ Acknowledging that the participation of MPCs in FEMIP’s implementation was positive for the commitment and ownership to the Facility’s projects, MPCs have received a more enhanced role to the Facility’s Ministerial Committee. Furthermore, the FEMIP has expanded its local presence by adding during 2004 two new offices in Rabat and Tunis to the existing Cairo office, inaugurated in September 2003, and by forging close links with the business communities in the Partner countries as well as in Europe.

3. Special FEMIP Envelope ('SFE')

The Special FEMIP Envelope was introduced in 2003. SFE operations enable to finance selected private sector operations in MPCs that have a higher risk profile than the one accepted under "standard" EIB operations. The utilisation of this product was made necessary by the average high risk profile of the MPCs, substantially greater than in the EU area, and by the general difficulty experienced by local private sponsors' in accessing guarantees of high rated third parties.

These arrangements through the provision of risk capital funds from the Community budget, managed by EIB, allow to compensate for the statutory limitation of the EIB, for which cannot equity funds from its own resources.

Specifically, the "Special FEMIP Envelope" (SFE) aims at reinforcing the Bank's support for the private sector in the MPCs by dedicating up to Euro 200 Million from the Bank's reserves to allow for extended risk-sharing operations under FEMIP. Ultimately, this risk capital financing is expected to strengthen companies' equity and act as an ongoing catalyst for joint ventures; risk capital also underpins the establishment of local investment and equity funds.

Target beneficiaries of the SFE product are:

- Banking intermediaries (especially sophisticated local private banks which do not benefit from State guarantees) for global loan co-financing of smaller operations in key sectors;
- Established industrial and tourism companies, located in MPC or elsewhere, investing in the region;
- Selected industrial and infrastructure projects, where a third party guarantee of the credit standard/duration required for "normal" operations is not available

To cover for the additional risk of these operations, the SFE loans are priced according to the risk, and there is a special reserve of EUR 100 Million (which should enable to cover loans up to around EUR 500 Million).

4. Risk Capital

a. Risk Capital Facility

The Risk Capital Facility aims at promoting the creation or strengthening of the capital base of productive enterprises, particularly those borne out of partnerships with EU-based companies. Beneficiaries are medium companies, SMEs, investment funds and microfinance institutions.

This facility is active in a wide range of productive sectors, through several types of operations: direct equity participations, possibly as co-investments with local banking partners, quasi-equity type operations (e.g. convertible, participative loans), equity participations in venture capital / private equity funds (fund of funds activity), as well as participations in guarantee funds or privatisation initiatives, or in "seed" capital funds. Finally, the facility also supports the creation and development of micro-finance institutions.

b. FEMIP Trust Fund for Private Sector Development

The FEMIP Trust Fund (FTF) is operative since 2005 and results from the reinforced FEMIP 2003. It was conceived to complement the Risk Capital Facility. Indeed, it is constituted as a multi-donor (built up with voluntary contributions from EU Member States), multipurpose, and multi-sector trust fund whose main objective is to support Private Sector Development (PSD) in the MPCs. It is structured in two windows, one for equity and quasi-equity for Private Sector Development and a second one, for Technical Assistance (see next). Certain priority sectors have been identified, namely: water, transport, electricity, human capital.

FTF for PSD operates through local financial and banking sector in FEMIP's partner countries. The beneficiary is required to invest in private sector growth companies, providing them with strategic guidance and investment, as well as with operational expertise. The risk-capital participation is operated through seed capital, injection of equity into privatised industries. Furthermore, the EIB, which is represented on the Boards of Directors of this intermediary, supports the development of private equity and widens the resources to fund local private enterprises.

5. Technical Assistance

In June 2002, the Commission pledged a package of EUR 105 million Technical Assistance (TA) to support FEMIP projects over the period 2003-2006. This package implies a considerable increase of funds devoted to

technical assistance (from EUR 3 million before FEMIP) to EUR 25 million annually under FEMIP. Between 2004 and 2005, 46 technical assistance operations for an overall value of Euro 35,1 Million were contracted. Approximately 70% of these funds were allocated to the infrastructure, water and wastewater sectors, reflecting to a large extent the Bank's traditional areas of activity in the region. Private sector support, mainly directed at strengthening the lending capacities of intermediary banks for global loan operations and setting up new investment funds, absorbed 30% of the available resources.

a. TA Support Fund

The Support Fund uses non-repayable aid granted by the European Commission in support of EIB investment activities in the Southern Mediterranean countries, assisting promoters during different stages of the project cycle. The objective is helping the FEMIP partner countries and private promoters to better implement and upgrade their investment projects, while strengthening the management capacities of local partners in the medium and long term.

TA is provided through:

- Studies or targeted activities upstream of lending operations in the areas of legislative, regulatory and institutional reform, privatisation aimed at strengthening the private sector, the award of concessions and training.
- Pre-feasibility or feasibility studies for investment projects relating to the private sector, water and wastewater, the environment, transport and communications, education and health.
- Missions to assess the projects being financed.
- Project Management Units (PMUs) at the implementation stage, to avoid common problems such as delays and cost overruns.

All TA operations are subject to a tendering procedure and are provided according to EC procurement rules (see EuropeAid Co-operation Office website). Participation to tenders is open to all natural and legal persons in EU Member States and the MPCs. Interested consultancies are invited to forward their details to the FEMIP Special Operations Division, TA Unit. The thresholds for tendering are:

- For TA operation budgeted less than EUR 200.000, the EIB either operates under the conditions of the framework contract of EuropeAid Co-operation Office of the EC Commission or uses the competitive negotiated procedure.
- All contracts worth EUR 200.000 or more are awarded by restricted tender procedure following international publication in the Official Journal of the EU.

Further information on tendering rules can be obtained on EIB website.

b. TA Trust Fund

As introduced above, the TA Trust Fund is the second window of the FEMIP Trust Fund (FTF), operative since 2005 to support private sector development in the Mediterranean partner countries. The FTF Technical Assistance window will be used for upstream technical assistance activities which are not necessarily linked to an EIB investment and therefore not eligible for financing under the FEMIP Support Fund. Activities that fall under the scope of the TA window are policy, legal, regulatory and institutional reform, sector development strategies, capacity building and training. With commitments from EU Member States and the European Commission for more than EUR 30 million, the FTF was effectively been established at the end of 2004. The first technical assistance operations under the FTF were started in 2005.

The procurement policy is the same as for the TA FEMIP Support Fund. Nonetheless, the TA Trust Fund shall frequently use the competitive negotiated procedure, because technical expertise for specific studies is not always available in the framework contract.

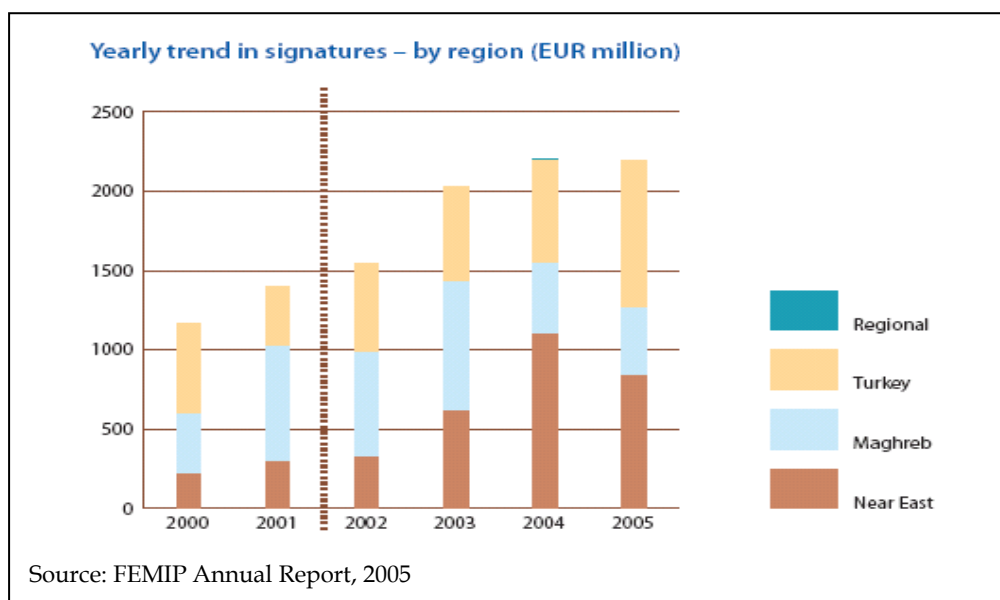
Further information on tendering rules can be obtained on EIB website.

6. Other FEMIP instruments supported by EU budget

Interest rates subsidies for environment projects, which are paid from the EU budget, for which amounts vary considerably every year (possibly around € 30 million on a long term average). 3% interest rate for loans directed to environmental investments. Also, these type of environmental initiatives can rely on the Mediterranean Environmental Technical Assistance Programme" (METAP), to prepare the projects

c. Statistics: Assessment

The EIB is the largest provider of loans to the region and its activities in the Mediterranean have grown substantially since the establishment of FEMIP; and round one third of the FEMIP projects were co-financed with other institutions²⁷.



In the period October 2002-end 2005, 77 operations were signed for an amount of Euro 7,2 Billion, corresponding to a total project volume of more than Euro 25 Billion. Over the same period, FEMIP lending and investments helped to mobilise an additional Euro 18,4 Billion from other sources, bringing the total value of projects financed to Euro 25,6 Billion, which means that FEMIP managed to leverage almost three times its own contribution.

Both approvals and disbursements followed similar trends. Approvals doubled from Euro 1,4 Billion in 2000 to Euro 2,8 Billion in 2005, the large increase basically coinciding with the establishment of FEMIP at the end of 2002. Disbursements, certainly a more tangible indicator of the actual realisation of investment projects on the ground, grew even more impressively, with overall levels almost tripling from Euro 0,6 Billion in 2000 to Euro 1,7 Billion in 2005.

