THE FINANCING OF CO-DEVELOPMENT IN THE MEDITERRANEAN

FINAL REPORT

HIGH-LEVEL WORKING GROUP CHAIRED BY MR. CHARLES MILHAUD

MAY 2010

MEMBERS OF THE HIGH-LEVEL WORKING GROUP

The High-Level Working Group comprises eleven members, all of which have been appointed personally and who are not making any undertaking on behalf of their respective institutions:

- Charles Milhaud, Chairman of the High-Level Working Group, former Chairman of the Board at the *Caisse Nationale des Caisses d'Epargne* and Chairman of CM Conseil
- Khalil Ammar, Chairman and Chief Executive Officer of the BFPME (Tunisia)
- Pekin Baran, Vice-Chairman of TÜSIAD (Turkish Industrialists' and Businessmen's Association), Chairman of the Board of Directors of Denizcilik, a shipping company
- Franco Bassanini, Chairman of *Cassa Depositi e Prestiti* in Italy, former Minister
- Mohamed El Kettani, Chairman and Chief Executive Officer of Attijariwafa Bank (Morocco)
- Philippe de Fontaine Vive-Curtaz, Vice-President of the European Investment Bank
- Abderrahmane Hadjnacer, Director of IM Bank, former Governor of the Central Bank of Algeria
- Daniel Houri, Senior Magistrate at the French Court of Audit, member of the Supervisory Board at the Caisse des Dépôts et Consignations, former President of Banks
- Jean Lemierre, Advisor to the Chairman of BNP Paribas, former Director of the Treasury and former President of the European Bank for Reconstruction and Development
- José Antonio Olavarrieta, Director of the Spanish Confederation of Savings Banks
- Mohamed Tammam, Sub-Governor of the Central Bank of Egypt

The rapporteurs, under the supervision of Daniel Houri, Senior Magistrate at the French Court of Audit, are:

- Eric Dussoubs, Junior Magistrate at the French Court of Audit
- Alexis de Maigret, Director of Studies at the Economic Cooperation Council
- Charles-Henri Malécot, Advisor to the Executive Committee at the *Caisse des Dépôts et Consignations*
- Erik Pointillart, member of the Océor Executive Board and Coordinator of the *Alliance des Banques pour la Méditerranée*
- Pierre Uhel, General Economic and Financial Controller at the French Ministry of Economy and Finance

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EXECUTIVE SUMMARY AND MAIN RECOMMENDATIONS

By a letter dated December 17th, 2009, the President of the French Republic tasked Mr Charles Milhaud with establishing a Working Group to "*assess the opportunity of creating a dedicated bank for financing co-development in the Mediterranean*". This eleven-member High-Level Working Group, comprised of professionals and specialists from the financial sector, carried out this task in a short timeframe. Its work was punctuated by visits to most Mediterranean countries and by several plenary sessions held between March and May 2010. The Working Group unanimously adopted this report in May 2010.

The Working Group has recorded all financing instruments currently in place for Southern and Eastern Mediterranean countries, and subsequently assessed their strengths and weaknesses. Based on a strictly technical and professional analysis, the Working Group believes it is in a position to put forward an ambitious reform proposal, which will bring value added compared to existing tools. It recommends the creation of a Euro-Mediterranean financial institution for co-development, by establishing a dedicated subsidiary of the European Investment Bank (EIB), encompassing its present Mediterranean activities.

Co-development seems to be the most suitable framework for attracting external aid with the potential to foster economic growth in the Southern Mediterranean, capable of reducing the differences in standards of living between the two sides of the Mediterranean, and of providing sustainable growth opportunities for European countries.

In 2009, total external public funding for the Southern and Eastern Mediterranean reached about €20bn. The European Union was the largest contributor, with €2bn from the European Union budget and €5bn from the EIB. The *Agence Française de Développement* (AFD) became the leading bilateral partner, with an annual commitment on target to pass the €1bn mark.

Nevertheless, these significant amounts remain inadequate compared to the region's investment requirements, since they represent ten times less than the available estimate for the sole infrastructure investment needs. However, the main issue with the flow of external public funding lies more with its effectiveness than with the insufficient amount of its commitments. The diagnosis, which has already been made several times in the past, of a lack of coordination between lending institutions, a lack of "ownership" by countries in the South, and a lack of direct support to the private sector, remains overall true, despite substantial improvements, in particular with respect to the EIB's activities and the significant results achieved through FEMIP operations. The Mediterranean therefore finds itself in the paradoxical situation of being undoubtedly the region with the largest number of institutional players, whilst being the only one without a dedicated institution that could catalyse their efforts.

As regards the gap between investment needs and available resources, it must primarily be reduced by mobilising domestic savings, as well as enhancing the region's attractiveness vis-à-vis foreign direct investment. This twin-pronged goal can now be reached since most countries in the region have achieved a remarkable degree of macroeconomic stability and are currently undertaking institutional reforms that are propitious to private initiative, even though structural reforms are still needed to strengthen investor confidence.

Existing financing instruments have not proved able to address these challenges and to remove the bottlenecks affecting long-term financing of the economy, as well as the access of companies, in particular small and medium enterprises, to bank credit. Credit remains scarce, with short-term maturities, and subject to stringent conditions in terms of collaterals requirements, due to an "over-liquid" banking system that is too reliant on short-term resources.

Financial markets cannot offer alternative financing sources for the private sector. Bond markets remain underdeveloped, lacking depth and liquidity, and crowded out by public debt, while stock markets are immature in most countries.

Together, these constraints hamper the momentum of the private sector and therefore prevent countries in this region from achieving any sustainable acceleration in growth, while existing financing institutions lack the operational ability to successfully overcome these difficulties.

Considering these shortfalls, the Working Group is unanimous to believe that creating a Euro-Mediterranean institution for co-development by establishing a dedicated subsidiary, encompassing the present Mediterranean activities of the EIB, is the best alternative (Option 2).

When recommending this option, it followed a strictly professional approach governed by certain fundamental principles: the value of any new institution would be conditional upon the implementation of institutional and economic reforms propitious to private initiative; it should have a complementary role, offering services that other institutions do not provide to any great extent or very well, without worsening coordination issues; it should be subsidiary to the private sector and not replace it; finally it should be an instrument of transition and support.

The Working Group believes that the co-development aspect of the proposal, which would be assured by contributions from countries and experts from across the Southern Mediterranean towards the management and running of this new institution, is a guarantee of increased operational efficiency compared to existing institutions. The final guiding principle adopted by the Working Group is that the financial institution should have an AAA credit rating, this being mandatory if we are to ensure its financial ability and therefore its success in practice.

This new institution would focus on supporting the private sector, in particular through assistance for long-term financing, helping SMEs gain access to bank credit, developing guarantees, stimulating financial markets, supporting innovative investment funds and transferring financial technology through technical assistance. It would also assume the areas of activity of the FEMIP in order to ensure operational consistency with the EIB.

The EIB ought to be, indeed, the reference shareholder of this new institution, and the Working Group feels that a stake of around one third of the capital would be desirable. This level of investment would indeed anchor the subsidiary status of the institution, set the ground for obtaining a AAA rating, and be consistent with the requirement of Southern Mediterranean countries contributing to the capital, in line with the principle of co-development.

The Working Group is aware that this option will demand a significant budgetary effort from shareholders, Governments and public financial institutions. More than €10bn in authorised capital will be needed in order to ensure annual commitments of around €2bn. The new lines of business that this institution would deliver would result in an increase of risk compared to existing institutions, which would have to be offset by increased financial strength. Given these circumstances, the Working Group feels that paid-in capital should represent about 40% of the authorised capital.

The recommended option is therefore Option 2. One of the other proposed options (Option 1), the *ex nihilo* creation of an institution, is not recommended since the Working Group feels that it would demand too much cash from potential shareholders given their current financial situation. Option 3, the creation of a Mediterranean public fund to act as a common investment vehicle for long-term public investors, and not as a savings collector, has also been judged insufficient both as regards technical aspects and in terms of resources. It could however be used as an alternative option, if the public authorities decided not to go ahead with Option 2. The Working Group does feel, however, that this second best option would fall short of addressing the challenges and issues that it has identified.

The proposed solution (Option 2) is ambitious. It is however, fundamentally justified according to the Working Group, since it is the only option suited to deal with the full extent of the challenges posed by the need for accelerated growth in the countries of the Southern Mediterranean. Historically, efforts aimed at regional integration have always been accompanied by the creation of a financial "spearhead", as was the case for the European Union with the EIB, and then the EBRD. The Working Group therefore feels that a Union for the Mediterranean with no dedicated financial instrument would find itself significantly hampered in its work.

This decision has been unanimously approved by the Working Group.

Summary of proposed options

		Option 1 : Creation of a Mediterranean Development Bank	Option 2 : Creation of a Euro-Mediterranean financial institution integrating EIB's existing activities	Option 3 : Creation of a common Mediterranean vehicle for long-term public investors
Fundamental principles	Conditionality	✓✓✓	✓✓✓	✗
	Complementarity	✓	✓✓✓	✓✓
	Subsidiarity	✓✓✓	✓✓✓	✓
	Time-limitedness	✓✓	✓✓	✓✓✓
	AAA credit rating	✓	✓✓✓	✓✓
Activities	Long-term financing	✓✓✓	✓✓✓	✓
	Guarantees	✓✓✓	✓✓✓	✗
	Capital markets	✓✓✓	✓✓✓	✗
	SME financing	✓✓✓	✓✓✓	✓
	Investment funds	✓✓✓	✓✓✓	✓✓✓
	Technical assistance and know-how transfer	✓✓✓	✓✓✓	✗
	Cost	✗	✓	✓✓
	Ownership by Mediterranean countries	✓✓✓	✓✓✓	✗
	Total	✓✓	✓✓✓	✓

INTRODUCTION

The Union for the Mediterranean (UfM) results from the transformation of the Euro-Mediterranean process (or Barcelona Process) during the Paris summit held in July 2008. It outlines relations between Member States of the European Union and Mediterranean countries. The UfM has 44 members: the 27 Member States of the Union, 16 Mediterranean States and the Arab League. One country, Libya, is not a member but has the status of observer.

The creation of a financial institution specifically dedicated to the Mediterranean area has been mentioned several times already.

The current President of the French Republic, when he was still a candidate, declared himself in favour of the creation of a *"Mediterranean Investment Bank modelled on the European Investment Bank"* in Toulon on February 7th, 2007. Henri Guaino, Special Adviser to the President of the French Republic, also declared himself in favour of the creation of such a financial institution, in a speech delivered during the Paris Forum in May 2009.

In a letter dated December 17th, 2009, the President of the French Republic entrusted Mr Charles Milhaud with forming a Working Group to *"assess the opportunity of creating a bank dedicated to the financing of co-development in the Mediterranean"*.

The Working Group began its work early 2010, in a context marked by the structuring of the UfM (Mr Ahmad Massadeh became Secretary General and took office in Barcelona on March 4th, 2010) and by the prospect of a change in presidency (currently held by France and Egypt until June 2010).

The creation of a financial institution dedicated to co-development in the Mediterranean region is not an entirely novel idea. Such a project has been mentioned a number of times by international institutions as well as in the context of private initiatives (e.g. Mediterranean Financial Club in 1995).

This project was examined in 2002, during the Spanish Presidency of the European Union, based on the observation that the European Investment Bank (EIB) did not sufficiently finance the private sector. This project was purposely discarded in 2006, when reviewed by the Facility for Euro-Mediterranean Investment and Partnership (FEMIP)[1], in particular due to the cost and scope involved. The Parliamentary Assembly of the Mediterranean pronounced itself several times in favour of the creation of a development bank dedicated to the Mediterranean region, in resolutions adopted on November 24, 2007 in Malta and on November 14, 2008 in Monaco.

Even though the difficulties identified then have not all disappeared, the legal situation has changed with the Lisbon Treaty. Actually the creation of a subsidiary of the EIB does no longer require an amendment of European treaties.

The development of the Mediterranean region reflects the history shared by countries on the North bank and the South bank. The purpose of the Working Group is not to dwell on historical issues but it wishes to highlight the cultural community that exists between countries on both sides of the Mediterranean.

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[1] Communication from the Commission to the Council on October 17th, 2006: COM(2006)592

However, the Working Group believes that there is an objective benefit for Europe to develop the Mediterranean region, which is not one of duty for developed countries to aid developing countries, but an economic one: it is an investment from which Europe will benefit in the medium to long-term.

Out of all the regions in the world, the Mediterranean is that in which the wealth gap between the North and South is the greatest. And yet, the demographic and economic dynamism of Mediterranean countries show that this area can constitute a growth engine for Europe, whose demographic and potential growth prospects are decreasing.

Other countries have made this choice: the USA, Japan and China have all massively invested in their neighbouring Southern regions at a time when these regions were still developing (Central and Latin America for the USA, countries like Thailand, Indonesia and Malaysia for China, South-East Asian countries for Japan). The current increase in standard of living in these countries directly benefits the American, Japanese and Chinese economies.

The geographic region selected by the Working Group is as defined by the Paris summit of July 13, 2008: it includes European Union non Member States and members of the Union for the Mediterranean, whether on the North or South bank of the Mediterranean. The countries selected are Albania, Algeria, Bosnia-Herzegovina, Croatia, Egypt, Israel, Jordan, Lebanon, Morocco, Mauritania, Monaco, Montenegro, Syria, the Palestinian Territories, Tunisia, Turkey and Libya[2].

The reinforcement of relations between Mediterranean countries and European countries is inevitably linked to the development of trade flows, a reflection of the way in which the European Union was built and pacified after 1945. This process must involve all countries and apply solutions shared by both European and Mediterranean countries.