Geographical distribution

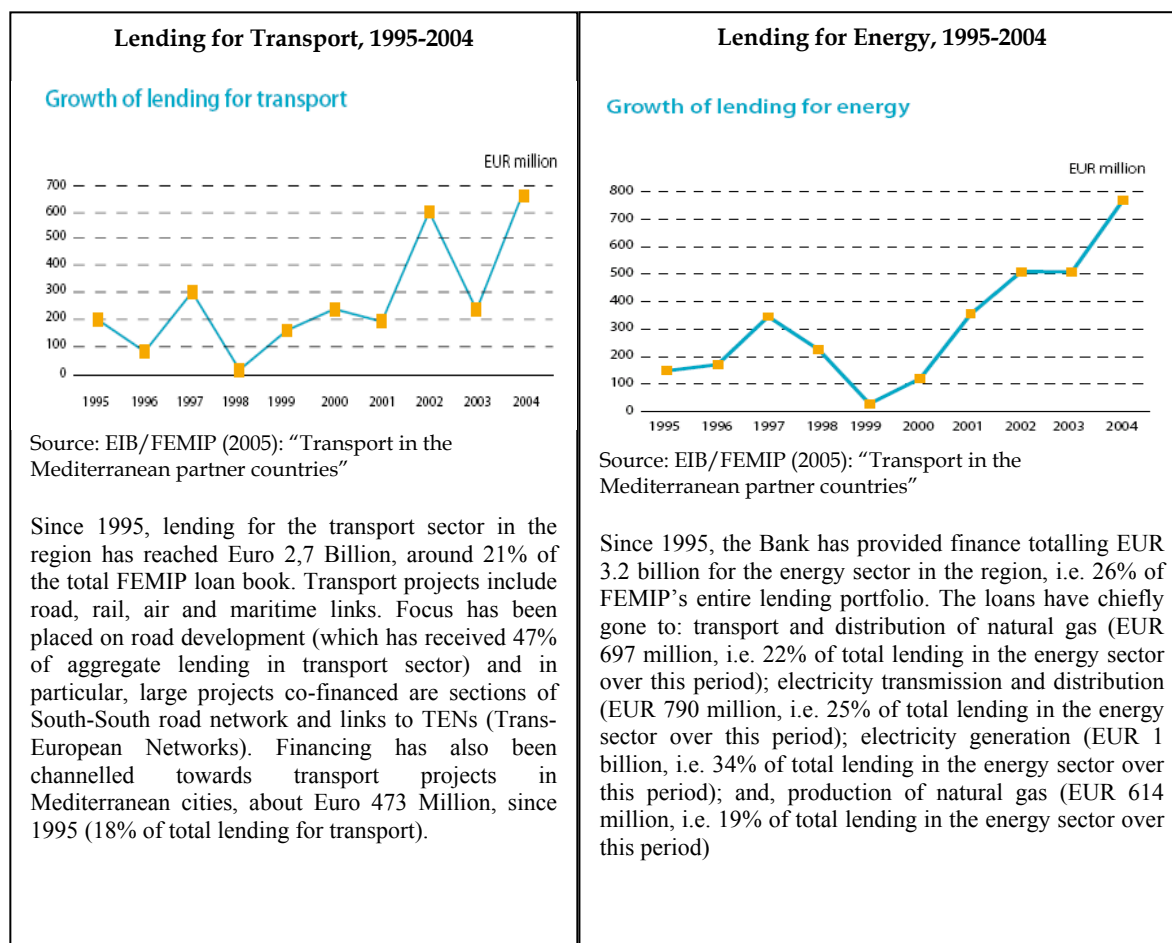
Borrowers from Turkey, Egypt, Tunisia and Morocco are receiving the largest share of loans. Looking at the evolution of the geographical distribution of signatures since the year 2000, it is interesting to note the growth in volumes, especially in the last three years, in both Turkey and the Near East. This came about as a direct consequence of Turkey's prospect of accession to the EU and the substantial improvement of the investment climate in both regions (leading to a parallel increase in FDI flows). By contrast, declining volumes in the Maghreb coincided with a period of excess liquidity and artificially low interest rates in local currency in the countries in question.

Sectoral distribution

In terms of sector allocation, infrastructure continued to be the main focus of FEMIP activity in 2005 (60% of the portfolio).

²⁷ Information has been obtained from FEMIP's Annual Reports: 2005, 2004, 2003

FEMIP support for infrastructure in the region appeared to be almost equally divided between transport (34%, roads, ports, railways, urban transport, aircraft) and energy (26%, comprising power and gas projects, the latter being mostly in the private sector).



The financial services sector accounted for just over 20% of the portfolio. This category comprises credit lines targeting small and medium-sized enterprises (SMEs) as well as risk capital operations. Overall, credit lines accounted for the bulk of the lending.

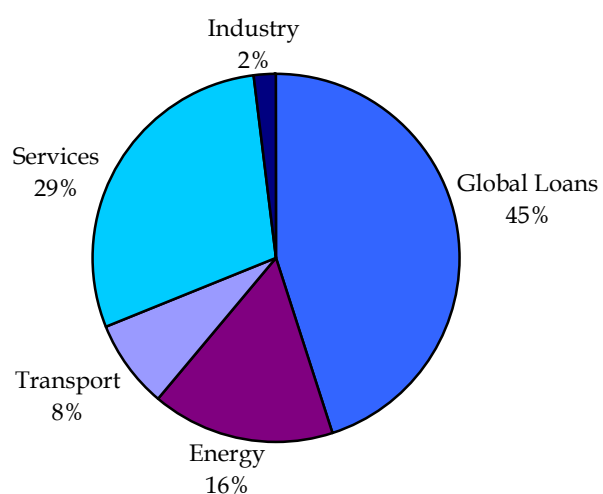
Lending to industry, targeting a diverse range of sectors (cement, steel, automotive, etc.), accounted for around 10% of the portfolio and can be considered, for the most part, as direct private sector support. Lending to the environmental (mostly wastewater) and human capital (education and health-care) sectors, both of which count among FEMIP's priority objectives, accounted for 4% and 3% respectively.

Increasing support for private sector development

FEMIP's top priority has progressively become private-sector support, which represents more than 40% of its financing (especially SMEs, economic infrastructure and FDI). Still, some resources are also placed on social-sector projects, particularly health, education and environmental protection, in the belief that this will make for social stability and encourage productive investment.

Total financing of private operations by FEMIP almost has tripled in absolute terms, from Euro 0,3 Billion n a year in 2000-2002 to an average of Euro 0,9 Billion a year in 2003-2005.

Lending to the private sector, 1995-2004



With financing worth Euro 4,6 Billion put in place since 1995, almost one third of total FEMIP's operations, the Facility encourages private sector development. 56% of total lending to private sector served to finance the expansion of private companies, through foreign direct investment and support to joint ventures. Euro 2 Billion were dedicated to finance SMEs. Private sector support includes as well development of infrastructure (e.g. creation of industrial parks) and risk capital operations. Nonetheless, private sector has not deployed its full potential and hence, cannot be engine for economic growth.

Source

: Own elaboration using Data from "Private Sector in the Mediterranean Partner Countries" (FEMIP, 2005)

By instrument

FEMIP loans have contributed to economic growth through support to investment in infrastructure (60% of all loans) and private companies. Loans to local intermediaries, for on-lending to SMEs (global loans), have grown substantially over the past few years, reaching more than 20 % of total loans provided in 2002-2005.

Together with these lending activities, EIB operations have also included risk capital and technical assistance financed by EU budget resources.

- **Risk capital** has mainly been used for participations in private equity funds, microfinance institutions and an SME loan guarantee scheme. With Euro 350 Million in commitments (of which more than Euro 200 Million of risk capital is disbursed and still outstanding - i.e. not yet reimbursed or written-off), the EIB has become the largest international provider of risk capital to the region. The use of this instrument has been mainly concentrated in a few countries (Morocco, Tunisia and Egypt), which reflects market developments (legislation, presence of qualified staff, etc) and the size of the economies;
- **Technical assistance** proved to be very useful, it seems that the technical assistance concept and approach is positively received in all target countries and supports effectively the transfer of know-how to beneficiary countries. The volume of operations financed by the Technical Assistance Support Fund increased significantly from Euro 1,8 Million in 2004 to Euro 21 Million in 2005 in respect of 26 service contracts signed with European consultancy firms. A FEMIP donor Trust Fund started operating at the beginning of 2005, 12 technical assistance operations and one risk capital operation had been approved by August 2006. So far less than 30% of technical assistance has been used for the private sector, though it could further support the development of local financial intermediaries and SMEs.

However, **FEMIP still could do more**. Compared to other EU instruments, FEMIP benefits from a high degree of efficiency in terms of leverage and cost-effectiveness provided by this belonging to the EIB, which holds best creditor status. They further benefit from the Bank's low operating costs which, with the support of the Community guarantee, enable FEMIP to offer attractive lending conditions. And, while FEMIP has succeeded in providing substantial amounts of loans suitable to large long-term investments, and has made efforts to cater for the needs of smaller companies, it has proved difficult to reverse the public-private sector balance in a sustainable way and bring FEMIP's support to private companies up to more than 50% of its activities²⁸.

²⁸ European Commission (2006): "Communication from the Commission to the Council. Assessment of the FEMIP and Future Options", COM (2006) 592 final, Brussels 17/10/2006

In fact, evaluation reports for the EIB²⁹ and consultations with stakeholders have concluded that the main obstacles to growth in the Mediterranean region are a weak business environment and insufficient financial sector reforms, as well as insufficient co-operation from Mediterranean governments to facilitate EIB private sector operations in their countries.

More specifically, access to finance remains problematic for private enterprises, especially SMEs. The latter face more difficulties than larger companies, because they tend to be undercapitalised, lack collateral and are not sufficiently transparent; and also, costs of small loans are relatively higher than those for larger loans. And while microfinance and less resource intensive, standardised instruments could help solve the problem for smallest companies, their potential remains unfulfilled (to date, FEMIP has financed microcredit only in Morocco and Tunisia).

Furthermore, FEMIP shows insufficient adaptability to the needs and risk profile of the private sector projects in the region. In particular, the strict security and guarantee requirements as well as the foreign exchange risk attached to the EIB loans have made it difficult to cater for smaller scale private sector needs. Additionally, evaluation reports also showed that some opportunities to provide value added have been missed, by not sufficiently defining EIB's role in countries and sectors and by not placing enough emphasis on institutional issues and co-operation with the local authorities, the Commission and other donors.

These shortcomings can be readdressed by streamlining and diversifying FEMIP's financial instruments. Actually, for the next period 2007-2013, FEMIP has been asked to pursue a more strategic focus, while it will be assessed the broadening and fine-tuning of FEMIP instruments and resources to better match private sector needs and finally, FEMIP shall strengthen its presence at local level, to better identify and respond to the needs of Mediterranean countries. (For more information on the future of FEMIP, check section 6).

²⁹ DFC for EIB (2004-2005): "EIB financing with own resources through global loans under Mediterranean mandates", December 2004; "EIB financing with own resources through individual loans under Mediterranean mandates", May 2005.

The idea of a Euro - Mediterranean Development Bank

With a view to expanding the range of financial instruments available in the Mediterranean, the Euro-Mediterranean Partner Countries have discussed the possibility of setting up a Euro-Mediterranean Development Bank (EMDB) or similar institution.