The Working Group has therefore been careful not to adopt a theoretical approach, nor to propose ready-made solutions that would have been established without concerting with Mediterranean countries.

The Working Group has organised several visits to various countries within the considered geographic region, in order to meet company directors, investors from the financial community and public administration directors. Each time, the Working Group was intent on hearing these economic leaders to establish their needs in order to find the most appropriate and most acceptable solution for all involved.

In accordance with the mandate it has received, the Working Group has first sought to assess the existing financing within the region, in order to get a comprehensive view of the financing of development in each country. It has been able to observe significant developments achieved by multilateral institutions but also their limits.

Furthermore, the Working Group has examined the most appropriate way to meet the economic needs of Mediterranean countries. Several options were considered, keeping in mind that any creation of an institution dedicated to the financing of co-development in the area could only be justified if it provided added-value compared with existing instruments.

Therefore the Working Group proposes three options, of which the President of the French Republic shall retain the one he considers to be the most appropriate.

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[2] Even though Libya is not a member of the Union for the Mediterranean, it has an observer status and benefits from European funds under the EC neighbourhood policy. The Working Group has therefore included it in its scope.

This report assesses the financing of co-development in the Mediterranean region.

First, it describes existing instruments, and charts as exhaustively as possible all those involved, for each country. The Working Group proposes a consolidated view of all financing in the area, by country, whether from government agencies, international financial institutions, or from bilateral aid paid directly by the States. An aggregate view of all involved was until now unavailable (1).

The second part is dedicated to assessing these financing instruments. The Working Group has been able to observe the ensuing developments but also their limits. Several elements call for additional financing: the macroeconomic context and development stage of the countries, the need for infrastructures and financing for SMEs, and finally, the insufficient mobilisation of private funds in countries within the region. These deficiencies would in themselves justify the creation of a specific financial institution to meet the needs that are not covered by existing institutions (2).

Finally, the third part examines the various forms that could take an institution dedicated to the financing of co-development in the Mediterranean and puts forward three options to the President of the French Republic (3).

PART I : OVERVIEW OF THE FINANCING OF CO-DEVELOPMENT IN THE MEDITERRANEAN

The financing of co-development in the Mediterranean is ensured by a vast number of stakeholders. There is no document giving a consolidated view of all lending institutions in each country.

The purpose of this first part is to describe the existing financing mechanisms and to propose a summary that is as exhaustive as possible of the various financing sources available by country.

I. THE EUROPEAN UNION: FINANCING FOCUSED ON EASTERN EUROPEAN COUNTRIES

The European Union dedicates part of its budget to aid countries in the Mediterranean area. EC funds for the region represent €2.2 billion, i.e. 1.7% of a total annual budget of around €130 billion.

The neighbourhood policy is the European Commission's main instrument in the region. Pre-accession funds benefit Turkey and other Eastern European countries. More marginally, other budget lines are likely to benefit countries in the area.

To summarize, in 2009, the European Union dedicated €1.3 billion to Balkan countries and Turkey, versus around €1 billion to the South of the Mediterranean, while the latter has 2.5 times more inhabitants than Eastern Europe and Turkey.

A. NEIGHBOURHOOD POLICY: AN INSTRUMENT TO BE MAINTAINED

The European Neighbourhood and Partnership Instrument (ENPI) was implemented as of January 2007. It replaces the MEDA programme[3] for countries to the South of the Mediterranean, and partially replaces the TACIS programme[4] for countries to the East of the European Union.

The ENPI financing is based on association agreements signed between eligible States and the European Union. The neighbourhood policy finances projects, technical assistance and administrative cooperation actions (sending experts) as well as sectoral budgetary aids. The programme's priorities are as follows:

- Governance (support for reforms in the areas of human rights, democracy, justice and media)
- Economic growth (productivity, competitiveness, business and development of the private sector)
- Social and environmental reforms (reducing poverty, employment, development of human resources, renewable energy and decentralisation)

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[3] The MEDA programme financed the actions of the Barcelona Process during the previous programme of the EU budget.

[4] The TACIS programme financed the funds for Eastern European countries during the previous programme of the EU budget.

For the budgetary period 2007-2013 the ENPI is currently endowed with €11.605 billion. Two thirds of funds are allocated to the Southern neighbourhood of the European Union and one third to its Eastern neighbourhood[5].

However, the neighbourhood policy tends to re-balance itself toward the East: an additional funding of €350 million was granted in 2009 to the new Eastern Partnership[6]. If we exclude from the calculations the funds allocated to the Palestinian Territories, which are subject to a separate budgetary process, the proportion of funds benefiting the Southern neighbourhood countries would go from 65% in 2007 down to 55% in 2013. For the 2011-2013 programme, currently under negotiation, the trend is also unfavourable for Mediterranean countries, for the benefit of neighbouring countries to the East of the European Union: the increase in funding for countries to the South of the Mediterranean for 2011-2013 compared with 2007-2010 would be 13%, whereas over the same period, funding for the Eastern neighbourhood would increase by 53%.

Other than funding earmarked by country, the neighbourhood instrument contains lines that may be distributed among the various neighbourhood countries. Therefore the Administration, Cross-border Cooperation, Multi-country Programme, Governance facility and Neighbourhood Investment Facility lines fund both Southern and Eastern countries. In the initial programming, countries in the Southern neighbourhood should receive over 85% of these budgetary lines (i.e. €2.2 billion out of the €2.5 billion allocated for 2007-2013). The application of these budget lines over 2007-2009 show however that half of these lines are used for the benefit of Eastern countries, which illustrates the intention to redirect neighbourhood policy towards the East.

Part of the ENPI funds for the Southern region (€32 million per year) contributes to the Facility for Euro-Mediterranean Investment and Partnership (FEMIP), managed by the European Investment Bank (EIB). For now, these funds are dedicated by the FEMIP to the development of businesses (venture capital and technical assistance), and when they are recovered by the FEMIP, they are refunded to the EU budget. This point is currently subject to negotiation between the European Union and Member States, in the context of preparing the ENPI programme for 2011-2013.

Table n° 1 : ENPI indicative programme for 2007-2013

[5] This allocation rule was agreed by the Commission and Member States at the COREPER held on May 5th, 2006.

[6] The Eastern Partnership, launched on May 7, 2009, is the European Union's neighbourhood policy for Armenia, Azerbaijan, Georgia, Moldavia, Ukraine and Belarus.

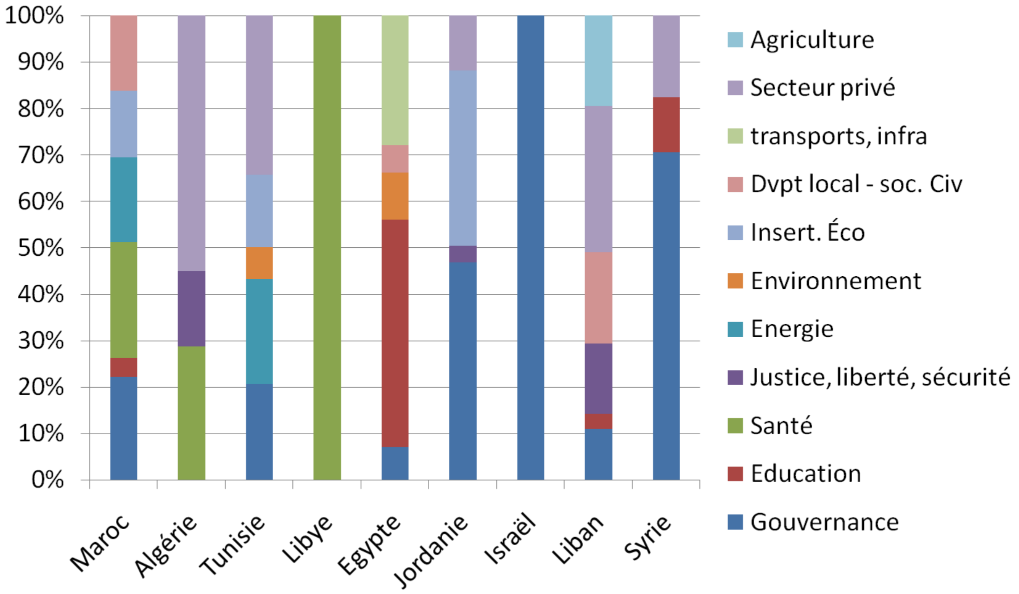
In € Million	2007	2008	2009	2010	2011	2012	2013	Eastern Partnership 2009-2011	Eastern Partnership 2011-2013	**Total 2007-2013**
Administration Expenses	42	38	52	54	47	51	55	1	10	**348**
Cross-Border Cooperation Programmes	42	73	80	82	102	105	86			**570**
Multi-country Programmes	76	64	66	68	86	84	93			**537**
Governance Facility	50	50	50	50	50	50	50			**350**
Neighbourhood Investment Facility	50	50	85	65	100	150	200			**700**
Total (A)	260	274	333	319	385	440	483	1	10	**2 505**
Algeria	57	55	54	54	54	58	60			**392**
Egypt	137	139	140	142	144	150	155			**1 007**
Israel	2	2	2	2	2	2	2			**14**
Jordan	62	65	68	70	71	75	77			**488**
Lebanon	50	50	43	44	45	50	55			**337**
Libya	2	2	2	2	10	20	30			**68**
Morocco	162	163	164	165	179	194	209			**1 235**
Palestine	158	158	158	158	158	168	178			**1 136**
Syria	20	20	40	50	42	43	45			**259**
Tunisia	73	73	77	77	75	81	83			**540**
Regional allocation	94	74	83	92	88	97	103			**631**
Total South (B)	**817**	**801**	**831**	**856**	**867**	**937**	**997**			**6 107**
Armenia	21	24	25	29	36	39	42		40	**256**
Azerbaijan	19	22	24	27	28	32	34		28	**214**
Belarus	5	5	5	5	15	22	27		16	**100**
Georgia	24	29	30	37	45	47	50		38	**301**
Moldova	40	46	57	67	71	75	79		48	**483**
Russia	30	30	30	30	15	15	15			**165**
Ukraine	120	122	124	128	130	132	134		74	**964**
Regional allocation	45	45	62	71	59	65	69	24	70	**510**
Total East (C)	**304**	**323**	**358**	**394**	**399**	**427**	**450**	**24**	**315**	**2 993**
Total (A+B+C)	**1 381**	**1 398**	**1 522**	**1 569**	**1 652**	**1 804**	**1 930**	**25**	**325**	**11 605**

Source: European Union data, French Treasury

Morocco, Egypt and the Palestinian Territories benefit from the largest amounts under the neighbourhood policy: these countries receive over half of available financing for Southern countries (€450 million out of €855 million planned for 2009 and €3.3 billion out of €6.1 billion planned for 2007-2013).

The neighbourhood policy finances many sectors. The chart below shows that some countries concentrate neighbourhood funds on a few priorities (governance in Israel, Syria and Jordan, health in Libya), while others use them in a more diffused way to finance diverse actions (Morocco, Egypt, Lebanon and Tunisia).

Table n° 2 : Distribution of funds by sector: Sample of the Southern neighbourhood



Source: European Commission, only available in French

Examples of actions financed by neighbourhood funds
– In Lebanon: demining in order to create an enterprise zone (€1.9 million), financing of student bursaries, technical assistance centres for SMEs and provision of guarantees (€14 million) – In Egypt: a commitment for €120 million over several years to support education, in particular women's education, and a more modest financing of €700,000 to create a consumer-protection agency – In Jordan: €12 million for water distribution around Zarka, where are a number of Iraqi refugees and an anti-corruption programme of €7 million – In Tunisia: upgrading the country's industries to European standards (€23 million) – In Algeria: modernising the police and prisons – In the Palestinian Territories: purchasing fuel for the electric power station in Gaza, welfare benefits to combat poverty and the financing of associations (€4 million)

More specifically, the Neighbourhood Investment Facility (NIF) created in 2008, essentially contributes to the financing of large infrastructures (network industries, energy). Its leverage is significant as until the end of 2009, €74.8 million in grants enabled the financing of projects totalling €4.3 billion in Mediterranean partner countries.

The NIF benefits from direct contributions by Member States in addition to the amount provided by the EU budget, through a trust fund managed by the EIB and totalling €47 million at the end of 2009, of which €10 million were contributed by France and €20 million by Germany. In 2008 and 2009, the NIF benefited Mediterranean countries with the following amounts:

- Egypt (€15 million in 2008): to build wind turbines in Gabal El Zayt (€10 million) and for a water sanitation programme (€5 million)
- Morocco (€14.8 million in 2008 and €18 million in 2009): to build rural roads (€9.8 million) and a tramway in Rabat-Salé (€8 million) and a programme to support the education sector (€15 million)
- Tunisia (€4 million in 2008 and €19 million in 2009): for a water treatment plant (€3 million), a feasibility study for a solar power station (€1 million) and the RER (regional express railway) in Tunis (€14 million)
- Lebanon (€4 million in 2009): for a water treatment project

The Camdessus report[7] proposes for the future a merging of EC funding and EIB lending within a common agency in order to be more consistent.

Considering the needs that remain in the Mediterranean region and the amount of funds dedicated to Eastern European countries by other European instruments, the Working Group believes that the neighbourhood policy must be defended, in particular the formula for distribution of two-thirds/one-third between Mediterranean countries and Eastern European countries.

B. PRE-ACCESSION FUNDS: GREATER EUROPEAN EFFORT FOR TURKEY AND THE BALKAN COUNTRIES

The Instrument for Pre-accession Assistance (IPA) benefits countries applying for entry to the European Union and potential applicant countries. Among these countries, applicant countries (Turkey, Croatia) as well as potential applicant countries (Albania, Bosnia-Herzegovina, Montenegro) are members of the UfM.

The IPA counts €11.5 billion over the period 2007-2013, with the following five priorities:

- Aid for transition and reinforcement of institutions
- Cross-border cooperation
- Regional development (transport, environment, digital development)
- Training and poverty reduction
- Rural development

[7] *EIB's external mandate 2007-2013 mid-term review, Report and recommendations of the steering committee of wise persons* (chaired by Michel Camdessus), February 2010

Turkey alone benefits from €4.87 billion over 2007-2013 (of which over €900 million in 2013), i.e. close to half of all available funding.

Table n° 3 : IPA indicative programme for 2007-2012[8]

In € Million	2007	2008	2009	2010	2011	2012	**Total**
Croatia	141	146	151	154	157	160	**910**
FYROM	59	70	82	92	99	106	**507**
Turkey	497	539	566	654	782	900	**3 937**
Albania	61	71	81	93	95	97	**498**
Bosnia	62	75	89	106	108	110	**550**
Montenegro	31	33	33	34	35	35	**201**
Serbia	190	191	195	199	203	207	**1 184**
Kosovo	68	125	66	67	69	70	**465**
Multi-country programmes	109	141	160	158	161	164	**892**
Total	**1 218**	**1 389**	**1 424**	**1 557**	**1 708**	**1 849**	**9 146**

Source: European Commission data, DG Regional Policy

The pre-accession instrument is used in a more uniform way than the neighbourhood instrument. In Turkey and Croatia, two thirds of the amount is used for the development of institutions and for regional economic development. For countries that are not yet applicants (Albania, Bosnia-Herzegovina, Montenegro), 90% of the amount is dedicated to the development of institutions.

Examples of the use of pre-accession funds

- In Albania, training of civil servants (€1.1 million) and prison personnel (€400,000) and border posts between Albania and Montenegro (€1.1 million)
- In Bosnia-Herzegovina: demining operations (€2 million), financing of a wine route in Neretva, financing of an office for macroeconomic and tax previsions within the Ministry of Finance and financing of a border police (€2.8 million)
- In Croatia: waste treatment in Croatia and Slovenia, training and recruitment within the Croatian justice system, financing of an administrative detention centre for migrants in Zagreb (€1.1 million), financing of an information system in order to monitor VAT fraud and renovation of historical sites
- In Montenegro: financing of a transport regulation authority (€1.2 million) and a child protection department
- In Turkey: railway renovation (€4.7 million), education of women and children in rural areas (€100 million) and loans to SMEs (€15 million)

[8] As the programme for 2011-2013 is currently under negotiation, the official available amounts end for the moment in 2012.

C. OTHER EUROPEAN COMMISSION FUNDING

Other European Commission funds benefit countries in the area more punctually, with far lower amounts, which do not affect the balances described above. Their detailed analysis is included in Appendix 4.

II. FINANCING OF INTERNATIONAL INSTITUTIONS: DIVERSIFIED STRATEGIES

Several international financial institutions are active in the region; the main ones are the European Investment Bank, the World Bank and the African Development Bank, as well as the EBRD for Northern countries of the Mediterranean.

A. THE EUROPEAN INVESTMENT BANK: THE FIRST LENDER IN THE AREA

Even though the European Investment Bank (EIB) is a European institution and serves the objectives of the European Union, its conditions for intervention are closer to those of other international financial institutions: unlike EU budget appropriations, which contribute to the budget of recipient States, the EIB contributes directly to projects.

1. Southern countries of the Mediterranean: FEMIP

For Southern countries of the Mediterranean, the EIB's intervention instruments are grouped in a specific envelope: FEMIP (Facility for Euro-Mediterranean Investment and Partnership) created in 2002 and which covers Morocco, Algeria, Tunisia, Egypt, the Palestinian Territories, Israel, Lebanon, Syria and Jordan. Over the period 2002-2008, FEMIP has financed 125 projects, essentially in the energy and transport sectors, for a total amount of €8.5 billion:

Table n° 4 : FEMIP financing 2002-2008 (€ million)

In € Million	Energy	Environment	Credit lines	Human capital	Industry	Transports	Private Equity	Total
Algeria					75	230	13	**318**
Egypt	1 647		100		200	290	51	**2 288**
Gaza-West Bank	45						10	**55**
Israel		320	75		33			**428**
Jordan	100		50	40		63		**253**
Lebanon		105	457			60	5	**627**
Morocco	690	170	30	100		605	70	**1 665**
Regional projects							94	**94**
Syria	675	45	120			150	2	**992**
Tunisia	500	74	555	110	170	400	5	**1 814**
Total	**3 657**	**714**	**1 387**	**250**	**478**	**1 798**	**250**	**8 534**

Source: European Investment Bank

Over 2007-2013, FEMIP has a mandate for loans guaranteed by the European Union of €8.7 billion, in addition to which are the €2 billion of EIB loans not guaranteed by the European Union over the same period. The EU budget finances an amount for venture capital and technical assistance activities of €128 million over 2007-2010 (€32 million per year).

FEMIP also has a specific trust fund (*FEMIP Trust Fund*) to which the fifteen Member States of the European Union contribute voluntarily with an amount of €34.5 million, which finances venture capital and technical assistance operations in Mediterranean partner countries.

Finally, in the context of the European Union's neighbourhood policy, some State Members make an additional contribution to the financing of the NIF, via a trust fund of €47 million (including €10 million contributed by France and €20 million by Germany), whose management is entrusted to the EIB.

In 2009, FEMIP signed for €1.6 billion in loans to finance 19 projects for the private sector and infrastructures. Close to 80% of these operations correspond to priority areas for the Union for the Mediterranean as outlined in the Paris declaration of July 2008.

Examples of projects financed by FEMIP

- Depollution of the Mediterranean: wastewater treatment in Lebanon (€70 million) and in the Nile delta (€70 million), supply of drinking water to the town of Amman in Jordan (€165 million)
- Road infrastructures: widening of the Rabat-Casablanca motorway in Morocco (€225 million), Sfax-Gabès motorway in Tunisia (€235 million), Enfidha airport in Tunisia (€70 million), Rabat-Salé tramway in Morocco (€15 million)
- Renewable energy: wind farm in Gabal El Zayt in Egypt (€50 million)
- Enterprise development: loans to the industrial sector in Tunisia, Morocco, Israel and Syria (€390 million) and participation in three venture capital funds (€27 million)
- Urban development: urban renovation, sanitation and tourism infrastructures in Syria (€50 million)
- Teaching and education: education of children and young people in Morocco (€200 million)

2. Other Mediterranean countries

In the other Mediterranean countries, which benefit from European Commission pre-accession funds, the EIB has financed projects totalling €11.8 billion over 2001-2008, mainly in Turkey (€9.6 billion), with a strong acceleration since 2006. These loans are directed to enterprises: 39% of financing for the transport sector, 32% for SMEs, 7% for industry, 7% for energy, 5% for telecommunications, 5% for tertiary services and 4% for water services.

For the current programme term, these countries benefit from a total amount of €8.7 billion, guaranteed by the European Union, as well as €6.2 billion with risks borne by the EIB. Several large projects are being financed in 2009 and 2010, but the emphasis is on the development of SMEs:

- In Turkey: Istanbul-Ankara high-speed train (€293 million), credit lines for SMEs (€400 million), research in public universities (€335 million)
- Credit lines for SMEs: in Albania (€10 million), in Bosnia-Herzegovina (€140 million), in Croatia (€350 million), in Montenegro (€20 million)

– In Montenegro: a programme to rebuild roads and bridges (€30 million), a waste treatment network throughout the country (€27 million)

In total, contributions made by the EIB in the area in 2009 total €5 billion, half of which benefits Turkey. Morocco and Croatia are the other two main recipients. The private sector represents close to 60% in terms of number of projects signed, and 40% in terms of FEMIP financing amount in 2009:

Table n° 5 : EIB financing in 2009

In € Million	EIB Financing	EIB Regional operations	**Total**
Algeria	0		**0**
Egypt	122		**122**
Israel	82		**82**
Jordan	166		**166**
Lebanon	70		**70**
Morocco	540		**540**
Palestine	0		**0**
Syria	155		**155**
Tunisia	434		**434**
Total FEMIP	1 569	25	**1 594**
Albania	13		**13**
Bosnia	153		**153**
Croatia	415		**415**
Libya	0		**0**
Mauritania	75		
Monaco	0		**0**
Montenegro	111		**111**
Turkey	2 648		**2 648**
Total other countries	3 415		**3 415**
Total EIB	**4 984**	**25**	**5 009**

Source: European Investment Bank

The EIB is therefore by far the first financing institution in the area.

B. THE WORLD BANK: FOCUSED ON TURKEY AND EGYPT

The World Bank Group (International Bank for Reconstruction and Development: IBRD) intervenes through various instruments in the countries in the area, except in Israel. Turkey and Egypt represent over half of financing granted. Financing in Mauritania, which had been halted due to the country's political situation, resumed at the end of 2009.

1. The World Bank intervention: energy, water and SMEs are the priorities

World Bank commitments for 2008-2010 total €4 billion ($5.8 billion[9]) in loans for the following countries: Egypt, Jordan, Lebanon, Morocco, Tunisia and the Palestinian Territories. 25% of commitments are for the energy sector, 25% for the financing of the private sector and 25% for transport and water infrastructures:

Table n° 6 : Provisional commitments per sector (2008-2010)

In € Million	2008	2009	2010$^{(e)}$	**2008-2010**
Agriculture	0	11	2	**13**
Education	8	98	4	**110**
Energy	252	467	455	**1 174**
Environment	0	0	10	**10**
Finance and private sector	350	36	550	**935**
Health	33	11	76	**120**
Governance	182	84	145	**411**
Social Care	0	0	0	**0**
Transports	67	281	217	**564**
Water	124	144	280	**547**
Other	9	140	32	**181**
Total	**1 025**	**1 271**	**1 769**	**4 064**

Source: World Bank: data for Egypt, Jordan, Lebanon, Morocco, Tunisia and the Palestinian Territories

For Turkey, over the same time period, commitments totalled €5.8 billion. Compared with other Mediterranean countries, financing for SMEs, employment and support for banking intermediation is greater. 27% of commitments are also dedicated to the energy sector:

Table n° 7 : Provisional commitments per sector in Turkey (2008-2010)

In € Million	2008	2009	2010$^{(e)}$	**2008-2010**
Agriculture				
Education				
Energy		910	700	**1 610**
Environment		0	700	**700**
Finance and private sector	420	140	385	**945**
Health	0	53	0	**53**
Governance	280	0	0	**280**
Social Care	0	0	0	**0**
Transports	0	0	0	**0**
Water	0	0	0	**0**
Other	142	350	1 715	**2 207**
Total	**842**	**1 453**	**3 500**	**5 795**

[9] In order to facilitate comparison, amounts in dollars mentioned in this report have all been converted into Euro, using a standard par value as observed in December 2009 of €1 for $1.4 and $1 for €0.7.

Source: World Bank

The intervention of the World Bank in North-Eastern Mediterranean countries is very limited, except in Croatia.

Finally, the International Development Association (IDA), subsidiary of the World Bank, groups concessional loans to the poorest countries (Albania, Bosnia-Herzegovina, Mauritania, and Montenegro). For 2009 and the following years, only Mauritania and Bosnia-Herzegovina feature on the list of countries eligible for IDA.

2. The intervention of instruments specific to the World Bank

a. The International Finance Corporation

The private financing subsidiary of the World Bank, the International Finance Corporation (IFC) is highly active to the South of the Mediterranean. In 2009, it invested €860 million ($1 billion) in these countries, including €400 million ($699 million) in the form of loans and the remainder as equity, covering 24 projects.

Its current investment in these countries amounts to €2.6 billion ($3.8 billion), including €600 million in equity and €2 billion in loans, over 181 projects.

Half of the investments made by the IFC in 2009 were in Egypt (€173 million) and Turkey (€246 million). In 2009, the IFC made significant investments in Lebanon (€129 million). IFC investments are exclusively directed to the private sector, concentrating on the industrial sector.

Examples of projects financed by the IFC

- In Egypt: equity investments in funds in 2009 (EFG Hermes for $100 million, Beltone for $20 million, Citadel for $25 million) and in the industrial sector in 2010 (paper and cement manufacturers)
- In Turkey: mainly industrial investments (paper, petrol, canning industry, etc.), loans to SMEs ($75 million via Akbank bank) and farmers ($30 million via Sekerbank bank)
- In Lebanon, all the investment supports the development of the Byblos bank
- An investment in the petrol sector in Albania (over $60 million)
- In Jordan: an investment in the development of the port of Aqaba ($90 million) and investment in the hotel industry ($3 million)

b. Investment guarantees

The country risk guarantee subsidiary of the World Bank, the Multilateral Investment Guarantee Agency (MIGA), guarantees investments and loans against some political risks: the non-conversion of local currency and restrictions for transferring currency, expropriation, war, terrorism and civil unrest, breach of contract by the local government and non-payment of sovereign debts.

The MIGA has not been involved in countries in the area in 2009, and its previous interventions date back a few years. Its current guarantees in 2009 amount to €497 million, of which the main part covers investments in Turkey (€430 million, essentially electric power stations) and investments in Syria (€60 million for mobile telecommunications infrastructures).