Mañé and Maestro (2002) argue that the establishment of a Euro Mediterranean Development Bank could facilitate the implementation of the goals of the Declaration of Barcelona. Namely, they mention: asymmetry of the financial assistance, complexity of the EU budget lines that correspond to MEDA, profitability criteria of EIB loans that risk of discriminate certain EMP goals or certain countries.

Hence, according to the authors, the solution would be the establishment of a Regional Development Bank, taking as model the World Bank Group. It would enable streamlining instruments and financing procedures, that would be enable further coherence and effectiveness of the EMP. Thanks to the gains in resources and visibility, the EMDB could become a driving force to attract further private investment to the region and, more importantly, it could ensure wide membership and ownership for the Mediterranean Partners. Especially, such an institution brings the possibility of increasing the leverage of financial recourses; for instance, with the instruments and programmes specific for SMEs and local initiatives. No such structure exists where all or many MPCs participate, since only some countries are involved in other existing Regional Development Banks: Argelia, Egypt, Morocco and Tunisia are partners of the African Development Bank; while Turkey is non-regional member of the Asian Development Bank.

Actually, both the Spanish Presidency in 2002 and the former Commission Prodi supported the Euro-Mediterranean Development Bank initiative and the latter was included in the agenda of the 2002 Valencia Conference of the Euro-Med Foreign Ministers. Still, such an initiative faces some disadvantages, which could explain why the EU chose to not to set up such an independent institution, and preferred to settle a facility within the EIB. The resulting FEMIP was created to foster the development of private sector-based market economies and local private banks as well as to help finance infrastructure projects, especially in sectors which are being liberalised.

In fact, there are deep disagreements among the MPCs and also, there is not sufficient political compromise. Then, the success of the project would be highly dependent on EU and other donor efforts. Furthermore, there would always be risk of duplication and distortions with other multilateral institutions. (ibid) Hence, a Commission Study (2002) assessed that maintaining the Facility was consistent with the principles and objectives of the EMP and with the EU Financial Perspectives (a partial or a fully independent structure are much costly alternatives (EU Commission, 2003)

Nonetheless, in the last assessment of FEMIP, the EMDB was once again an alternative in the agenda of the ECOFIN Council. The latter concluded on 28th November with a renewal of the mandate of FEMIP.

Sources: Mañé and Maestro (2002): "Financiación Euromediterránea: es posible una alternativa?", Diálogos Mediterráneos, Num. 2, Fundació CIDOB; Presidency Conclusions of the 5th Euro-Mediterranean Conference of Foreign Ministers in Valencia, 22nd -23rd April 2002); European Commission (2002): Report of the Commission to the Council – A new Euro-Mediterranean Bank, SEC (2002) 0218 final; EU Commission (2003): Communication from the Commission to the Council. Shaping Support for Private Sector Development in the Mediterranean", Brussels 16 9 2003 SEC(2003)

FEMIP: EUROMED Fund launched in Milan

Under its Facility for Euro-Mediterranean Investment and Partnership (FEMIP), the European Investment Bank (EIB) is participating to the tune of EUR 10 million in the launch of EUROMED - Fondo Comune di Investimento Mobiliare di tipo Chiuso (Euromed Fund).

Focusing on investment in small and medium-sized enterprises in Algeria, Egypt, Morocco, Tunisia and other Mediterranean Partner Countries, the Fund is being sponsored by the Lombardy Region in Italy, through its financial arm Finlombarda SpA, and the Milan Chamber of Commerce. The fund is managed by Finlombarda Gestioni SGR S.p.A., a majority-owned subsidiary of Finlombarda authorised by Bank of Italy to manage funds (Societa' di Gestione del Risparmio).

As the Euromed Fund is based in Italy, in order to ensure local presence the fund manager has contracted local advisors based in North Africa with a good knowledge of their respective countries of operation and the ability to actively monitor companies in the fund's portfolio.

This private equity fund, which has reached a size of EUR 50 million and counts leading Italian banks, the Lombardy Region and the Milan Chamber of Commerce as co investors, will help to increase the volume of foreign direct investment into Mediterranean Partner Countries. By virtue of its location, the Fund will have preferential access to projects promoted by Italian enterprises. Through the network they form, local managers will be able to use the Fund to support the expansion in the region of local enterprises.

The EIB's participation to the Fund has been finalised in Milan with the signatures of Mr Philippe de Fontaine Vive, EIB Vice-President in charge of FEMIP and Mr Marco Nicolai, managing director of Finlombarda Gestioni SRG S.p.A.. On this occasion, also Fondazione Cariplo, represented by its President Mr Giuseppe Guzzetti, has signed a parallel investment in the Euromed Fund, for an amount of EUR 5 million.

At the official signing ceremony Mr de Fontaine Vive stated: "This operation is the twenty second fund operating on Mediterranean Partner Countries in which FEMIP has invested. We are ready to share with Euromed Fund the knowledge we have developed over more than ten years of private equity activities in the region. We look forward to this fund becoming a new, additional source of finance for local enterprises, promoting regional trade and industrial ventures, fostering north-south and south-south co-operation. Our investment signals FEMIP's support for the development of the local private equity industry and, more broadly, to the local private sector."

In addition to its loans and technical assistance grants, FEMIP encourages the development of the private sector by acquiring equity and quasi-equity stakes in private companies in order to help Mediterranean Partner Countries speed up their economic and social modernisation, in particular through increased regional integration. These FEMIP activities are financed from the European Community budget (EUR 200 million over the period 2001-2006) and by the FEMIP Trust Fund, which was set up in December 2004 (EUR 33.5 million).

Source: FEMIP, EIB: Press Note: Ref. 2006-092, 7th September 2006

4. Industrial Co-operation

With the opening to trade of manufactures, industrial co-operation has become an important element of the Euro-Med relations. Such initiative is also in line with the goals of the European Neighbourhood Policy, which calls for more economic integration between the EU and its partners and puts emphasis on the need for creating an enabling environment for private sector development to promote growth.

FEMISE (Annual Report, 2005) states that:

“Deeper integration entails not only the dismantlement of tariff barriers, but also removing non-tariff barriers to trade, improving the environment for investment and financial flows, harmonisation and/or mutual recognition of regulations, harmonisation of rules, procedures and legal frameworks...”

Accordingly, two priority areas were defined, namely: Free Movement of Industrial Products and Enterprise Policy.³⁰

a. Free Movement of Industrial Products: ACAAs

The first area is the Free Movement of Industrial Products. On 7 July 2003 in Palermo, Ministers responsible for Trade adopted an Action Plan³¹, which aims at harmonising procedures in the field of technical regulations, standardisation, and conformity assessment with those in force in the EU. The final objective is to conclude bilateral agreements on conformity assessment (so-called ‘**Agreement on Conformity Agreement and Acceptance of industrial products**’ – ACAAs³² in sectors of common interest.

One of the main approaches used by the European Community to eliminate technical barriers to trade was to enter into negotiations with several trading partners, leading to the conclusions of Mutual Recognition Agreements (MRAs). Indeed, this type of activity was specifically encouraged in the WTO TBT (technical barriers to trade) agreement.

ACCAs take the model used for candidate and accession countries (known as PECAs), which required further approximation than MRAs. Namely, there are several conditions to be necessarily fulfilled for the creation of a successful ACCA:

- Adequate infrastructure in the fields of standardisation, accreditation, conformity assessment and metrology in the partner country;
- Adoption of the relevant part of the *acquis* by the partner country;
- Regulatory co-operation and technical assistance;
- Formal agreement between the EU and the partner country setting out the relationship.

For the achievement of such Agreements with MPCs, the Commission foresaw financing for **technical assistance under the MEDA programme**.

At regional level:

- “Euro-Med Market” (Regional Programme for the Promotion of the Euro-Mediterranean Market Instruments and Mechanisms) is a regional programme with a budget of Euro 10 Million on the key mechanisms of the EU single market. Its main objective is to help Mediterranean partners identify the mechanisms that could most usefully be transposed in the context of the Euro-Mediterranean Free Trade Area. A series of 8 priority fields pertaining to the Single Market have been identified: Free Movement of Goods, Customs, Taxation and Rules of Origin, Public Procurement, Financial Services, Intellectual Property Rights, Protection of Personal Data and e-Commerce, Auditing and Accounting, Competition Rules. The project is implemented by the European Centre for the Regions (ECR), Antenna of the European Institute of Public Administration (EIPA) in Barcelona. The programme consisted of two phases: a 1st phase “information” on the situation in the EU and in the Mediterranean Partners in these above mentioned fields; and a 2nd phase of “training and

³⁰ Information has been obtained from: European Commission; DG Enterprise: External aspects of Enterprise Policy

³¹ “Action Plan for the Free Movement of Industrial Products”, approved by Trade Ministers at the Euro-Mediterranean Conference of Palermo on 7th July 2003

³² European Commission (2004): Commission Staff Working Paper on Agreements on Conformity Assessment and Acceptance of Industrial Products (ACAAs), SEC(2004)1071 Brussels, 25.08.2004

networking”, with study visits, targeted technical assistance, tailor-made training activities, training of trainers, twinning actions, setting up networks, and the 3rd closing conference. The project was concluded at the end of May 2006.

- “Euro-Med Quality” is a more specific regional programme on the EU approach to quality and product regulation with a budget of Euro 7,26 Million. Its main objective is to help Mediterranean partners improve their quality infrastructure. Main activities will include an analysis of the partners’ quality infrastructure, an analysis of gaps in national legislation, tailor-made information and training seminars, and the setting up of a regional network of key players in the field of quality promotion. The implementation of this three year programme started in early 2004.

At bilateral level, projects aimed at strengthening the quality infrastructure are ongoing or planned in Morocco, Tunisia, Egypt, Jordan, Lebanon, and Syria. For instance, in Tunisia, Euro 8,5 Million out of Euro 50 Million earmarked for industrial upgrading were to be devoted to quality, metrology and standardisation.

b. Enterprise Policy: Euro Mediterranean Enterprise Charter

The second area is Enterprise Policy. The aim is setting up a regular and structured dialogue on enterprise policy with Mediterranean partners in order to encourage and facilitate the sharing of experience and good practice.

In October 2003, the Euro-Med Partner Countries agreed in Rome to work further to improve the business environment in the Mediterranean region. This initiative in the field of enterprise policy, known as the “Rome Strategy”, complements actions for a better business environment already being supported through MEDA and FEMIP.

The Rome Strategy for enterprise policy proposes to adapt to the Mediterranean region a methodology, which has been successfully implemented for some years by the European Commission with the candidate countries to accession, and with the countries of the Western Balkans. It is also inspired by the mechanisms of transnational dialogue on enterprise policy set up at European level by the Enterprise Directorate-General of the European Commission (European Charter for Small Enterprises, European Trend Chart on Innovation, Enterprise Policy Group, Best procedure).