MIGA latest interventions in the area
– In Albania: $7 million in 2001 (banking sector) – In Algeria: $4 million in 2008 (automotive) – In Bosnia-Herzegovina: $47 million in 2008 (banking sector) – In Croatia: no intervention since 2005, but a significant guarantee ($278 million) made in 2010 for the banking sector – In Egypt: $6 million in 2005 (wastewater treatment) – In Jordan: $4 million in 2006 (wastewater treatment) – In Morocco: no guarantee since 1995 – In Mauritania: $55 million in 2002 (telecommunications sector) – In the Palestinian Territories: no guarantee since 1999 – In Syria: $75 million in 2004 (telecommunications) – In Tunisia: no guarantee since 1995 – In Turkey: a significant guarantee of $191 million in 2008 (electric power station) and a guarantee of $55 million in 2010 (transport sector)

c. Programmes and funds managed by the World Bank

The World Bank is a depositary for some programmes and funds, contributed to directly by the States, for which it ensures the management and secretariat.

The Global Environment Facility (GEF) adopted a programme named *Sustainable Med* on June 23rd, 2009, which has to this day received no investment. The programme benefits from a grant of $50 million from the GEF and from loans by the World Bank totalling $750 million. Three priorities have been defined: pollution prevention and reduction, the management of natural resources and biodiversity and climate change. The programme includes in particular in its initial phase, the review of wastewater management in Tunis, as wastewater is currently dumped into the Mediterranean, the improvement of water management in the Nile delta and the establishment of a High Council for the sustainable development of the Mediterranean, which will be supported by the secretariat based in Marseille.

The Clean Technology Fund (CTF) will finance projects up to an amount of €750 million within the context of the Mediterranean Solar Plan, for a total amount of $5.6 billion (for 11 solar power stations with a total capacity of 1GW in Algeria, Egypt, Morocco, Tunisia and Jordan, as well as two transmission lines between Tunisia and the South of Italy and within Jordan).

3. An important leader

Other than its loans, the World Bank also carries out economic and sector studies, for which it is considered a reference, and provides technical assistance. Among the actions undertaken by the institution features the publishing of a regional report on the development of the private sector and a regional report on migration, as well as the publishing of several reports relating to governance.

Moreover, it tries to reinforce the coordination between lenders in the area, even if the few initiatives undertaken until now have not yet led to joint investments.

In 2007, the World Bank launched “an initiative in favour of the Arab world”, whose purpose is to accelerate the integration of the Arab world into the global economy to stimulate growth, promote better quality employment, reduce disparities within the region, and better manage natural resources. To this day, it has supported the creation of the Arab Water Academy and co-organised a conference on the reinforcement of the Pan Arab free trade area. Several documents have been produced in the context of this initiative, in fields such as regional infrastructures, education and knowledge-sharing.

Furthermore in October 2009, the World Bank, the European Investment Bank and the Egyptian, French, Jordanian, Lebanese, Moroccan and Tunisian governments launched the Marseille Centre for Mediterranean Integration (MCMI) to facilitate the transfer of know-how and to improve cooperation in the Mediterranean. The MCMI acts as a platform, with the aim of encouraging partnerships in order to make multiple-partnership programmes more efficient. The MCMI is involved in six areas (skills, employment and mobility of workers, sustainable development in the Mediterranean, urban and spatial development**,** transport and logistics, innovation and technology, knowledge economy).

4. An essential financier for the area

In 2009, the involvement of the World Bank Group, cumulating its various instruments, totalled €3.95 billion, including €860 million from the IFC. The MIGA made no interventions in 2009.

60% of the World Bank interventions are concentrated in two countries: €1.3 billion in Turkey and €1 billion in Egypt. Adding interventions in Jordan, Tunisia and Croatia, these five countries concentrate 85% of the investments made by the World Bank in the area:

Table n° 8 : Interventions by the World Bank Group in 2009

In € Million	Loans	IFC	Guarantees (excluding MIGA)	**Total**
Albania	4	57	55	**115**
Algeria	0	42	0	**42**
Bosnia	74	11	0	**84**
Croatia	201	39	0	**240**
Egypt	888	173	0	**1 061**
Israel	0	0	0	**0**
Jordan	281	60	0	**341**
Libya	0	0	0	**0**
Lebanon	49	129	0	**178**
Morocco	93	19	0	**112**
Mauritania	0	7	0	**7**
Montenegro	18	10	0	**28**
Palestine	59	32	0	**91**
Syria	3	2	0	**5**
Tunisia	235	33	0	**267**
Turkey	1 138	246	0	**1 384**
Total	**3 040**	**860**	**55**	**3 954**

Source: World Bank

The World Bank finances various projects, from the more modest to large-scale infrastructures.

Examples of actions financed by the World Bank
– In Albania: guarantee in the context of the privatisation of the electricity distributor ($78 million) – In Algeria: the forming of a statistics department within the Agriculture Ministry ($0.3 million) – In Bosnia-Herzegovina: financing of SMEs ($70 million) and wastewater treatment plant in Sarajevo ($35 million) – In Croatia: financing of an export credit system ($141 million) – In Egypt: electric power station in Ain Sokhna ($600 million), renovation and extension of the rail network ($270 million), mortgage reform ($300 million) – In Jordan: support for governmental measures in response to the economic crisis, including financial regulation ($300 million), support for education reform ($85 million) – In Lebanon: urban transport in Beirut ($69 million) – In Morocco: waste water treatment and sanitation ($132 million) – In Montenegro: agriculture modernisation ($19 million) – In the Palestinian Territories: a general aid for the administration of Gaza and the West Bank ($40 million) and for the development of municipal authorities ($10 million) – In Syria: financing of a health programme for bird flu ($1.3 million) – In Tunisia: financing of SMEs ($250 million), cogeneration facilities for urban heating ($55 million) – In Turkey: electricity production through renewable energy (an initial payment of $500 million in 2009 out of a total amount of $1.15 billion), development of the electricity sector ($800 million)

C. THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT: DIRECTED TOWARDS INFRASTRUCTURES AND THE PRIVATE SECTOR

The European Bank for Reconstruction and Development (EBRD) was created in 1991 after the fall of the Berlin wall to facilitate the transition to a market economy in Central and Eastern European countries and in countries of the former Soviet Union which are committed to abiding by and implementing the principles of democracy, pluralism and market economy.

The EBRD intervenes in 29 countries. In particular, it supports structural economic reforms and the opening to competition, the reinforcement of financial institutions and judicial systems and the development of infrastructures required by the private sector.

Five countries in the Mediterranean area are financed by the EBRD: Croatia, Bosnia-Herzegovina, Montenegro, Albania and Turkey.

Compared with other international lenders, the EBRD distinguishes itself by a greater proportion of investments directed towards the private sector – which is also dependent on the economic maturity of the countries considered. Over 2002-2008, the EBRD financed projects in Croatia for €1.02 billion, including 69% in the private sector, in Bosnia-Herzegovina for €0.78 billion, including 36% in the private sector, in Albania for €0.38 billion, 57% for the private sector and in Montenegro for €0.07 billion, including 25% for the private sector. The EBRD has intervened in Turkey since 2008.

In 2009, the EBRD dedicated €416 million to these five countries, of which three quarters to two countries: Turkey (€107 million) and Croatia (€195 million):

Table n° 9 : EBRD financing in 2009

In € Million	Loans
Albania	52
Bosnia	53
Croatia	195
Montenegro	9
Turkey	107
Total	**416**

Source: EBRD

In 2009, the EBRD commitments were more directed towards the financing of infrastructures.

Examples of projects financed by the EBRD

- In Albania: a ring road around Tirana (€24 million)
- In Bosnia-Herzegovina: Sarajevo airport (€29 million)
- In Croatia: loans to SMEs (€50 million), natural gas storage facilities (€70 million)
- In Montenegro: renovation of the rail network (€15 million)
- In Turkey: extension of water network facilities (€22 million), loans to SMEs (several instalments of €20 million), wind farm in Osmaniye (€45 million)

D. THE AFRICAN DEVELOPMENT BANK: CONCENTRATED ON MOROCCO, TUNISIA, EGYPT AND INFRASTRUCTURES

The African Development Bank (AfDB) and its various instruments are involved in Algeria, Egypt, Morocco, Mauritania and Tunisia. Over 1967-2008, the global commitments of the AfDB amounted to €52.5 billion[10], of which around 25% was for these five countries (€14.5 billion).

[10] The AfDB accounts for its interventions using a unit of account (UA) equal to the IMF's special drawing right. In this report, the UA amounts are converted to Euro, using a par value of 1UA = $1.5 and $1 = €0.7.

These amounts include some specific instruments managed by the AfDB, which grants concessional financing but has not invested in countries in the area for many years now: the African Development Fund (ADF) and the Nigeria Trust Fund (NTF). Among countries in the Mediterranean area, only Mauritania is still eligible: the ADF has invested between €5 and €10 million every year since 2006 in this country.

Since 2009, the AfDB also intervenes in Libya: a grant has been allocated, but Libya has not yet borrowed from the bank.

Out of the €14.5 billion allocated by the AfDB to countries in the area over 1967-2008, Egypt, Morocco and Tunisia have benefited the most:

Table n° 10 : Cumulative commitments by the AfDB group (1967-2008)

In € Million	2004	2005	2006	2007	2008	1967-2008
Algeria	0	0	0	1	0	1 981
Egypt	0	299	418	333	318	3 205
Libya	0	0	0	0	0	0
Mauritania	7	0	10	7	19	477
Morocco	388	184	258	190	228	4 761
Tunisia	147	191	15	92	297	4 081
Total	**542**	**674**	**702**	**622**	**861**	**14 505**

Source: AfDB, annual report 2009

In 2009, commitments by the AfDB continued to increase: from €860 million in 2008 to €948 million in 2009. Since the mid-1990's, the AfDB has considerably reduced the number of countries eligible for the group's non concessional facilities. The concentration of commitments has become quite marked: over three quarters of loans in the recent term were concentrated on the three borrowers in North Africa (Morocco, Egypt and Tunisia). Compared with 2004-2008, Morocco has benefited from significantly more investments, while financing for Egypt has decreased:

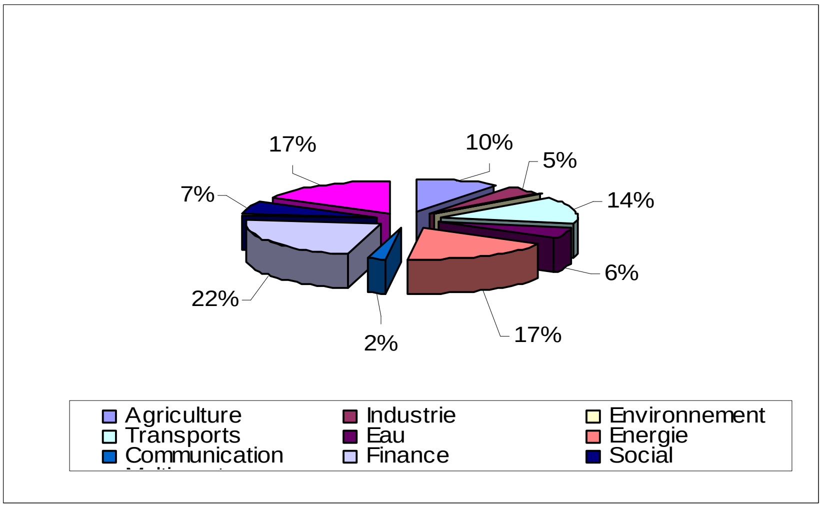
Table n° 11 : AfDB commitments in 2009

	In UA Million	In € Million
Algeria	0,5	0,5
Egypt	97	102
Libya	0,5	0,5
Morocco	603	633
Mauritania	0,6	0,7
Tunisia	201	211
Total	**903**	**948**

Source: AfDB

Over the last few years, the AfDB has given priority to lending projects, averaging 77% of commitments, 18% of commitments financing support for reforms. Transport infrastructures receive the most financing (22%), as do the energy (17%) and industrial (17%) sectors. The finance sector receives a significant amount also (14%). However the social sector receives far less (7%):

Table n° 12 : Sectoral distribution of AfDB commitments (1967-2008)



Source: AfDB

The investments made by the AfDB in 2009 and early 2010 do not change the distribution observed over previous years, but seem to show the intention to direct financing towards other areas.

Examples of projects financed by the AfDB in 2009 and 2010
– In Algeria: modernisation of the communication and information system of the Ministry of Finance (€0.7 million)
– In Egypt: financing for nursing schools in 2010 ($54 million) and wastewater treatment in 2010 ($220 million)
– In Morocco: programme for land irrigation (€67 million) and extension of several airports (€320 million)
– In Tunisia: financing for 70 schools and 4,000 secondary school teachers (€52 million) as well as many projects in the water sector

E. INSTITUTIONS FROM ARAB AND ISLAMIC COUNTRIES

1. The Islamic Development Bank (IsDB): concentrated on Turkey and Morocco

The Islamic Development Bank (IsDB) is a major player in the financing of countries in the region. Its purpose is the economic and human development of member countries of the Organisation of the Islamic Conference (OIC) as well as that of Islamic communities in non-member countries.

From 1976 to 2008, the IsDB made commitments in favour of OIC member countries of a cumulative amount of €13.5 billion, i.e. 30% of its total outstanding loans. Morocco and Turkey represent 40% of outstanding amounts. The concentration effect is highlighted by the removal of Algeria from financing.

In 2008, new commitments in favour of these countries amounted to €567 million, including €450 million for three countries (Tunisia, Morocco, and Turkey):

Table n° 13 : IsDB commitments

In € Million	Cumulated 1976-2008	2008
Albania	100	9
Algeria	1 747	0
Egypt	1 795	7
Jordan	1 154	7
Lebanon	663	4
Libya	454	0
Morocco	2 410	111
Mauritania	330	21
Syria	546	67
Palestine	101	0
Tunisia	1 308	224
Turkey	2 861	118
Total	**13 469**	**567**

Source: IsDB, annual report 2009

Bosnia-Herzegovina has an observer status within the OIC and does not for the moment benefit from IsDB loans. However, on April 6th, 2010 the IsDB organised a meeting about the financing of projects for this country.

The IsDB is currently committed to an ambitious strategic programme, which aims to diversify its loans: support for the private sector, human development and regional integration are in addition to traditional loans for production sectors and infrastructures. Network infrastructures represent 34% of investments, transport and telecommunications 24% and the social sector 18%.

The conditions for loans from the IsDB are compliant with Islamic law and are generally equivalent to a yield of 5.1% over 20 years, with a grace period of up to five years.

2. The Arab Fund for Economic and Social Development: the energy sector as a priority

The Arab Fund for Economic and Social Development (AFESD) has a coordinator role for development funds in the Gulf region. Its investments are nevertheless significant as they amounted to nearly €400 million in 2008:

Table n° 14 : AFESD commitments

In € Million	Cumulated 1974-2008	2008
Algeria	691	0
Egypt	1 862	147
Jordan	1 000	88
Lebanon	921	0
Libya	337	0
Morocco	1 847	93
Mauritania	722	61
Syria	1 315	0
Palestine	36	0
Tunisia	1 230	0
Total	**9 962**	**389**

Source: AFESD, annual report 2009

The AFESD conditions are more concessional than those of the IsDB, with an average yield of 2.5% over 20 years for the least developed countries. The AFESD is highly geared towards the energy sector: it represents 30% of outgoing amounts and 50% of investments made in 2008.

A specific fund dedicated to the financing of SMEs, with $2 billion, is being constituted.

F. FINANCING FROM OTHER INTERNATIONAL INSTITUTIONS

Other international institutions also intervene within countries in the area, with lesser amounts, or are less directed towards a development perspective (IMF, UN agencies, various funds, etc.). Their detailed analysis is included in Appendix 5.

III. BILATERAL FINANCING: THE PROMINENT POSITION OF FRANCE IN RECENT TIMES

A. OFFICIAL DEVELOPMENT ASSISTANCE: HIGHLY CONCENTRATED AND INSUFFICIENTLY DIRECTED TOWARDS THE PRIVATE SECTOR

Official Development Assistance (ODA) in countries in the area is characterised by a high concentration of both recipient and financing countries.

1. Three countries receive 50% of regional ODA

In 2008, Official Development Assistance amounted to €8.1 billion, including all donor funding and for the relevant sixteen countries. Three countries, Morocco, Turkey and the Palestinian Territories, receive 50% of the total ODA for the region. If Egypt, Jordan and Lebanon are added, six countries out of sixteen receive 75% of Official Development Assistance:

Table n° 15 : Recipients of Official Development Assistance in 2008

	In € Million	As a % of Regional ODA
Albania	270	3,3%
Algeria	221	2,7%
Bosnia	338	4,1%
Croatia	278	3,4%
Egypt	944	11,6%
Israel	0	0,0%
Jordan	520	6,4%
Lebanon	753	9,2%
Libya	42	0,5%
Mauritania	217	2,7%
Montenegro	74	0,9%
Morocco	852	10,4%
Palestine	1 815	22,2%
Syria	95	1,2%
Tunisia	335	4,1%
Turkey	1 417	17,3%
Regional Total	**8 172**	**100,0%**

Source: OECD, Development Assistance Committee

The concentration on a few countries is a phenomenon that has been stable for several years, even though Official Development Assistance significantly increased between 2005 and 2008: from €695 million to €943 million in Egypt, from €485 million to €851 million in Morocco, from €277 million to €1,416 million in Turkey and from €780 million to €1,814 million in the Palestinian Territories. Lebanon however appears to be a specific case: assistance went from €169 million in 2005 to €753 million in 2008, thereby making the country one of the main recipients in the area. This change is nevertheless explained by the exceptional grants made following the war in 2006, which should not continue in the medium to long-term.

2. Two donor countries represent 25% of regional ODA

The concentration of several donor countries is equally significant. Two countries, France and the USA, contribute 25% of regional Official Development Assistance. If Germany, Japan and Spain are added, six countries provide 40% of the total Official Development Assistance in the region:

Table n° 16 : Official Development Assistance contributing countries in 2008

	Total ODA received (in M€)	ODA granted by States (as a % of total ODA)					
		France	USA	Germany	Spain	Japan	Arab States and Agencie
Albania	270	1,1%	9,3%	11,6%	4,4%	-0,6%	0,5%
Algeria	221	38,5%	2,9%	3,9%	20,3%	1,3%	-8,6%
Bosnia	338	1,3%	5,5%	9,7%	8,8%	2,2%	-0,3%
Croatia	278	1,1%	1,9%	5,3%	0,2%	0,0%	0,0%
Egypt	944	10,5%	34,9%	12,6%	1,2%	0,9%	7,8%
Israel	0	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Jordan	520	0,4%	51,7%	2,9%	1,7%	-6,7%	1,0%
Lebanon	753	28,4%	19,5%	3,4%	4,8%	1,3%	4,2%
Libya	42	48,2%	23,7%	5,7%	0,0%	0,3%	0,0%
Mauritania	217	9,5%	8,3%	5,6%	11,0%	4,7%	6,4%
Montenegro	74	9,4%	8,6%	14,0%	0,1%	1,7%	0,0%
Morocco	852	13,4%	0,5%	7,4%	9,6%	8,7%	6,4%
Palestine	1 815	2,9%	18,9%	3,0%	4,0%	1,2%	0,0%
Syria	95	19,6%	11,9%	19,8%	5,5%	-41,6%	-27,5%
Tunisia	335	33,5%	-1,7%	5,7%	3,4%	11,3%	-2,1%
Turkey	1 417	14,5%	-0,3%	-2,5%	4,6%	14,1%	0,2%
Regional Total	**8 172**	**11,8%**	**14,5%**	**4,8%**	**4,9%**	**3,6%**	**1,6%**

Source: OECD, Development Assistance Committee

The other countries contribute minimal amounts of less than 1% of the Official Development Assistance for the area.

These data also show the dependence of some recipient countries on donors. Thus, France contributes 30% of the total Official Development Assistance received by Algeria, Tunisia and Libya. Similarly, the US represents 35% of Official Development Assistance received by Egypt and 51% of assistance received by Jordan. Germany is less involved in countries South of the Mediterranean, excluding Syria and Egypt, but it is the leading donor country for countries North of the Mediterranean. Spain is a significant contributor in Algeria, Morocco and Bosnia-Herzegovina, Japan in Turkey and Tunisia.

3. Official Development Assistance insufficiently directed towards the private sector

In the majority of recipient countries, Official Development Assistance is directed towards the social sector (education, healthcare, sanitation, budget support).

Only a few countries benefit from assistance directed towards the economic sector (transport and telecommunications infrastructures, SMEs, banking sector, energy). Thus, in Tunisia, Morocco, Egypt and Turkey, over 40% of ODA is invested in these sectors.

Direct support for production (industry, agriculture) is also minor. Finally, only Lebanon receives assistance for mainly humanitarian purposes (“Other” column):

Table n° 17 : Distribution of Official Development Assistance by sector (2008)

	Social	Economic	Production	Other
Albania	65%	22%	5%	8%
Algeria	69%	11%	2%	19%
Bosnia	64%	20%	10%	6%
Egypt	28%	55%	5%	13%
Jordan	40%	13%	9%	39%
Lebanon	30%	0%	5%	64%
Libya	85%	7%	1%	7%
Mauritania	40%	4%	17%	39%
Morocco	27%	49%	19%	5%
Palestine	62%	4%	3%	31%
Syria	60%	2%	1%	36%
Tunisia	12%	41%	12%	36%
Turkey	15%	62%	4%	19%

Source: OECD, Development Assistance Committee

B. FRANCE AND THE USA: MAJOR CONTRIBUTORS IN THE MEDITERRANEAN AREA

1. USA: the leading contributor in 2007 and 2008, but concentrated on three countries

Traditionally, France is the leading contributor of Official Development Assistance in the Mediterranean area, ahead of the US and Germany. However, since 2007, financing from the USA has overtaken French assistance.

The majority of Official Development Assistance streams from the US are received by countries South of the Mediterranean. In 2008, France contributed €962 million, the US €1,183 million, Spain and Germany around €400 million and Japan around €300 million:

Table n° 18 : Official Development Assistance by country (2008)

In € Million	France	USA	Germany	Spain	Japan	Other States*	**Total by country**
Algeria	85	6	9	45	3	21	**169**
Egypt	99	330	119	11	8	105	**672**
Israel	0	0	0	0	0	0	**0**
Jordan	2	269	15	9	-35	31	**292**
Lebanon	214	147	26	36	10	89	**521**
Libya	20	10	2	0	0	3	**36**
Morocco	114	4	63	82	74	90	**428**
Mauritania	21	18	12	24	10	13	**97**
Palestine	52	343	54	72	21	425	**968**
Syria	19	11	19	5	-40	24	**38**
Tunisia	112	-6	19	11	38	-1	**174**
Turkey	206	-4	-35	64	200	23	**454**
Total south	945	1 129	304	360	289	822	**3 849**
Albania	3	25	31	12	-2	118	**187**
Bosnia	4	19	33	30	7	132	**225**
Croatia	3	5	15	1	0	12	**35**
Monaco	0	0	0	0	0	0	**0**
Montenegro	7	6	10	0	1	17	**42**
Total north	17	55	89	42	7	279	**490**
Total by country	**962**	**1 184**	**393**	**403**	**296**	**1 101**	**4 339**

*Excluding Arab States and Agencies

Source: OECD, Development Assistance Committee

However, these aid amounts are unevenly distributed. The US concentrates 83% of its assistance on three countries: Egypt, Jordan and the Palestinian Territories. If we add the American aid for Lebanon, these four countries represent 96% of American assistance in the area. The American contribution is marginal in other countries in the area.

On the other hand, for France and Germany, assistance is distributed over several countries:

- France was thus in 2008 the leading bilateral contributor in six countries (Algeria, Morocco, Tunisia, Lebanon, Libya and Turkey), the second in Mauritania and Syria and the third in Egypt and in the Palestinian Territories
- Germany was in 2008 the leading bilateral contributor in every country North of the Mediterranean and in Syria, the second in Egypt and Jordan, the third bilateral contributor in Algeria, Morocco, Tunisia and the Palestinian Territories.

Finally, Japan is a major contributor in Morocco, Tunisia and Turkey.

2. France: the contributor now with the greatest presence in the area

The *Agence française de développement* (French Development Agency – AFD) is the main French Official Development Assistance provider but others are also involved.

a. The *Agence française de développement*: reinforcement planned by 2013

Within the area, it only intervenes in countries South of the Mediterranean. This area represents 25% of the AFD's total commitments worldwide.

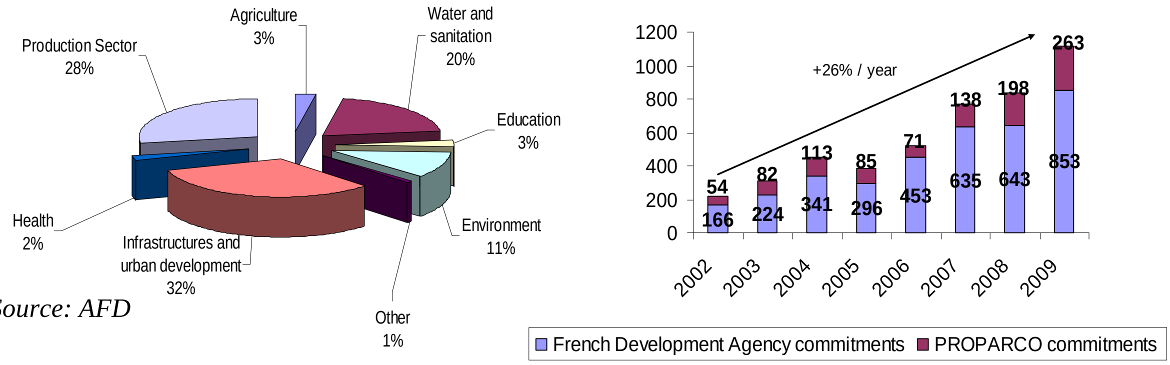
The recent term has been marked by a reinforcement of the regional presence of the AFD. The latter opened an office in Damascus in September 2009, thereby completing its regional establishment.

The AFD's net annual commitments in the Mediterranean region[11] have increased over 2002-2009 by an average of 26% each year, from €224 million in 2003 to €853 million in 2009. If we add commitments by PROPARCO, an AFD subsidiary which provides equity and loans with non-concessional conditions[12], the amount of the group's financing in 2009 exceeded €1.1 billion:

[11] AFD statistics for the Mediterranean area include Yemen, which is not included in our area, but for low amounts (€0.8 million of concessional loans, €81 million of commitments by PROPARCO). Taking account of this does therefore not change the analysis of AFD investments in the Mediterranean.

[12] PROPARCO's financing is not concessionary and is not included in the French Official Development Assistance data.