In Rome 2003, it was decided that the policy dialogue would focus on six priorities:

- The improvement of the administrative and regulatory environment in which enterprises operate
- Industrial modernisation
- Investment promotion
- The promotion of innovation
- The facilitation of access to finance for SMEs
- The stimulation of entrepreneurial spirit.

Together with the opening of the economies and the development of infrastructures encouraged within the EMP; these are fields that contribute to the competitiveness of enterprises, which remains a challenge for the Mediterranean partners’ economies.

Innovation has become a priority area as well. As mentioned in the conclusions of the 6th Euro-Med Industrial Ministerial Meeting. Mediterranean partner countries will be able, in the future, to join the EU’s programme on innovation and entrepreneurship (Competitiveness and Innovation Framework Programme – CIP, see box below), which will be operational as from January 2007.

Competitiveness and Innovation Framework Programme (CIP)

Between 2007 and 2013, some 350,000 small and medium-sized enterprises (SMEs) will receive € 3.6 billion in EU support to invest in all forms of innovation and growth. The new programme will support actions to help enterprises and industry to innovate. It will also boost energy efficiency and renewable energy sources, environmental technologies and a better use of information and communication technology (ICT). The CIP has the following objectives: to foster the competitiveness of enterprises, in particular SMEs; to promote all forms of innovation including eco-innovation; to accelerate the development of a sustainable, competitive, innovative and inclusive Information Society; to promote energy efficiency and new and renewable energy sources in all sectors including transport.

For more information: ec.europa.eu/enterprise/enterprise_policy/cip/index_en.htm

In the 5th Conference of Industry Ministers in Caserta (October 2004), the draft for a Euro-Mediterranean Charter of Enterprises was prepared. Based on the European Charter for Small Enterprises and the results of the MED BEST process (see box below), the Ministers discussed the most appropriate mechanism for the launch of a benchmarking procedure and of a systematic exchange of experience, know-how and best practices. The Euro-Mediterranean Charter for Enterprise shall be the main policy framework for the co-operation on enterprise development. Under the chapter of Enterprise Policy of the ENP Action Plans, Mediterranean partners have committed to implement these common principles to support the enterprise sector, entrepreneurship and competitiveness, with a special attention to SMEs.

MED-BEST Process

In Caserta 2004, the so-called MED-BEST process was agreed. It would produce a report on the measures implemented by the Mediterranean partners to encourage entrepreneurship and competitiveness. The Mediterranean partners would produce their own national reports which would be the basis for the report at regional level to be prepared by the European Commission. The partners reported on all their initiatives to simplify administrative procedures, facilitate access of SMEs to finance, develop education for entrepreneurship, provide quality business support services, and promote innovation. In September 2004, the European Commission presented a report, including a summary of the main data and the actions that take priority identified by the public administrations and representatives of the private sector in the countries themselves. It also included information on the areas in which an exchange of know-how between countries would have the most impact.

For more information: European Commission Staff Working Paper "MED-BEST Report", SEC (2004) Brussels, 27th September 2004

The Euro-Mediterranean Charter contains ten principles of good governance for effective action towards private sector development. These lines of actions include simple procedures for business, strong professional associations, and easier access to finance for SMEs, among other. Hence, it is a complementary tool for the launch of microeconomic reforms which aim to boost competitiveness and FDI attractiveness.

In the recently published report on the implementation of the Euro-Med Charter for Enterprise³³, the European Commission assesses that while there was divergent advance across countries, there are some major common concerns to all partners: namely, burdensome bureaucracy, difficult access to finance for small businesses, and weak entrepreneurship culture together with a education system which has not been able to build up entrepreneurial skills and risk-taking behaviour. Consequently, for the near future, it is necessary to include targets and measurement criteria in the national action plans, and to involve the private sector, and it is necessary as well to increase the visibility of the Charter in each of the partner countries. While at regional level, it is proposed to further encourage co-operation and exchange of experiences around the different targeted lines of action, and also, looking at other new areas, such as the informal sector or female entrepreneurship, which also have an impact on business development in the region.

³³ European Commission Staff Working Paper: "Report on the Implementation of the Euro-Mediterranean Charter for Enterprise", Enterprise and Industry Directorate General, SEC (2006) 940

Working Party on Euro-Mediterranean Co-operation

The Working Party on Euro-Mediterranean Industrial Co-operation is the body in which representatives from public and private sectors of the EU Member States and of the MPCs discuss industry, enterprise and investment-related issues, policies and co-operation projects. It meets, in principle, twice a year. A number of regional technical assistance programmes have been designed under the auspices of the Working Party, for instance the ANIMA Network or a further programme on innovation – Euro-Med Innovation and Technology. Its role shall continue over the next period (2007-2008), as requested by the Industry Ministers in Rhodes (September, 2006, see next).

c. Coming years: 6th Conference of Euro-Med Ministers for Industry (Rhodes, September 2006)

Under the theme “EU and Mediterranean enterprises facing the challenges of globalization”, commitment was expressed to advance towards the creation of an EMFTA and taking full advantage of the ENPI. Then, it was assessed that focus is to be placed in 4 areas (i.e. economic integration and market access, competitiveness and SMEs, innovation, and investment), as this will be by 2010. Besides, in order to tackle globalization Industry Ministers agreed that it is crucial to increase co-operation on innovation. In fact, as mentioned here above, Mediterranean partners shall be able to participate in the CIP. Improving the business climate in the region is a priority, and hence, the Euro-Mediterranean Charter for Enterprise plays an essential role. Likewise, since investment remains also a foremost area, increased commitment under the ENPI and of the EIB towards the Mediterranean was welcomed by Industry Ministers³⁴.

In particular, the Conference concluded that taking advantage of the ENP requires: improving the image and the market of industry of the Mediterranean area abroad; targeting potential investors and attracting foreign investments, in particular those conducive to technology-transfer and sustainable local socio-economic development; consolidating a Euro-Mediterranean network of organisations involved in investment promotion; developing economic intelligence, which generates projects, promotes networks and transfer of know-how at regional level and with the EU; strengthening synergies with FEMIP; exploring the readiness of women investors in the EU to invest in enterprises run by women in Mediterranean partner countries; and exploring to what extent expatriates’ remittances contribute to private sector development in the home country.

d. Other: Private sector participation

The private sector has been playing an increasingly important role in the industrial co-operation process becoming a key partner for public institutions. Several Euro-Mediterranean Business Summits have taken place since the start of the Barcelona process. In 2000, the Tunis Summit launched the Euro-Mediterranean Network of Industrial Federations, named UNIMED Business Network, which led to the creation of the South-Mediterranean regional business organisation, the so-called Union of Mediterranean Confederations of Enterprises (UMCE) in 2002³⁵.

Union of the Mediterranean Confederations of Enterprises (**UMCE**): The Valencia Conference welcomed the creation of the Union of the Mediterranean Confederations of Enterprises. The UMCE is the Mediterranean counterpart of the Union of Industrial Employers’ Confederations of Europe (UNICE). It received 2,5 Million Euro MEDA support.

³⁴ European Commission IP/06/1248: “Reinforcing economic co-operation with Mediterranean partner countries”, Brussels, 22nd September 2006

³⁵ Another business association is the so-called European Business Council for Africa and the Mediterranean. Despite it has been in place since 1973, there are no entities from the Southern shore. Its 9 members are European national entities which represent domestic business interests in the Mediterranean and Africa. Italy is member and it is represented by Assafrica. For more information, www.ebcam.biz

UMCE

The Union of Mediterranean Confederations of Enterprises (UMCE) is a regional professional organisation created thanks to the will, determination and efforts of the federation presidents of the twelve members and which aims to show the way to economic integration and social and economic development in the region.

UMCE headquarter, based in Tunis since January 2004, ensures a permanent contact with the federations in the twelve Mediterranean Partner Countries that it represents, i.e. : CGEA-Algeria, OEB-Cyprus, FEI-Egypt, MAI-Israel, JCI-Jordan, ALI-Lebanon, MFOI-Malta, CGEM-Morocco, PFI-Palestine, FSCC-Syria, UTICA-Tunisia, TUSIAD & TISK-Turkey.

UMCE has two observer members: Confindustria-Italy, since its adhesion to UMCE in February 2006, and FIG-SEV-Greece since its adhesion in April 2006.

- a. UMCE objective is to create an institutionalised dialogue between member country professional organisations, so as to contribute to the implementation of a Euro-Mediterranean Free Trade Area.
- b. UMCE mission is to establish a common action for professional organisations near the governments and the business communities, for the implementation, where needed, of policies that favour transition towards market economy in optimal conditions for member countries, trade liberalisation between members and between members and countries of the European Union.
- c. UMCE, acts to promote social and economic interests of the enterprises represented by its members.
- d. UMCE provides for its members information services, undertakes studies, adopts positions and actions to promote them.
- e. UMCE is the interlocutor of UNICE (Union of the Confederations of Industry and Employers of Europe) which represents the European enterprises and other organisations.

UMCE Mission:

- a. Create a Euro-Mediterranean Free Trade Area by 2010.
- b. Establish an economic and social climate that favours the development of investment flows.
- c. Increase SME competitiveness among UMCE member countries.
- d. Upgrade quality standards.

UMCE Objectives:

- a. Promote North-South and South-South free investments.
- b. Promote North-South and South-South investments so as to create jobs.
- c. Establish a formal link with European professional organisations (UNICE) to help opening markets to export, facilitate technological transfer and create North-South and South-South clusters and supply systems.
- d. Provide technical assistance and training for member organisations

Source: UMCE: www.umce-med.org

5. Transnational Co-operation: INTERREG

Transnational co-operation has been to date part of the EU's Regional Policy and it is implemented through the programme INTERREG IIIB.

The EU integration process has brought the elimination of economic frontiers within the European Union and freedom of movement, which enable for co-operation that goes beyond national limits. On the other hand, the regions along the Union's external borders experience difficulties linked to their peripheral location, low-density population and natural handicaps, and weak transport infrastructure, or even, lack of coordination for the management of natural resources (especially, water) and ecosystems.

In fact, the majority of European periphery regions are among the least-favoured regions and a large number of them benefit from Objective 1 assistance (under the EU Structural Funds). It was acknowledged that in the regions lying along the borders of the EU Member States, the mean level of development is less than half that of their EU neighbours. What is more, their basic infrastructure (transport, energy, management of waste water and solid waste) are largely insufficient.³⁶

Consequently, European regional policy devotes efforts to smooth the "frontier effects" and in particular, the INTERREG initiative aims to strengthen the co-operation between regions beyond national borders.

INTERREG III has three strands. The first one (IIIA) is the largest in terms of financial resources allocated, and corresponds for cross-border co-operation. The second is INTERREG IIIB which refers to transnational co-operation (and that will be explained a bite further below). And finally, there is INTERREG IIIC which applies for interregional co-operation.

INTERREG IIIB receives around 27 % of available appropriations. To date, it has covered all transnational co-operation actions involving the national, regional and local authorities and the other socioeconomic players. The overall objective has been to promote territorial integration within large groups of European regions, including those outside the EU Member States, and between the Member States and the applicant countries or other neighbouring countries.

The priority actions of INTERREG IIIB are:

- Drawing up regional development strategies at transnational level, including co-operation between towns or urban areas and rural areas;
- Promoting effective and sustainable transport systems, together with better access to the information society. The aim here is to facilitate communication between island or peripheral regions;
- Promoting protection of the environment and natural resources, particularly water resources.

For the regions of the Union sharing borders with other third countries, cross-border co-operation faces very different issues: first of all, these are not applicant countries; secondly, there are much wider gaps in development in the regions concerned; and thirdly, the deepening of relations between the Union and other neighbouring countries, including those of the Mediterranean basin, are at the centre of the current political agenda.

The ENP allows regions currently located outside the EU's borders to be part of the single market and hence, are more likely to experience the impact of the existing development differentials relative to regions of today's Member States. As it will be described further below, under the new ENPI, one of the most innovative elements is the creation of a cross-border component that it is expected to respond to the opportunities for and needs of cross-border co-operation with neighbouring regions along the EU external borders.

a. INTERREG IIIB – MEDOC (Western Mediterranean)

The European Commission has decided to contribute actively to the development of cross-border co-operation between Italy, France, Spain, Portugal, Greece, Malta and Gibraltar, by co-financing, for the period 2000-2006, the Interreg III B programme for the Western Mediterranean. The participating areas include: Andalusia, Aragon, the Balearic Islands, Catalonia, Valencia, Murcia, Ceuta and Melilla in Spain; Corsica,

³⁶ European Commission (2002): "Structural policies and European territory Co-operation without frontiers", DG for Regional Policy, Brussels, 2002

Languedoc-Roussillon, Provence-Alpes-Côte d'Azur and Rhône-Alpes in France; the Algarve and Alentejo in Portugal; Basilicata, Calabria, Campania, Emilia-Romagna, Lazio, Liguria, Lombardy, Piedmont, Sardinia, Sicily, Tuscany, Umbria and the Valle d'Aosta in Italy; the whole territory of Greece and Malta and Gibraltar in the United Kingdom. EC Structural Fund contribution to INTERREG IIIB – MEDOC amounts to Euro 119,35 Million out of a total budget for of Euro 214.94 Million (see table below).

Priority actions:

1. Mediterranean basin: regional planning (relations between the north and the south of Europe, the north and the south of the Mediterranean and between the islands); and, economic development, with a view to creating a free trade area by 2010 under the Barcelona process;
2. Strategy for spatial development and urban systems;
3. Transport systems and information society;
4. Development of assets and sustainable development;
5. Technical Assistance

Eligible areas:

The programme area has striking economic and social contrasts, with some very prosperous regions, such as the Po valley in Italy, the large Rhône delta in France and Catalonia in Spain, and other regions where the level of development is much lower. As regards the sectoral breakdown, a number of groups can be clearly identified. These include the industrial centres such as Lombardy and Piedmont, areas devoted to services such as Lazio and Provence-Alpes-Côte d'Azur, regions such as Murcia and Valencia where agriculture is very important and mixed areas such as Tuscany and Rhône-Alpes with both industry and services.

Management: Italian Ministry of Infrastructure and Transport, Directorate-General for territorial coordination (DI.CO.TER)

Financial information of INTERREG IIIB – Western Mediterranean			
<i>Breakdown of Finances by priority area</i>			
Priority actions	Total cost	EU Contribution	Public aid (EC + others)
1 Mediterranean basin	26.180.387	14.730.319	26.180.387
2 Strategy for spatial development and urban systems	35.377.093	19.849.796	35.377.093
3 Transport systems and information society	45.041.169	24.171.836	45.041.169
4 Environment, enhancement of heritage and rural development	94.147.538	52.688.902	94.147.538
5 Technical Assistance	14.193.408	7.905.604	14.193.408
Total	214.939.595	119.346.457	214.939.595
<i>Financial Breakdown by Funds</i>			
EU Contribution (total)		ERDF	
119.346.457		119.346.457	
100,00%		100,00%	
Source: EU Commission, DG Regional Policy (2006)			

b. INTERREG IIIB – ARCHI-MED

The European Commission has decided to contribute actively to the development of transnational co-operation between Italy, Greece, Cyprus, and Malta by part-financing, for the period 2000-2006, the INTERREG III B ARCHIMED programme. Structural Funds assistance amounts to Euro 79,53 Million out

of a total budget of Euro 119,58 Million. Participation to the programme is opened through other instruments to Turkey and other third countries (Lebanon, Syria, Palestinian Authority, Israel, Jordan, Egypt and Libya).

Priority actions:

The overall objective of the ARCHIMED programme is to support co-operation between the regions of the central and eastern Mediterranean, including parts of neighbouring third countries with which ARCHIMED areas wish to establish long-term relations. The programme is aimed primarily at the sustainable development of these areas, enhancing their competitiveness, improving the effectiveness of their transport networks and communication systems, and the development of their natural and cultural resources. The participants in the programme have identified the following four priorities:

1. Strategy for the spatial development of urban systems;
2. Transport systems and telecommunications/information society networks;
3. Integrated and sustainable management of cultural resources; exploitation of cultural heritage and sustainable development;
4. Technical assistance

Eligible areas:

The programme covers a wide geographical area in South Eastern Europe and the Mediterranean basin. The programme area, which has a total population of 38,5 Million, can be subdivided in two sub-regions, as follows:

1. The Central Mediterranean, where the eligible areas are the five regions of southern Italy (Sicily, Calabria, Basilicata, Puglia, Campania) and all of Greece, Cyprus and Malta;
2. The Southeast Mediterranean, which includes the following countries: Turkey, Lebanon, Syria, the Palestinian Authority, Israel, Jordan, Egypt and Libya. These countries, except for Libya, have concluded agreements with the EU within the framework of the Euro-Mediterranean co-operation and IPA (Instrument for Pre-accession) for Turkey.

The common problems which characterise the programme area include; a fragmented landmass, a large maritime expanse, a sensitive environment, poor management of natural and cultural resources, insufficient coordination of transport, significant pressures (development and economic) on coastal areas, and the progressive abandonment of inland areas. In addition, the areas of the central Mediterranean (in particular Italy, Greece) are confronted with the problems of an ageing population, which is in sharp contrast to the southeast Mediterranean, which is experiencing a demographic explosion. The ARCHIMED is also a politically sensitive area, which faces problems in maintaining peace and stability.

Management: Greek Ministry for Economic Affairs, Managing Authority of CIP INTERREG

Financial information of INTERREG IIIB – ARCHI MED			
<i>Breakdown of Finances by priority area</i>			
Priority actions	Total cost	EU Contribution	Public aid (EC + others)
1 Strategic, territorial development	32.558.782	21.604.627	32.558.782
2 Transport and telecommunication	23.306.449	15.601.700	23.306.449
3 Sustainable management and tourism priority	56.538.259	37.557.717	56.538.259
4 Technical Assistance	7.174.674	4.772.164	7.174.674
Total	119.578.164	79.536.208	119.578.164
<i>Financial Breakdown by Funds</i>			
EU Contribution (total)		ERDF	
79.536.208		79.536.208	
100,00%		100,00%	
Source: EU Commission, DG Regional Policy (2006)			

6. ENP – ENPI

a. Brief overview of ENP³⁷³⁸

The ENP launched in 2004 reinforces the Barcelona Process, and will help to give a new operational focus to the relations with the Mediterranean region.

In March 2003, the Commission proposed, in its "Wider Europe" Communication to the Council, a new framework for relations with the European Union's Eastern and Southern neighbours, offering them a stake in the Single Market in return for concrete progress demonstrating shared values and effective implementation of political, economic and institutional reforms. An important component for the new policy is cross-border and sub-regional co-operation.

ENP is designed to avoid the emergence of new dividing lines between the enlarged EU and its neighbours and to offer them the possibility to participate in various EU activities, through greater political, security, economic and cultural co-operation. It is an offer for all neighbours that are not concerned by EU accession. The Commission's view of how this could be promoted was formulated in a policy paper published in July 2003, called 'The New Neighbourhood Instrument' which defines the financial mechanisms that will help to set up enhanced co-operation along the border of the enlarged EU and will entry into force next January 2007. (See next subsection)

Designing the ENP	
2002/03	Thinking beyond EU enlargement: "Wider Europe", "new neighbourhood", "ring of friends"
2003/04	Various Commission Communications and European Council Conclusions establish ENP as a policy
2004	"ENP Strategy Paper" + 7 Country Reports + 7 ENP Action Plans (Israel, Jordan, Moldova, Morocco, Palestinian Authority, Tunisia, Ukraine)
2005	5 Country Reports (Egypt and Lebanon, Georgia, Armenia and Azerbaijan), Consultations on 5 new Action Plans, beginning of implementation of first 7

In the Mediterranean region, the ENP will concern 9 countries (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, the Palestinian Territories, Syria and Tunisia) and will enhance the Barcelona Process.

Consequently, the enhancement of economic development, democracy and cross-border regional co-operation (North – South) are the specific objectives. **The dominant policy theme becomes free trade and economic harmonisation through the adoption by the partners of EU internal market regulations.**

ENP in Partner Countries: expected economic effects

- ▶ Provides incentives to economic and social reforms (long term anchor, policy dialogue, financial assistance)
- ▶ Facilitates structural reforms and institutional modernisation (legislative approximation, implementation and enforcement)
- ▶ Reduces barriers and promotes further trade liberalisation and factor movement
- ▶ Promotes networks integration and FDIs
- ▶ Provides incentives to sub-regional integration

Following the implementation process of ENP, the Commission presented the ENP Strategy Paper and the ENP Country Reports on 12th May 2004:

³⁷ Information has been obtained from: ec.europa.eu/world/enp

³⁸ For more complete picture of the ENPI, I may suggest to consult a more specific paper, such that by Battistina Cugusi ("Lo strumento europeo con i paesi vicini: un nuovo quadro di riferimento per gli attori italiani", February 2006).

- ENP Strategy Paper: sets out principles, geographical scope, methodology for implementation of the ENP and issues related to the regional co-operation; it also explains how financial support for the implementation of the ENP will be provided and identifies how co-operation will be taken forward in areas such as economic and social development, trade and energy;
- ENP Country Reports: progress in implementation of bilateral agreements and related reforms, they reflect the political, economic, social and institutional situation in the countries and focus on the priority areas of the ENP, providing a starting point for developing joint Action Plans.