Table n° 19 : AFD net annual commitments in the Mediterranean region

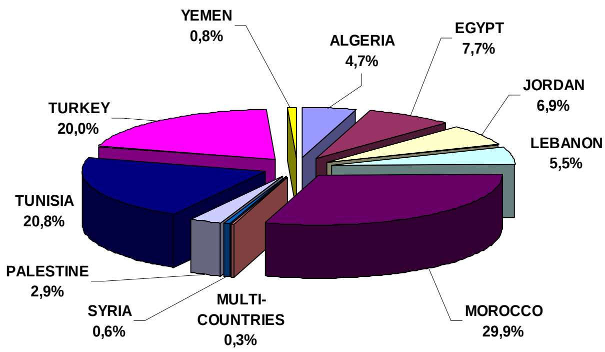


Source: AFD

AFD commitments are essentially distributed over the sanitation sector (20%) and urban and transport infrastructures (32%).

Moreover, three countries concentrate 70% of the total commitments of the *Agence française de développement* in the Mediterranean: Turkey, Tunisia and Morocco.

Table n° 20 : AFD commitments by country



Source: AFD

AFD's intervention is likely to be reinforced over the coming years. Its objective for 2009-2013 is to increase its commitments to €6 billion over the term, in particular to participate in financing within the context of the Mediterranean Solar Plan, with the EIB and KfW.

The AFD has recently created its own equity investment instrument: the Investment and support facility for the Mediterranean (FISEM). It holds €250 million, in order to double PROPARCO equity investments every year. FISEM's aim is direct equity investment in large-scale industrial projects, in banks and investment funds.

Finally, the AFD has expanded the scope of intervention of its guarantee mechanism for loans to SMEs, ARIZ, which until now only intervened in sub-Saharan

Africa. Initially, ARIZ will hold €100 million to guarantee loans from local banks to SMEs, for a percentage of up to 50% of the loan.

b. Other French Official Development Assistance sources

The AFD does not manage all French Official Development Assistance, even if it is the main operator – which explains why in 2008 the amounts committed by the AFD amounted to €643 million, while the French ODA was of €944 million.

Several other devices are used for French assistance: loans and direct grants by the Treasury, bursaries or technical cooperation. Moreover, the emergency aid provided to Lebanon after the war is accounted for in Official Development Assistance data but not in the AFD commitments.

Finally, the OECD statistics for ODA include expenses that do not lead to a flow of capital to recipient States: schooling fees (for foreign nationals in France), asylum seeker fees, as well as debt relief and debt forgiveness.

C. THE ARAB STATES AND BILATERAL DEVELOPMENT FUNDS IN GULF COUNTRIES: SELECTIVE INVESTMENTS

In 2008, Official Development Assistance from Arab States and their agencies reached €128 million, i.e. 1.6% of the total amount of ODA benefiting the Mediterranean region.

As for the French Official Development Assistance, this statistic does not cover all financing from Arab countries: their bilateral development funds, which do not publish all their investments by country, must in particular be added.

We could also add investments made by these countries' sovereign funds, but the latter only publish partial information regarding their activities.

For instance, the Kuwaiti sovereign fund KIA, for which we do have data, predominantly invests in North America (over 50%), a third in Europe, 10% in Asia, the remainder is distributed among emerging countries – details of the breakdown of these investments are not published. The ADIA (*Abu Dhabi Investment Authority*) sovereign fund published an annual report for the first time in March 2010: without detailing its investments, ADIA announced its presence in Morocco, Egypt and Turkey.

It is even more difficult to find data as sovereign funds also invest indirectly, through equity investments in public investment holdings. Thus, in Morocco, SOMED is a holding whose main shareholders are the Abu Dhabi fund for Development (33.9%), the Moroccan Treasury (33.25%) and the National Investment Company (32.9%); CMKD, a joint venture between the Kuwait Investment Authority (83%) and CDG (8%). In Tunisia, the property development of the lake South of Tunis was financed in this way (by Bukhatir (Dubai), $2 billion project for the first phase).

The most active bilateral development fund in the region is the Kuwait Fund for Arab Economic Development (KFAED). The Mediterranean represents 40% of its total commitments. It committed €240 million in 2008-2009, of which Egypt was the primary beneficiary.

Table n° 21 : Commitments by the Kuwait development fund

In € Million	Cumulated as of April 2010	2008-2009
Algeria	50	0
Egypt	1 245	119
Israel	0	0
Jordan	412	20
Lebanon	395	50
Libya	0	0
Morocco	854	36
Mauritania	157	0
Palestine	0	0
Syria	790	14
Tunisia	331	0
Turkey	252	0
Albania	50	0
Bosnia	57	0
Croatia	0	0
Montenegro	0	0
Total	**4 593**	**239**

Source: Kuwait Fund for Arab Economic Development, annual report 2009

However, the geographic expansion of operations of these bilateral funds is large, covering in particular Africa and Asia.

The Saudi development fund only invested €39 million over the whole region in 2008, to build a university campus in Lebanon.

The Abu Dhabi fund for development intervenes on occasion in the area, with unpublished amounts. Its latest intervention was in 2008 in Morocco (building a primary school and motorway complex in Assailah). It also intervened in 2006 in Algeria (construction of a mosque), in 2005 in Jordan (paediatric hospital) and in Turkey (rebuilding after the earthquake), in 2007 in Lebanon (assistance for the balance of payments) and in Syria (extension of the electricity power station in Deir Ali).

In addition to its direct loans, this fund uses high-leverage instruments, through equity investments in local companies. It is an 84% shareholder of the Abu Dhabi Tourism Investment Company in Egypt, 40% of the Emirates & Morocco Union Company for Marine Fishing and 33% of the Delam Tourism Investment Company in Morocco.

D. OTHER SOVEREIGN INVESTORS

1. Funds raised by long-term public investors (*caisses des dépôts*)

The *Caisse des dépôts et consignations* (CDC) and its counterparts (*Cassa depositi e prestiti* (CDP) in Italy, CDG in Morocco, and KfW in Germany) play a role in financing projects in the Mediterranean area.

Their direct intervention in countries in the Mediterranean area is rare. Aside from an investment stock of around €30 million in Morocco, inherited from the past, the CDC has made no new direct investment, as has the CDP. The CDG has made no investment outside of Morocco.

The KfW, by investing directly in some countries, is an exception. Most of its commitments are however made as acting administrator of budget appropriations for the German Official Development Assistance. In 2008, it made over €150 million of investments for own account, in particular in Morocco (€34.9 million of commitments), in Bosnia-Herzegovina (€25 million), in Croatia (€62 million), in Tunisia (€12.83 million) and in Montenegro (€40 million).

Even though direct interventions are rare, the *caisses des dépôts* have recently increased the raising of funds in the region.

The Galaxy fund has existed since 2001 and has carried out several operations in the transport sector (but none in the countries in the area). Held by the CDC, the CDP, KfW, the EIB, and the European Commission, it has currently committed €250 million over five projects.

The leading investment fund for SMEs, Averroès, with €30 million, was created by the CDC in 2003 and invested in six funds in the Maghreb and in Lebanon. Averroès II, created in October 2009, plans to invest €50 million to €80 million in a hundred or so Mediterranean companies.

More recently, the CDC created, along with the *Cassa depositi e prestiti* and the *Caisse de dépôt et de gestion* (Morocco) InfraMed, a long-term investment fund for infrastructure projects. The aim, reached in May 2010, is an initial collective commitment of €400 million, by opening the fund to other long-term investors, whether from Europe (EIB), the Middle-East or North Africa. The initial fund raising is aiming for over €1 billion over the coming months.

Finally, the Marguerite fund was launched in December 2009, with a capital of €600 million, of which the EIB, the CDC, the CDP, KfW, the Spanish *Instituto de Crédito Oficial* and the Polish PKO Bank each hold €100 million. The aim of this fund is to raise €1.5 billion by the end of 2010 but should limit its investments to transport and energy infrastructures in Member States of the European Union.

These long-term public investors therefore play a significant role of coordination and financing in the region.

This institutional model is subject to significant interest by many countries in the area: several countries have commissioned studies in order to look at the conditions in which they might have such *caisses des dépôts* (Tunisia, Syria, Mauritania, possibly Algeria). Such an institution is indeed particularly adapted to the banking situation of countries in the area, characterised by short-term liquid savings and difficulties in transforming them into medium to long-term investments.

2. An uncertain amount of ODA flows from China

Financing statistics provided by China are either insufficiently accurate (not broken down by country) or non-existent. Moreover, it is often difficult with Chinese financing to distinguish Official Development Assistance from foreign direct investment (FDI).

It is however undeniable that the financial presence in Africa has been a significant strategic priority for China these last few years. Trade between China and Africa has increased ten-fold since 2002 to reach $107 billion in 2008. Similarly, over the first nine months of 2009, direct investments in Africa amounted to $875 million, up by 77% from 2008. During the 4th China-Africa cooperation summit in November 2009, which was held in Egypt, China announced $10 billion of concessional loans for Africa over three years (without any specification as to the breakdown per country).

The Chinese Official Development Assistance for the area may be estimated based on FDI statistics: according to the OECD, the Chinese ODA for Africa represented twice its FDI at the end of 2006[13]. Among countries in our area, only Egypt and Algeria benefit from significant FDI (respective amounts of $100 million and $247 million at the end of 2006 out of a total of $2.5 billion). In 2005 and 2006, Algeria represented 20% of Chinese FDI flows (first or second recipient). As development assistance for China is generally strongly linked to its economic interests, and in particular its supply of commodities, we may estimate that the formula for apportionment of its official aid is the same as that of its FDI. This would lead to a total commitment of development assistance of $5 billion in Africa, of which $490 million in Algeria and $200 million in Egypt.

These estimates must however be considered with caution, given the absence of reliable statistics.

IV. SUMMARY OF FINANCING OF CO-DEVELOPMENT: LOW AMOUNTS, CONCENTRATED ON SEVERAL COUNTRIES AND INSUFFICIENTLY DIRECTED TOWARDS SMES

A. A TOTAL AMOUNT OF NEARLY €20 BILLION UNEQUALLY DISTRIBUTED

1. Financing available for the area was close to €20 billion in 2009

For all countries in the area, the financing of co-development represented €19.4 billion in 2009. For a regional GDP of €1,160 billion, this represents 1.7%.

This is however an approximation: this amount is obtained by converting dollars and units of account into Euro using a standard par value. Moreover, this amount incorporates data from 2009 and 2008, when recent data were not available. Finally, these data are not completely homogeneous, as they are an accumulation of concessional flows and non concessional flows, the latter at varying degrees.

However, the amounts presented in the table below present a complete, if not exhaustive, overview of development assistance available in the area. This table shows in particular which are the main recipient countries and the main contributors.

2. Financing concentrated on three countries and dependent on three donors

The amount of nearly €20 billion for the 16 recipient countries in the area hides a heterogeneous reality. Financing is in fact mainly received by three countries and essentially depends on three financing countries.

Turkey alone benefits from 27% of capital available in the area. If Egypt and Morocco are added, these three countries receive 53% of available assistance.

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[13] OECD, *Investment policy reviews: China 2008*

On the donor side, the European Union, including the EIB, contributes 40% of total assistance (€7.2 billion). With financing from the World Bank, these three lenders provide 60% of total assistance.

The table below summarises the available financing for each country in the area, by financing institution:

Table n° 22 : Summary of development assistance by country and by financing institution

In 2009, in M€	European Union [(1)]	EIB	World Bank Group	EBRD	AfDB Group*	IsDB* and Arab Fund*	Other international institutions[(2)] *	France*	USA*	Other countries[(3)] *	Arab and Islamic countries and funds[(4)] *	**Total by country**
Albania	81	13	115	52	0	9	14	3	25	159	2	**474**
Algeria	36	0	42	0	1	0	8	86	6	77	-27	**228**
Bosnia	89	153	84	53	0	0	58	4	19	202	-2	**661**
Croatia	151	415	240	195	0	0	53	3	5	27	0	**1 089**
Egypt	155	122	1 061	0	102	154	19	152	330	243	224	**2 561**
Israel	2	82	0	0	0	0	0	0	0	0	0	**84**
Jordan	68	166	341	0	0	95	97	70	269	20	27	**1 154**
Lebanon	47	70	178	0	0	4	87	214	147	160	134	**1 040**
Libya	2	0	0	0	1	0	1	20	10	6	0	**39**
Morocco	160	540	112	0	633	204	24	349	4	310	113	**2 449**
Mauritania	82	75	7	0	1	82	19	21	18	59	20	**383**
Monaco	0	0	0	0	0	0	0	0	0	0	0	**0**
Montenegro	33	111	28	9	0	0	4	7	6	29	0	**227**
Palestine	378	0	91	0	0	0	357	50	343	572	0	**1 791**
Syria	40	155	5	0	0	67	46	19	11	8	-23	**328**
Tunisia	96	434	267	0	211	224	13	89	-6	67	-10	**1 385**
Turkey	566	2 648	1 384	107	0	118	7	206	-4	252	4	**5 288**
Total by contributor	**2 207**	**5 009**	**3 954**	**416**	**948**	**956**	**805**	**1 293**	**1 184**	**2 193**	**462**	**19 428**

Source : authors (public data, OECD data)
* 2008 data; for France: 2008 data modified with French Development Agency's 2009 commitments (excluding Proparco)
1) Including the European Development Fund, which benefits to the sole Mauritania
2) UN Agencies (amouting to 645 M€), Council of Europe Bank, Montreal Protocol, and the Global Fund
3) All countries contributing to ODA, excluding Arab and Islamic countries
4) Arab countries and agencies, Kuwait Fund for Arab Economic Development, Saudi Fund for Development in Lebanon

B. A DIFFERENTIATED FINANCING EFFORT

The total available aid in this area represents close to €20 billion, i.e. the equivalent of more than a point of French GDP, or 20 times more than development assistance provided by France or the US to these countries. However, the amount for this aid must be qualified.