The detailed goals of the EU's co-operation are currently being laid down in mutually agreed country Action Plans. Action Plans are crucial for the development of relations between the EU and its neighbours. They contain a set of jointly defined key priorities in selected areas. They are tailored to reflect the specific state of relations with each Partner, its needs and capacities, as well as the interests of the EU and the Partner concerned. Their implementation will be monitored on a regular basis, and the Action Plans adapted accordingly. Seven Action Plans were issued in December 2004, 5 of which correspond to Mediterranean Partners – Israel, Jordan, Morocco, the Palestinian Authority, and Tunisia (to date no other Action Plans with MPCs have been agreed). The system of strategy papers, indicative programming and annual financing plans (now called action programmes) remains very similar to the current practices under MEDA, with the notable exception that the MED Committee would not anymore be consulted on the approval of financing proposals.

The ENP Dimensions
Political and Human Dimension
Democracy and Human Rights
Education, Culture and Research
Economic Dimension
Economic Area (trade policy & internal market)
Monetary and Macroeconomic Area
Economic Infrastructure and Network Area
Security Dimension
Justice and Home Affairs
External and Security Policies

ENP Economic Dimension

Deeper economic integration with partner countries is crucial for the success of the policy, as much of the ENP is based on the policy anchor created by the possibility of participating in the EU Internal Market.

In the ENP Strategy Paper (2004), it is stated that: “The approach proposed by the ENP has important economic implications, as it envisages enhanced preferential trade relations and increased financial and technical assistance. It also offers neighbouring countries the prospect of a **stake in the EU Internal Market** based on legislative and regulatory approximation, the participation in a number of EU programmes and improved interconnection and physical links with the EU” (p.14).

In fact, among the areas included of ENP's economic dimension, that of access to the EU Internal Market is the most innovative and attractive proposition. Actually, increased financial assistance (see next section) and infrastructure support are ultimately complementary so to enable a successful participation in the Internal Market.

Main points of ENP's economic dimension:

- ▶ Enhanced trade
- ▶ Access to Internal Market
- ▶ Increased Funding: ENPI
- ▶ Action Plans: differentiation/incentives/conditionality
- ▶ Efforts in Infrastructure

However, the Commission did not specify what this “stake” does actually imply: how this will take place, nor which level of participation involves. The formulation is vague and just specifies that the ENP countries will be able to be part of the “four freedoms” (free movement of goods, services, labour and capital) through the adoption of the relevant *acquis communautaire*, use European and international standards and apply the principle of mutual recognition in non-harmonised sectors.

“The EU made quite an ambitious, yet still only vaguely defined offer in the formulation of the ENP – a prospect for the neighbours’ “stake in the EU’s Internal Market” (Communication on Wider Europe, 2003, p. 4). This implies that ENP countries would be able to become a part of the “four freedoms” – free movement of goods, services, labour and capital. The institutional, economic and other requirements for full participation in the internal market are very high” (Jakubiak, M and W. Paczynski, 2006: 22)

Two scenarios open³⁹:

- a) Partial integration to the Internal market: more likely and consisting of a gradual adoption of the regulations. Partial access could motivate reform effort in several fields that are crucial for social and economic development of ENP countries and business options for EU partners.
- b) Complete integration to the Internal market: less likely and literature refers to European Economic Area as reference.

Hence, even if the prospect of full participation in the Internal Market may seem remote, adopting Internal Market legislation in some areas is interesting for neighbouring countries, as it will avoid that non-alignment acts as non-tariff barrier. Convergence in some basic principles will press downwards transaction costs and possibly, promote relationships among neighbours themselves (*ibid*, p.23).

Nonetheless, there are problematic issues that still need to be further clarified at political level, such as freedom of circulation of persons, trade in agriculture or even in financial services.⁴⁰

ENP and Barcelona Process

Originally, ENP was created for Eastern neighbours, but it was finally extended to Mediterranean partners. Hence, it has been necessary to assess how EMP would work when ENP would be started. **Complementarity** of the two processes appears to be the approach adopted. Yet some issues about the relationship between ENP and EMP remain uncertain and are expected to be clarified as the ENP is strengthened in the coming years.

While the Barcelona Declaration is a regional process, the ENP is bilateral. Barcelona remains the cornerstone of the Partnership with the Mediterranean – and the Neighbourhood Policy gives us the possibility to work more flexibly to meet the interests of each country.

The Euro-Mediterranean economic and financial partnership will be able to serve as a benchmark for implementation of the ENP and thus help to forge even closer and more consistent co-operation. While the Barcelona process was focussed on trade as a motor for growth, the ENP puts economic reform in the centre, as it is argued that continued regulatory and institutional reform will create an environment conducive to growth.

The Association Agreements are rather similar, designed to link up into a region wide Free Trade Area and their institutions are used by the ENP to pursue closer economic integration and political co-operation. The ENP Action Plans are tailor-made, designed to give each country the opportunity and incentives to choose

³⁹ Jakubiak, M and W. Paczynski (Eds.), 2006: “Countries Bordering the EU and Enhanced Economic Integration”, CASE-Istanbul Economics, Final report for the Ministerie van Economische Zaken: Ref: EP/EIS 5048195 6 March, 2006; Escribano, G. (2005): “Europeización sin Europa? Una reflexión crítica sobre la Política de Vecindad para el Mediterráneo”, Real Instituto Elcano: Documento de Trabajo 23/2005, May 2005; Houtmann, A. (2006) : “The ENP and Internal Market”; Director, DG Internal Market: Presentation at Euro-Mediterranean Economic Transition Conference Brussels, 6 June 2006

⁴⁰ Jakubiak, M and W. Paczynski (Eds.), 2006: “Countries Bordering the EU and Enhanced Economic Integration”, CASE-Istanbul Economics, Final report for the Ministerie van Economische Zaken: Ref: EP/EIS 5048195 6 March, 2006; Escribano, G. (2005): “Europeización sin Europa? Una reflexión crítica sobre la Política de Vecindad para el Mediterráneo”, Real Instituto Elcano: Documento de Trabajo 23/2005, May 2005; Houtmann, A. (2006) : “The ENP and Internal Market”; Director, DG Internal Market: Presentation at Euro-Mediterranean Economic Transition Conference Brussels, 6 June 2006

how and how far it wants to go in deepening relations with the EU, based on its particular needs and capacities. The ENP uses new tools and methods e.g. precise reform goals and steps, regulatory harmonisation, the extension of the twinning and TAIEX⁴¹ instruments, etc. For instance, where Barcelona envisages trade integration focusing on tariff issues, the ENP goes beyond to offer economic integration, inclusion in networks etc. Consequently, there may be potential for mutual reinforcing.

Early assessment of ENP⁴²

For the period ahead, the Commission has recently assessed that despite its strengths, certain areas of ENP need to be reinforced. And a series of improvements are proposed for the ENP to deliver its full potential. Essentially, given that an important part of the benefits of the ENP will be perceived only in the medium/longer term, the implementation of appropriate and timely reforms by partner countries may prove difficult. This is particularly true in trade and economic integration, and in mobility and migration. Also, the ENP has not encouraged relevant steps towards the resolution of regional conflicts.

Achieving deep and comprehensive FTAs requires expanding the existing FTAs, especially to agriculture and fisheries and services, and addressing other regulatory issues; this is particularly true for the Mediterranean partners (See box). Moreover, substantially improved visa procedures for certain types of visitors are crucial to facilitate mobility and managing migration. Besides, the Commission asks for strengthened political co-operation, more systematic association of ENP partners and a more active role in conflict settlement in the region. Finally, in order to reinforce the multilateral approach, it considered as positive to hold ad hoc or regular ministerial and expert level meetings with ENP partners on subjects like energy, transport, the environment and public health.

MEDA Neighbourhood Programme

During the first phase for the definition of the new neighbourhood instrument (see next section), a series of programmes were introduced to introduce the Neighbourhood approach to existing co-operation programmes. They had to function under the existing financial perspectives for the period 2004-2006. With the Neighbourhood Programme approach, the internal and external components of each project are implemented simultaneously, rather than consecutively or separately.

Until the end of 2006, the Commission has been reinforced the coordination of existing instruments for cross-border co-operation with the Mediterranean region through the MEDA Neighbourhood Programme⁴³. The first of such programmes was the Energy Neighbourhood Programme, summer 2004, which aimed to speed up reform in the energy sector in the Mediterranean Partners, develop energy interconnections and harmonise regulations and standards. Its three components are the integration of the Euro-Maghreb electricity market, the creation of Euro-Mashrek gas market, and the energy interconnections between Israel and the Palestinian Territories.

Overall, the MEDA Neighbourhood Programme served prepare the grounds for the launch of the ENPI in 2007, as it was able to set the path towards a reinforced and comprehensive cross-co-operation component as well as other elements characteristic of the neighbourhood approach.

⁴¹ TAIEX, or the Technical Assistance and Information Exchange is an instrument of the Directorate-General Enlargement of the European Commission. TAIEX helps countries with regard to the approximation, application and enforcement of EU legislation. It is largely demand driven and channels requests for assistance and contributes to the delivery of appropriate tailor-made expertise to address problems at short notice

⁴² European Commission (2006): "Communication from the Commission to the Council and the European Parliament on Strengthening the European Neighbourhood Policy", COM (2006) 726 final, December 2006

⁴³ European Commission: "MEDA Neighbourhood Programme: Strategy Paper and Indicative Programme for countries under the Euro-Mediterranean Partnership. Indicative Programme 2004-2006"; "Paving the way for a New Neighbourhood Instrument", COM (03) 393 final

ENP Progress Achieved by Mediterranean Partners that have agreed Action Plans

Israel

Implementing the Action Plan has begun to help better define the path and framework of EU-Israel relations while enabling the deepening and strengthening of co-operation in a wide spectrum of areas. In the course of implementing the Action Plan, EU-Israel co-operation has developed in the area of political dialogue, promoting trade and investment, justice and security, science and technology including space co-operation, as well as higher education. Furthermore, technical workshops on a large number of specific subjects relating, for example, to preventing terrorist financing, promoting judicial and police co-operation, protecting the environment, combating racism/xenophobia/anti-semitism have been organised.

Jordan

Jordan's reform priorities are laid down in its National Agenda, a long term reform-oriented programme published in November 2005, complemented by the initiative "we are all Jordan" which aims to ensure wider support from the Jordanian population. The Jordanian reform programme formed the basis of the ENP Action Plan through which the Commission supports the national efforts. Overall, Jordan has shown a real commitment to working towards a number of political and economic reforms. Results have been achieved in the fields of anti-corruption, public finance management, protection of human rights. Others are currently debated, such as reform of the electoral system. In addition, Jordan decided to converge with relevant EU acquis on standards for industrial products, sanitary and phyto-sanitary matters. The EU and Jordan have also increased co-operation on trade, with negotiations on liberalisation of trade in agriculture products (concluded) as well as on services (on-going). However, more needs to be done in the next four years to translate commitments into concrete progress.