The financial effort in favour of co-development may be expressed by a ratio of, for each country, total financing by number of inhabitants. It is a simple measure but it enables significant gaps to be shown.

On average, countries in the area benefit from €66 per capita. This average hides however a more uneven reality. Countries in Eastern Europe included in our area (Albania, Bosnia-Herzegovina, Croatia, Montenegro), while they are more developed and the per capita income is higher than in countries South of the Mediterranean, benefit from financing of three times as much: €204 per capita, against €59 per capita in the other countries.

In reality, countries South of the Mediterranean which benefit from high amounts are those for which development assistance has a significant humanitarian aspect (€459 per capita in the Palestinian Territories, €267 per capita in Lebanon and €196 per capita in Jordan).

These differences are explained by the different statuses of these countries: their stage of development is not comparable, the amounts to support them are not either. The aim of this presentation is not to plead in favour of a convergence of finances for the various countries, but to present the gaps between the available financing allocated within the area.

The other countries receive financing well below that received by Eastern countries, even though their development needs are greater: €33 per capita in Egypt, €78 per capita in Morocco, and €133 per capita in Tunisia. Turkey, even though it is the leading recipient of financing in the area, receives barely more than average (€71 per capita).

Table n° 23 : Financing per capita in 2009

In Million	Financing (€ Million)	Population (million)	Financing per capita (in euros)
Albania	474	3	148
Algeria	228	35	6
Bosnia	661	4	174
Croatia	1 089	4	248
Egypt	2 561	79	33
Israel	84	8	11
Jordan	1 154	6	196
Lebanon	1 040	4	267
Libya	39	6	6
Morocco	2 449	32	78
Mauritania	383	3	116
Monaco	0	0	0
Montenegro	227	1	379
Palestine	1 791	4	459
Syria	328	22	15
Tunisia	1 385	10	133
Turkey	5 288	75	71
Average - Albania, Bosnia, Croatia, Montenegro	2 451	12	204
Average - Other countries	16 731	284	59
Average - All countries	**19 428**	**296**	**66**

Source: authors

The distortion in available financing is also visible when the geographic distribution of the main financiers in the area is analysed: the European Union and the World Bank.

If we compare the amounts allocated to countries North of the Mediterranean by the pre-accession instrument to the amounts allocated to countries South of the Mediterranean by the neighbourhood instrument, the gap is significant. Thus, in 2009:

- Croatia, Turkey, Albania, Bosnia-Herzegovina and Montenegro received €921 million under the pre-accession instrument, while these countries have 87 million inhabitants (including 75 million for Turkey alone);
- The 10 countries South of the Mediterranean received €887 million under the ENPI while they have 205 million inhabitants.

The European Union therefore allocates for its budget appropriations, €11 per capita for applicant countries and potential applicant countries, against €4 per capita for the other countries South of the Mediterranean.

Concerning the EIB, the gap is also clear: €34 per capita in Turkey (€2.6 million for 78 million inhabitants), €8 per capita for countries in the South and €57 Euro per capita for Eastern European countries.

The World Bank is the main lending institution for which the gaps are not as great: €18 per capita in Turkey, €39 per capita in Eastern European countries and €10 per capita in countries South of the Mediterranean.

The financing of co-development is therefore mainly concentrated on Eastern Europe, even though these countries are richer than those South of the Mediterranean.

In particular, development aid in favour of countries South of the Mediterranean is far from the standards observed in recent history: concerning the European Union financing in favour of Spain and Portugal before their accession, the aid ratios greatly exceeded a threshold of €100 per capita.

C. ASSISTANCE IS INSUFFICIENTLY DIRECTED TOWARDS THE PRIVATE SECTOR

According to the lending institutions, financing for the private sector represents 20% to 30% of total commitments (21% for the World Bank, 29% for the AfDB excluding the African development fund).

The EIB and the EBRD are more directed towards the private sector: it represents 40% of the financing amounts of the EIB, and for the EBRD, proportions vary from 30% (Albania) to 60% (Croatia).

However, the European Union devotes little financing to the private sector, which is consistent with the instruments it uses, as it mainly intervenes through grants. The private sector represents 30% or more of the neighbourhood policy in Tunisia, Algeria and Lebanon, but 10% or less of available financing in all the other countries in the area. Moreover, projects recently approved by the Neighbourhood Investment Facility (NIF) are exclusively projects for public infrastructures.

PART II : ASSESSMENT OF THE FINANCING OF CO-DEVELOPMENT IN THE MEDITERRANEAN

I. A MACROECONOMIC CONTEXT WHICH REVEALS AN ADDITIONAL FINANCING REQUIREMENT

A. THE DEVELOPMENT OF THE MEDITERRANEAN: AN ECONOMIC NEED

The development of Mediterranean countries does not only meet a political and cultural objective or a moral duty by developed countries vis-à-vis the South. It is first and foremost an economic necessity, for countries South of the Mediterranean as well as for countries North of the Mediterranean.

Therefore, the financing of development must not be perceived as a new form of Official Development Assistance but as an expenditure aiming for a return on investment in the future: increasing the wealth of Mediterranean countries contributes in the medium to long-term to increasing the wealth of European countries.

1. Income gaps remain high

The wealth gap between countries in the Euro zone and countries South of the Mediterranean has not greatly decreased since 1990, while it has decreased between the Euro zone and countries in Eastern Europe and Turkey. It has however reduced over the last few years between the Euro zone and countries South of the Mediterranean, after a period of stability from 1990 to 2000.

Table n° 24 : Per capita income gap between the Euro zone and Mediterranean countries expressed as PPP [14]

Note: the average per capita income in the Euro zone represented 6.3 times that of an Albanian in 1990; it represented 4.4 times that of an Albanian in 2008.

[14] PPP stands for Purchasing Power Parity: the per capita income is restated in order to neutralise the value of currency and to obtain income measurements that are comparable from one country to the next.

	1990	2000	2008
Albania	6,3	5,3	4,4
Algeria	3,8	4,3	4,2
Bosnia	N/A*	4,7	4,0
Croatia	N/A*	2,0	1,9
Egypt	7,4	6,1	6,1
Israel	1,3	1,0	1,2
Jordan	7,3	6,8	5,8
Lebanon	3,3	2,8	2,8
Libya	N/A*	N/A*	2,0
Morocco	8,9	8,7	7,9
Mauritania	14,0	15,5	N/A*
Monaco	N/A*	N/A*	N/A*
Montenegro	N/A*	N/A*	2,5
West Bank-Gaza	N/A*	13,7	N/A*
Syria	8,0	7,0	7,4
Tunisia	5,9	4,8	4,4
Turkey	3,9	2,5	2,5

** No data available*

Source: author's calculations, World Bank data updated in January 2010.

The average income for a Moroccan in 2008 was 7.9 times less than that of a capita of the Euro zone, that of an Algerian was 4.2 times less, that of a Jordanian 5.8 times less, that of an Egyptian 6.1 times less. However, for Algeria and Libya, income from natural resources exports biased this indicator, which therefore imperfectly illustrates income gaps for these two countries.

These income gaps appear very high if compared with income gaps measured in other geographical areas. For instance, the income gaps between the US and its neighbouring countries in the South are far less: they do not exceed a ratio of 1 to 3.6, except for Columbia.

Table n° 25 : Per capita income gap between the USA and Central and South American countries expressed as PPP

Note: the average per capita income in the US represented 3.8 times that of a Mexican in 1990, it represented 3.3 times that of a Mexican in 2008.

	1990	2000	2008
Mexico	3,8	3,9	3,3
Argentina	4,4	4,0	3,3
Colombia	5,6	6,3	5,6
Venezuela	3,4	4,2	3,6
Total	**4,3**	**4,6**	**3,9**

Source: author's calculations, World Bank data updated in January 2010.

Reduced income gaps between geographically close areas constitute an opportunity for growth, both for developed countries and developing countries. There is therefore an objective economic reason for Europe to develop the South Mediterranean, as it has done for Eastern European countries and Turkey.

2. A contrasting population growth

Demographic projections show the population growth of Mediterranean countries, compared with the slowing down seen in European countries: the European Union with 27 Member States will have as many inhabitants in 2050 as in 2009 (500 million), while the population South of the Mediterranean will be multiplied by 1.5. With 320 million inhabitants expected by 2050, the South Mediterranean area constitutes a significant springboard for economic growth for Europe.

Table n° 26 : Demographic forecasts

In Million	2009	2050(e)	Population aged 15 or less in 2009	Evolution 2050/2009
Albania	3,2	2,9	25%	-9,4%
Algeria	35,4	51,0	28%	44%
Bosnia	3,8	3,1	16%	-18%
Croatia	4,4	3,8	15%	-14%
Egypt	78,6	122,0	33%	55%
Israel	7,6	11,0	28%	45%
Jordan	5,9	10,0	37%	69%
Lebanon	3,9	5,0	26%	28%
Libya	6,3	10,0	30%	59%
Morocco	31,5	42,0	29%	33%
Mauritania	3,3	7,0	40%	112%
Monaco	0,0	0,0	13%	0,0%
Montenegro	0,6	0,6	20%	0,0%
West Bank-Gaza	3,9	9,0	44%	131%
Syria	21,9	37,0	36%	69%
Tunisia	10,4	14,0	25%	35%
Turkey	74,8	97,0	27%	30%
Total - Northern Mediterranean	86,8	107,4	19%	24%
Total - Southern Mediterranean	208,7	318,0	32%	52%
EU-27	500,0	503,0	16%	0,6%

Source: Population reference bureau, World population data sheet, 2009

This population growth is a dual opportunity for Europe, which makes the development of the Mediterranean area even more necessary: it is an opportunity to develop the future demand for European products and to find a springboard for the decrease in the European labour force.

3. A springboard for European growth

Finally, growth forecasts for 2030 show that countries in the Mediterranean area are more dynamic than European countries.

For the entire Mediterranean region, growth forecasts for 2030 anticipate a rate of 3% (World Bank estimate) to 4% (CEPII), as opposed to less than 2% for the European Union (World Bank and CEPII consensus). Strategically, the Mediterranean area in 2030 appears no less attractive than Asia: growth forecasts for 2030 for South Asia are around 4% and around 5% for East Asia (World Bank and CEPII consensus).

Even if the crisis has considerably destabilised these economies, their growth potential remains in the medium to long-term more significant than that of the European Union[15]. The development of the Mediterranean area is therefore a political challenge for development and an economic challenge for Europe.

B. A DEVELOPMENT STAGE WHICH REQUIRES INVESTMENTS AND SAVINGS

Considering their stage of development, countries in the Mediterranean area need to increase their investments, and therefore their savings. This structural need for savings is reinforced by the economic crisis, which has limited the financing resources for these countries.

1. A structural need for investments and savings

a. Determining factors for growth and development

At a theoretical level, growth in its initial phase always begins by a capital accumulation process. This process depends on the rate of investments and must therefore be supported by significant resources, i.e. high levels of savings. The yield on invested capital must be high enough to attract savings, which implies financed investments must be selected carefully.

The Spence Working Group[16] published a report in 2008, in which it identified the main factors enabling sustainable poverty reduction and high growth in the long-term. It was based on existing academic works.

It made the following observation: since 1950, only 13 countries have had a growth rate in excess of 7% for at least 25 consecutive years (Botswana, Brazil, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Malta, Oman, Singapore, Taiwan and Thailand), but the models for development are all different: there is no single growth strategy. However, the report identified five common elements essential for development:

- Opening to international trade, which ensures the division of labour required for increasing productivity, as well as a high global demand which companies in developing countries can meet. In particular, countries that have attempted to base their growth exclusively on internal demand, by competing with imports within their domestic market, have had a more limited growth;
- An abundant labour force, concentrated in towns that become economic hubs, which implies a process of rural depopulation and urbanisation;
- Structural transformations, which aim to facilitate the process of creating and destroying wealth, and to implement social systems that protect the most vulnerable;

[15] Growth forecasts for countries in the area for 2030 are currently being updated to take account of the impact of the crisis and were not yet available at the time this report was written.

[16] With 22 members, including two economic Nobel prize-winners (Michael Spence and Robert Solow), the Working Group was commissioned by the governments of several countries (United Kingdom, Australia, Sweden and the Netherlands) and by the World Bank.

- Reliable institutions, based on a political consensus and stable, predictable rules, that ensure the respect of private property, and based on a stable macroeconomic environment (low inflation and unemployment);
- And essentially, investment, in particular in the following sectors: infrastructures, enterprises, healthcare and education. It is often the main inhibitor of growth for these countries: the rate of investment (public and private) is not sufficient to follow the abundant labour force and global demand, therefore growth is slowed down.

To maintain a high enough level of investment, these countries must rely on a significant national savings rate, of at least 25%, whether public or private savings. This implies especially a reduction of public administration deficits and debts (which come down to dissaving from an economic perspective). In theory, these countries could import foreign capital to finance their investments needs. However, empirically, a high volatility of capital inflows and outflows can be observed, so that foreign savings appear as an imperfect substitute for national savings.

b. Significant efforts made in terms of fiscal policy

Countries in the area have made significant efforts to control their fiscal deficits and reduce their external debt.

Fiscal deficits have been reduced. In 2008, Morocco and Algeria had a budget surplus, while Tunisia had a deficit of only 0.8% of GDP. This situation contrasts with that at the end of the 1980's, when deficits in excess of 10% of GDP were frequently observed.