The Palestinian Authority

The Action Plan is designed to provide support to Palestinian reforms and institution building in the context of preparing for a future Palestinian state. Some initially encouraging steps towards reform were realised between 2005 and early 2006, for example on public financial management. Following the formation of a Hamas-led PA government, the EU suspended political contacts and co-operation with that government, pending its acceptance of the Quartet principles. The EU would be ready to resume co-operation and further work on the Action Plan as soon as a government is formed with a programme reflecting the Quartet principles.

Tunisia

The EU-Tunisia ENP Action Plan, linked to Tunisia's own reform priorities, has become the reference framework for a deeper dialogue on economic and trade issues. Progress has been made on economic and social reforms as well as in some sectors, like transport, energy and scientific research. Less progress was registered on political issues, as evidenced by slow preparations for a subcommittee on human rights and democracy, slow progress on freedom of association and expression, and on implementing the programme for modernizing the justice system.

Morocco

There has been a significant enhancement of relations between the EU and Morocco, notably because of Morocco's real interest in the European Neighbourhood Policy as a response towards its desire for an "advanced status". The EU-Morocco ENP Action Plan is an anchor-point for Morocco's on-going reform processes. Morocco has implemented important reforms in most of the main areas of the Action Plan (e.g. liberalization of the audiovisual sector, lifting reservations to some human rights international conventions, financial sector, transport, and environment). The EU and Morocco have also reached landmark agreements in aviation, fisheries and participation in the Galileo satellite navigation system. Co-operation on migration issues has strengthened considerably and negotiations on a readmission agreement are still on-going. Morocco is a strategic partner of the EU in the fight against terrorism. The government continues to pursue political, economic and social modernisation policies which will permit the jointly-agreed objectives of the Action Plan to be attained if the pace of reforms continues. However, the modernisation of the judiciary needs to be pursued further and reducing poverty and creating jobs remain serious challenges.

Source: European Commission: Progress reports on implementation of the ENP, 4th December 2006.

b. ENPI ⁴⁴

⁴⁴ Regulation (EC) No 1638/2006 of the European Parliament and of the Council of 24 October 2006 laying down general provisions establishing a European Neighbourhood and Partnership Instrument (Official Journal of the EU, 9th

Drawing on substantially increased funds, the European Neighbourhood and Partnership Instrument (ENPI) will support the ENP and its Action Plans. From 2007 onwards, it will follow MEDA and TACIS Programmes in the Mediterranean region and the EU's Eastern neighbours, respectively. ENPI will replace as well other horizontal instruments such as the European Initiative for Democracy and Human Rights (EIDHR) or Tempus.

ENPI is described as a more innovative instrument with the aim of gaining in coherence and further simplicity. It will be a single instrument, more flexible, policy-driven and also, catering for the needs of cross-border co-operation at the EU's external borders.

ENPI, innovative instrument:

- policy-driven instrument covering (all) assistance to partners,
- simplified approach for cross-border co-operation,
- technical assistance for institutional capacity building

The ENPI has a broader and potentially more relevant set of four instruments. In addition to the bilateral and regional programmes, the ENPI will introduce in the countries a thematic programme and a cross-border programme with EU structural funds (co-financing) for the EU partners in these programmes.

ENPI's priorities are favouring the sustainable development of neighbouring countries while encouraging their convergence to European policies and regulations⁴⁵.

Responding to differentiation and conditionality, as well as increased ownership, funds allocated to individual country programmes will depend on their needs and absorption capacity as well as their implementation of agreed reforms. Consequently, programming is at the core of the operational phase of ENPI.

The overall policy framework is provided by the partnership and co-operation agreements, the association agreements and other existing or future agreements which establish a relationship with partner countries, and the relevant Commission communications and Council conclusions laying down guidelines for European Union policy towards these countries. Likewise, jointly agreed action plans or other equivalent documents shall provide a key point of reference for setting Community assistance priorities. Given certain characteristics of size and income level, certain individual countries (i.e. Palestine, Belarus, Russia, Israel and Libya) will be allocated on ad hoc basis. Nonetheless, if no agreement exists, Community assistance will be provided and programmed on the basis of EU policy objectives.

As part of ENPI's incentives structure, the so-called Governance Facility implies that Partners which have made the most significant progress in the implementation of the governance priorities of the ENP Action Plan will receive additional financial support.

ENP will be endowed over Euro 12 Billion for the budgetary period 2007-2013, of which over Euro 11 Billion correspond to ENPI⁴⁶. Even if the Commission proposed 20% more, this last figure means that relative to previous instruments financial resources have increased about 45% in nominal terms (32% in real terms). Moreover, additional resources will be given to thematic programmes, and the Human Rights Instrument (worth Euro 0,8 Billion). At least 95% should support country and multi-country programmes, while the rest will be dedicated to the Cross-Border Component (around Euro 550 Million).

November 2006, L310); Commission's Proposal for a Regulation of the European Parliament and of the Council laying down general provisions establishing a European Neighbourhood and Partnership Instrument (COM(2004) 628 final); Communication from the Commission: "Paving the way for a New Neighbourhood Instrument" (COM (2003) COM(2003) 393 final

⁴⁵ Specifically, ENPI will support measures in the areas specified in the article 2.2 of Regulation (EC) No 1638/2006

⁴⁶ European Community funding: other instruments benefiting ENP countries (between parenthesis earmarked funds): Human Rights Instrument (Euro 321,3 Million); Development Co-operation Instrument (thematic programmes component amounting to Euro 464,3 Million); and other general (Instrument for Nuclear Safety Co-operation; Macro-financial Assistance; Humanitarian Aid Instrument; Instrument for Stability).

Instruments foreseen include project funding (technical assistance, micro-projects, budget support (general or sectoral), twinning and also, the loans and risk capital and other financial products of EIB. Nonetheless, specific programmes and initiatives of ENPI are still being defined.

In the following table, it can be seen an indicative breakdown of resources by component for the period 2007-2010:

Indicative Distribution of Resources per Component, Current prices (Euro), Period 2007-2010		
Component	Budget 2007-10 (Euro)	% of Total
Country	4.126,5	73%
Multi-country	817,6	15%
CBC	277,1	5%
Governance Investments	400,0	7%
<i>Total</i>	<i>5.621,2</i>	<i>100%</i>
Source: European Commission, 2006:		

In view of the importance attached to private sector development in the Mediterranean region, it is recalled that enterprise policy is included among the objectives of ENPI⁴⁷. As pointed earlier on, for the Mediterranean neighbourhood this involves the implementation of the Euro-Mediterranean Charter for Enterprises, as well as measures that promote business development, competitiveness and innovation, with particular focus on SMEs, training and capacity-building. Furthermore, it is expected that ENPI supports the dialogue and exchange of experiences between the two Mediterranean basins, with particular emphasis on certain sectors, such as textile and clothing, and tourism.

c. Cross-Border Co-operation Component⁴⁸

Under the Cross-Border Co-operation component (CBC), ENPI will support “joint programmes” bringing together regions of EU Member States and Partner Countries sharing a common border. Since it will operate through a single management mechanism and with a single set of procedures, it is expected to simplify procedures and bring substantial gains in efficiency.

The approach adopted will be underpinned on that of the Structural Funds, which is based on principles such as multi-annual programming, partnership and co-financing.

The CBC will be co-financed by the ERDF (Regional Funds). It should also build on the experience acquired from the implementation of the Neighbourhood Programmes in the period 2004 to 2006.

⁴⁷ Günter Verheugen (Vice President of the EU’s Enterprise and industry policy.), New perspectives for the Euro-Mediterranean economic co-operation under the European Neighbourhood Policy, Conference of Euro-Mediterranean Ministers for Industry in Rhodes (21st-22nd September 2006).

⁴⁸ Some of CBC’s main reference documents are: Regulation of the Council laying down general provisions on the European Regional Development Fund (ERDF) and European Social Fund (ESF) - (CE) N. 1083/2006; Regulation of the European Parliament and of the Council laying down general provisions on the ERDF - (CE) N. 1080/2006; P Regulation (EC) No 1638/2006 of the European Parliament and of the Council of 24 October 2006 laying down general provisions establishing a European Neighbourhood and Partnership Instrument; Implementing rules of the CBC Programmes financed within the framework of the legal basis ENPI (draft); The European Neighbourhood and Partnership Instrument Cross-border Co-operation ENPI-CBC: How to prepare programmes - Guidelines for preparing CBC Programmes under the ENPI (draft); “ENPI: Cross-Border Co-operation. Strategy Paper 2007-2013, Indicative Programme 2007-2010”, September 2006.

Cross-Border Component			
Why			
<ul style="list-style-type: none"> ▶ Avoid new dividing lines in Europe ▶ Key element in promoting an area of security, stability and prosperity of EU and its neighbours 			
Objectives			
Promote economic and social development in border areas	Address common challenges	Ensure efficient and secure borders	Promote people-to-people co-operation
Examples of Actions for each objective			
<ul style="list-style-type: none"> ▪ administrative capacity building and reform ▪ local and regional development ▪ joint planning efforts ▪ rural development and cross-border tourism ▪ strengthening of regional identity ▪ SME and business development ▪ trade and investment promotion ▪ cross-border labour market development ▪ transport and energy co-operation 	<ul style="list-style-type: none"> ▪ environmental protection ▪ cross-border environmental challenges ▪ waste management ▪ management of natural resources ▪ protection of natural heritage ▪ emergency preparedness ▪ health and social development, ▪ prevention of communicable diseases, ▪ fight against organised crime, illegal migration, trafficking 	<ul style="list-style-type: none"> ▪ improvement of border management operations and customs procedures ▪ increase of transparency and efficiency in trade and border passage ▪ alleviation of administrative and institutional obstacles to free flow of persons ▪ improvement of infrastructure and equipment at border controls 	<ul style="list-style-type: none"> ▪ support to civil society and local communities ▪ support to reform ▪ democratisation, governance ▪ education and cultural exchange ▪ social sector co-operation ▪ social and cultural integration of border areas

Consequently, as from 2007, the new programming will overcome the existing distinction between internal and external policies and INTERREG IIIB will be included as a neighbouring instrument. The specific CBC programmes are being defined. Until the end of 2006,

d. Future of FEMIP under ENP

The year 2006 has been a crucial year for FEMIP, as the European Council has re-examined its future under the new Financial Perspectives and the launch of the ENPI. Moreover, as previously agreed by the Council, there has been the FEMIP evaluation procedure initiated by the European Commission together with the EIB in consultation with all those involved in the Euro-Mediterranean partnership. The results of this exercise were presented in Tunis, June 2006 and have been the main input for the European Council (28th November 2006), which has renewed FEMIP's mandate.

The main points for the future of FEMIP are the special emphasis has been placed in strengthening the links with the ENP and in increasing support for the development of private sector, while maintaining its efforts in improving the business environment by financing high-quality infrastructure.

Consistency with ENP

The 2006 assessment has been significant in order to ensure the consistency of the instrument with the EIB's new lending mandates for the period 2007-2013 for operations outside the European Union, but also with the European budget support over the same period for technical assistance, risk capital and interest subsidies (which to date was channelled through MEDA).

The Commission's proposal to the Council considered three options for the future of FEMIP⁴⁹:

- baseline option (no changes in instruments + increase in volume of loans + stronger links with ENP)
- second alternative (fine-tuning and diversification of financial instruments + increased partnership and local presence)
- fully-fledged Euro-Mediterranean EIB subsidiary

⁴⁹ European Commission (2006): "Communication from the Commission to the Council. Assessment of the FEMIP and Future Options", COM (2006) 592 final, Brussels 17/10/2006

The Commission and the EIB consider that the second option is the most cost- and time-efficient, which would imply maintaining the current institutional setting but introducing improvements in instruments, local interaction and strategic focus.

On 28th November 2006, the Council renewed the EIB's mandate for external lending for the period 2007-2013. The total volume of lending amounts to Euro 27,8 Billion (Euro 2 Billion would be withheld until 2010, pending mid-term results) and its regional distribution has budgeted Euro 12,4 Billion for European neighbourhood and partnership countries, of which Euro 8,7 Billion correspond to Mediterranean countries (70% of EIB's external lending to ENP countries).

Consequently, FEMIP will be strengthened without significant changes in its current structure but with an increase of its resources and range of instruments:

1. better match private sector and SME needs by adjusting the range of FEMIP instruments;
2. increase ownership by introducing a permanent advisory committee with Mediterranean partner countries and EU Member States to discuss operational priorities and results; and,
3. better identify, and respond to, the needs of Mediterranean countries by strengthening FEMIP's presence at local level.

Also, as the ENP further develops, EIB will review its strategic linkages and consistency with the EU efforts for economic reform.

FEMIP has recently recognised the need of stressing the actions towards the improvement of the business climate and attraction of foreign-direct investments in the Mediterranean region, as well as ways to develop further Mediterranean energy markets – with special emphasis on encouraging renewable energy and energy. More importantly, FEMIP should facilitate the transfer of experience to those partner countries that make less use of its financial support.

Mr Philippe de Fontaine Vive, Vice-President of the EIB in charge of FEMIP, said:

“Improving the business climate in the Mediterranean region will not only give new impetus to the local private sector, particularly Small and Medium-Sized enterprises (SMEs), but it will also attract Foreign Direct Investment (FDI), necessary for economic growth and job creation. In a world, however, where energy consumption has almost doubled since 1970 and where the level of economically recoverable oil reserves is uncertain over the next 20 to 25 years, no sustainable development, no economic growth and no social stability can be envisaged without common solutions to the energy challenges. Joint efforts between European countries as well as between Europe and its partners and neighbours, to promote a better business climate and private sector development and to establish a Euro-Mediterranean Free Trade Area, will only succeed if we build a Euro-Mediterranean energy community”.

Further to its lending for energy projects of some Euro 3,5 Billion over the last ten years, the FEMIP Trust Fund is financing two key energy studies: on the development of renewable energy and energy efficiency projects in developing countries, and on carbon finance and crediting activities in the Mediterranean region. These will facilitate the identification of priority sectors and the set-up of a pipeline of concrete projects, which FEMIP could help develop and finance.

a) Private Sector Development

While it is recognised the FEMIP's contribution to investment and economic growth, it is also true that it can still do more to foster private sector development and especially small and medium sized enterprises (SMEs). The latter represent more than 95% of all businesses and 50-70% of employment in many Mediterranean countries.⁵⁰

Loans to private companies and SMEs, mostly through local intermediaries, have trebled in the last three years. In addition, risk capital financed with EU budget resources has enabled the participation in private equity funds, microfinance institutions and SME loan guarantee schemes. A Special FEMIP Envelope was

⁵⁰ “Commission proposes re-focused FEMIP closer to SMEs and Mediterranean neighbours”, Press Note, Reference P/06/1469 Brussels, 24 October 2006; “The Euro-Mediterranean Ministerial Committee discusses future guidelines for FEMIP in Tunis”, Press Note, Reference : 2006-068, Brussels, 26/06/2006

created in 2003 for loans with a higher risk profile. However, support to the private sector has not yet reached its full potential.

In line to what has been said before, FEMIP should further increase operations with private companies and diversify its range of instruments, while the Mediterranean governments must provide the adequate framework.

Nonetheless, it needs to be emphasised that the rise of budgeted resources for 2007-2013 is justified if FEMIP is asked to effectively play a catalytic role on private development in the region. The EIB current statute and corporate culture make it difficult for FEMIP to shift its operations towards that direction, and hence, FEMIP's commitment towards the private sector in the region is to be sustained by Community resources.

b) Energy

Increasingly, energy issues have been achieving priority level in all international agendas. While sources of power remain unequally distributed, demand for energy is strongly expanding, especially as emerging economies, such as China and India, enter into the market for energy imports. Hence, considering that the Mediterranean region is one of the EU's leading suppliers – mainly, of natural gas, the current situation offers a unique opportunity for co-operation between countries and market operators on both sides of the Mediterranean basin. Therefore, it is crucial that FEMIP continues to dedicate investments in energy production and private sector development.

In fact, FEMIP has already acknowledged the impact of energy production and private sector development on growth, social cohesion, environment and human health. Likewise, it recognises that such investments require large resources and hence, already allows for funds to flow into viable private sector projects, as well as the energy sector. Nonetheless, it has been called to pay further attention to the energy sector, especially to renewable energies.

c) Operational issues

Several proposals for improvement at operational level have been presented. In general, the Council endorsed a greater linkage between Community and FEMIP operations and an intensified dialogue between European and Mediterranean countries on operational issues.

Concerning procurement procedures, it will be necessary to work on standardising procedures within the community of financing institutions and greater involvement of the partner countries. The Ministers called upon FEMIP to reduce the administrative burden which discourages both local initiative and foreign direct investment. Likewise, it has been assessed that FEMIP is already equipped to support this initiative and mobilise its technical assistance resources for that purpose. Particularly, the Ministers welcomed the new measures adopted aimed at giving preference to local companies.

Also, FEMIP should direct technical assistance to increase the involvement of trade associations and chambers of commerce, as well as of the civil society, in those areas for which it is responsible, could also be promoted through technical assistance services.

Instruments		Mean Features	Origin of Funds	Type of Assistance	Total Allocated to Date																		
1995-2006	MEDA	<ul style="list-style-type: none"> ▶ Main EU financial instrument of EMP. Its aim is the achievement of the objectives of the Barcelona Declaration (1995) ▶ Two phases: MEDA I (1995-2000), and MEDA II (2000-2006). ▶ Two dimensions: regional assistance and bilateral assistance 	From EU Budget BUDGETED: MEDA I, 3.435 Million Euro and MEDA II, 5.350 Million Euro.	<ul style="list-style-type: none"> ▶ Budget support ▶ Project support, including Technical assistance ▶ Regional projects 	<p>Bilateral component always larger than regional one. Commitments to payments ratio has improved after MEDA's amendments:</p> <table border="1"> <thead> <tr> <th colspan="2">(Million Euro)</th> <th>Bilateral</th> <th>Regional</th> </tr> </thead> <tbody> <tr> <td rowspan="2">95-99</td> <td>Commitments</td> <td>2.586</td> <td>471</td> </tr> <tr> <td>Payments</td> <td>651,3</td> <td>222,5</td> </tr> <tr> <td rowspan="2">00-04</td> <td>Commitments</td> <td>2.356,1</td> <td>739,8</td> </tr> <tr> <td>Payments</td> <td>1910,1</td> <td>478,4</td> </tr> </tbody> </table>	(Million Euro)		Bilateral	Regional	95-99	Commitments	2.586	471	Payments	651,3	222,5	00-04	Commitments	2.356,1	739,8	Payments	1910,1	478,4
	(Million Euro)		Bilateral	Regional																			
95-99	Commitments	2.586	471																				
	Payments	651,3	222,5																				
00-04	Commitments	2.356,1	739,8																				
	Payments	1910,1	478,4																				
	FEMIP	<ul style="list-style-type: none"> ▶ FEMIP is the instrument of the EIB towards the Mediterranean region. Its aim is to develop the private sector and contribute to the creation of a favourable business climate, as well as social and economic infrastructure. ▶ It was created in 2002, in 2003 was further reinforced and in 2006 has been reviewed again. 	Under FEMIP, the Bank budgeted Euro 8-10 Billion for Mediterranean Partners by 2006: over € 7 Billion from own resources, while around € 250 Million in risk capital as well as some € 100 Million in technical assistance entrusted to it from the EU budget under the MEDA funds.	<p>The Facility provides the business community with access to financial products that are not easily available in the region</p> <ul style="list-style-type: none"> ▶ loans; ▶ investment capital (equity and quasi-equity); and ▶ grant aid for technical assistance 	2002-2005: FEMIP has signed 77 operations totalling Euro 7,2 Billion, bringing the total value of projects financed to Euro 25,6 Billion. Disbursements followed similar patterns to approvals, and from 2000 have grown from Euro 0,6 Billion to Euro 1,7 Billion. Risk capital component has been rising over time and largest share of loans is received by a specific group of countries (Turkey, Egypt, Tunisia and Morocco)																		
2007-2013	ENPI	<ul style="list-style-type: none"> ▶ Financial instrument of ENP, it will replace MEDA and TACIS programmes, as well as other horizontal instruments ▶ Starts from 2007 onwards ▶ Innovative approach and features (Action Plans, Governance Facility, Cross-border Co-operation, etc) 	From EU budget BUDGETED: ENP 2007-2013: Euro 12 Billion, of which over Euro 11 Billion correspond to ENPI	<ul style="list-style-type: none"> ▶ Country ▶ Multi-country ▶ Cross-border Co-operation ▶ Governance Investments 	NA																		

Instruments		Mean Features	Origin of Funds	Type of Assistance	Total Allocated to Date
	FEMIP	Idem plus emphasis on private sector development	Idem but financing under MEDA passes to be from ENPI.	Idem plus emphasis on instruments to support SMEs	NA