The external debt has also been substantially reduced. Over twenty years, it has been divided by 13 in Algeria, by 7 in Egypt, by 5 in Syria, by 4 in Morocco and by 3 in Jordan. The Lebanese debt is an exception: in a context of uninterrupted war, it has been multiplied by nearly 3.

Table n° 27 : External debt and budget balance from 1988 to 2008

As a % of GDP	External Debt 1988	1998	2008	Budget Balance 1988	1998	2008
Albania	N/A	23,0	25,9	-1,1	-10,3	-4,2
Algeria	44,1	63,8	3,3	-13,7	-3,8	13,0
Bosnia	N/A	N/A	44,9	N/A	-8,2	-4,0
Croatia	N/A	44,0	90,0	N/A	0,1	-2,5
Egypt	131,6	38,1	20,1	-17,6	-1,0	-6,8
Israel	N/A	55,0	43,5	N/A	-2,4	-2,1
Jordan	97,8	95,5	31,0	-3,1	-5,1	-4,6
Lebanon	29,7	39,4	83,4	N/A	-14,5	-9,9
Libya	N/A	N/A	7,0	N/A	N/A	N/A
Morocco	95,1	59,1	23,4	-10,8	-2,5	0,4
Mauritania	214,2	195,6	68,6	-13,2	-3,3	-5,9
Monaco	N/A	N/A	N/A	N/A	N/A	N/A
Montenegro	N/A	N/A	30,5	N/A	N/A	0,9
West Bank-Gaza	N/A	N/A	N/A	N/A	-2,6	N/A
Syria	66,0	117,0	13,1	-2,3	-0,1	-5,0
Tunisia	67,3	54,7	51,5	0,0	-3,2	-0,8
Turkey	45,4	36,0	37,7	-4,6	-5,4	-1,8

N/A: no data available

Source: author's calculations, World Bank data

Despite the efforts made to tame fiscal deficits and reduce the public debt and external debt, the need for savings and investments remains.

c. The requirement for savings and investments remains

It is not the purpose of the Working Group on the financing of co-development to investigate regulatory and structural issues, which belong to the internal affairs of Mediterranean countries. However, the need for savings and investments of these countries highlights even more the necessity to reflect on the possible creation of an international financial institution.

Asian countries offer an interesting example of increase in savings. In these countries, the high growth of the 1980's relied on rates of gross domestic savings[17] greater than 30%. There are two ways to increase savings:

- Either through a reduction in public deficit, which, when it is too high, prevents private savings and resources available from financing investments (crowding-out effect). This effort also enables inflation to be limited and the necessary economic stability to be created (e.g. Thailand in the 1980's);
- Or an increase in private savings, through incentives (inflow of savings on postal bank books in Japan and South Korea) or authoritative measures (forced savings in Singapore18 and Malaysia).

[17] Gross domestic savings are defined as the non consumed part of the gross domestic product (GDP). They are therefore expressed in percentage of GDP.

[18] In 1955, Singapore created a mandatory provident fund, into which employees were forced to pay 40% of their income.

Asian countries therefore achieved significant savings and investments rates:

- In Japan, gross domestic savings remained greater than 40% of the GDP throughout the 1960's and at 30% throughout the 1970's and 1980's, ensuring a level of investment greater than 30 points of GDP throughout this time;
- In China, gross domestic savings have been greater than 35% since the end of the 1970's and exceeded 45% in the early 2000's. These savings have ensured a level of investments greater than 35 points of GDP since the end of the 1970's.

However, gross domestic savings and the level of investment in Mediterranean countries still remain far from the levels that are required to promote the economic development of a country:

Table n° 28 : Gross domestic savings and gross fixed capital formation (2008)

Note: Egypt currently has a financing requirement of €6.4 billion. On the other hand, Algeria has a negative financing requirement: i.e. in this country, savings are in surplus by 23.5% of GDP compared with investments.

			Present financing need		Financing need to reach a gross capital formation = 35% GDP	
As a % of GDP	Savings	Gross capital formation	% GDP	In € Billion	% GDP	In € Billion
Albania	4,2	32,4	28,2	2,4	30,8	2,7
Algeria	58,2	34,7	-23,5	-27,3	-23,2	-27,0
Bosnia	24,4	24,4	0,0	0,0	10,6	1,4
Croatia	24,0	31,0	7,0	2,9	11,0	4,6
Egypt	16,9	22,5	5,6	6,4	18,1	20,5
Israel	17,0	19,0	2,0	2,5	18,0	22,7
Jordan	-6,8	25,6	32,4	4,8	41,8	6,1
Lebanon	1,2	30,7	29,5	6,0	33,8	6,9
Libya	67,8	27,9	-39,9	-26,0	-32,8	-21,4
Morocco	22,8	36,3	13,5	7,6	12,2	6,8
Mauritania*	18,7	25,9	7,2	0,1	16,3	0,3
Monaco					35,0	0,0
Montenegro	1,3	35,7	34,4	1,2	33,7	1,2
West Bank-Gaza**	-27,1	26,9	54,0	1,5	62,1	1,8
Syria	13,4	13,6	0,2	0,1	21,6	8,3
Tunisia	22,7	27,0	4,3	1,2	12,3	3,4
Turkey	17,4	21,8	4,4	22,6	17,6	90,4
Average - Turkey, Croatia, Bosnia	21,9	25,7	3,8	21,6	13,1	74,3
Average - Others	18,6	26,4	7,8	45,2	16,4	95,5

**2007 data*

***2006 data*

Source: author's calculations, World Bank data for 2008.

On average, investment (gross fixed capital formation) reaches 26.4% of GDP in countries South of the Mediterranean and 25.7% in Turkey, Croatia and Bosnia. Gross domestic savings are not enough to cover these requirements as they are only 18.6% in countries South of the Mediterranean and 21.9% in Eastern European countries and

Turkey. Only countries that export oil, such as Algeria, Libya and Syria, have a surplus capacity to finance their investments.

While the level of investments in the area is far from the levels observed in countries with the highest growth, such as in Asia, we can still identify a significant requirement for financing in the Mediterranean area, of about €45.2 billion for countries South of the Mediterranean and of €21.6 billion for Turkey, Croatia and Bosnia.

This represents a minimum requirement, which would only enable these countries to reach a level of savings sufficient to finance their current investments. As shown by Asian countries, the level of investment required for significant development is close to 35% of GDP. If countries in the area wanted to increase their investments to this level, the requirement for financing would be even more significant: €95.5 billion for countries South of the Mediterranean, i.e. 16.4% of their GDP.

2. Structural needs reinforced by the crisis

Countries in the region have been affected by the crisis in varying degrees. In all countries, the crisis has not only led to a significant decrease in growth in 2008 and 2009 but also, forecasts predict a recovery at a much slower rate than before the crisis.

In such a context, the structural need for savings and investments for countries in the area is even stronger.

Table n° 29 : Growth of countries in the area

	1995-2005	2006	2007	2008	2009(e)	2010(e)	2011(e)
Albania	5,9%	5,0%	6,0%	6,5%	2,2%	3,0%	4,5%
Algeria	4,0%	2,0%	3,0%	3,0%	2,1%	3,9%	4,0%
Bosnia*	2,8%	6,2%	6,8%	5,4%	3,2%	1,0%	
Croatia	4,1%	4,7%	5,4%	2,3%	-5,0%	1,1%	1,0%
Egypt	4,4%	6,8%	7,1%	7,2%	4,7%	5,2%	6,0%
Israel	3,8%	5,2%	5,4%	4,2%	0,0%	2,2%	2,9%
Jordan	4,8%	8,0%	8,9%	7,9%	3,2%	3,9%	4,5%
Lebanon	3,6%	0,6%	7,5%	8,5%	7,0%	7,0%	7,0%
Libya*	1,6%	5,2%	6,8%	7,0%	1,8%		
Morocco	3,8%	7,8%	2,7%	5,6%	5,0%	3,0%	4,4%
Mauritania	4,0%	11,7%	1,9%	2,2%	2,5%	4,1%	5,0%
Monaco							
Montenegro*	1,6%	8,6%	10,7%	7,1%	-7,0%**		
Palestine	2,8%		*No data available*		7,0%**		
Syria	3,5%	5,1%	4,2%	5,2%	3,0%	4,0%	5,5%
Tunisia	4,8%	5,7%	6,3%	4,5%	3,3%	3,8%	5,0%
Turkey	4,7%	6,9%	4,7%	0,9%	-5,8%	3,3%	4,2%

* Calculated on 2000-2005 period, to eliminate some effects (war in Bosnia, lack of statistical data in Libya and Monténégro before 2000)
** Source : IMF

Source: World Bank data updated in January 2010.

a. Countries South of the Mediterranean resisted the shocks of 2007-2009 but recovery prospects are uncertain

Countries South of the Mediterranean have lost on average two growth points from the start of the crisis (2008 or 2009 depending on the country) to the recovery period (2009 or 2010 depending on the country). Within these countries, the World Bank[19] distinguishes three groups:

[19] *Economic prospects*, January 2010

- Countries that export oil (Algeria, Libya and Syria) have mainly suffered from the fall in the price of oil[20]. Algeria, which had accumulated enough forex reserves, was able to limit the impact of the crisis (loss of one growth point versus two on average in the area).
- Countries highly dependent on external financial flows (FDI, tourism, migrant remittances) such as Lebanon and Jordan, which approached the crisis with a significant current deficit and should face financing difficulties in the years ahead.
- Countries with a diversified economy, exporters, which were victim of the fall in European demand (Egypt, Morocco, and Tunisia).

The fall in growth in countries South of the Mediterranean is essentially explained by a degradation of their external balance. The contribution of this balance to GDP growth became negative in 2009, while the contribution to GDP growth of consumption and investment remained positive.

Table n° 30 : Contribution of the external balance to GDP growth for several Mediterranean countries

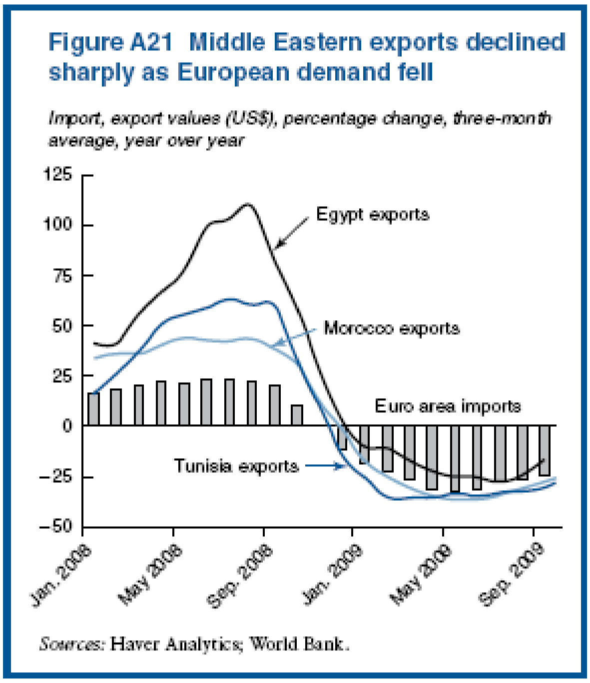
	2006	2007	2008	2009(e)	2010(e)	2011(e)
Egypt						
Consumption (Government and households), and investment	7,4%	11,0%	8,7%	7,5%	6,5%	6,1%
External balance	6,5%	4,1%	-0,4%	-0,3%	0,9%	2,6%
Jordan						
Consumption (Government and households), and investment	2,1%	14,5%	3,2%	4,7%	4,1%	6,7%
External balance	6,6%	3,6%	8,8%	-6,5%	1,5%	2,9%
Morocco						
Consumption (Government and households), and investment	7,3%	6,7%	6,9%	9,8%	3,8%	4,1%
External balance	3,8%	1,7%	3,7%	-7,3%	1,6%	2,5%
Tunisia						
Consumption (Government and households), and investment	6,4%	4,5%	4,1%	3,2%	4,2%	4,0%
External balance	2,4%	4,2%	6,4%	-5,0%	0,2%	2,3%

Source: World Bank data updated in January 2010.

Four elements explain in particular the degradation of the external balance:

- Fewer exports, as a result of the fall in European demand:

[20] Brent oil prices plummeted from a maximum of $133 a barrel in July 2008 to $43 a barrel in January 2009. Prices have since edged up again to $75 a barrel in January 2010.



Source: World Bank, MENA regional prospects, data updated in January 2010

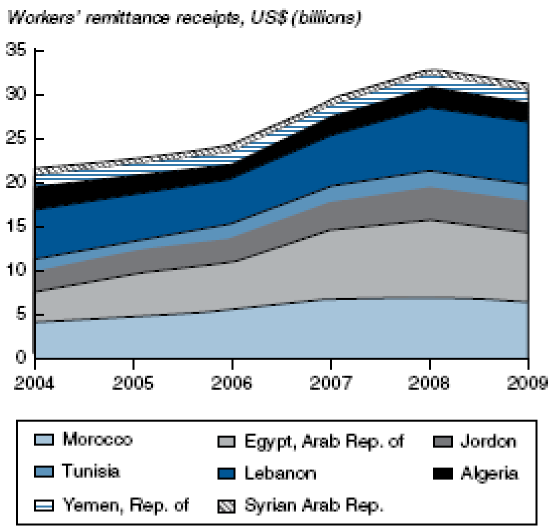
– Income from tourism has decreased by 5% on average throughout the MENA region[21]:

Source: World Bank, MENA regional prospects, data updated in January 2010

– Remittances sent by migrant workers have decreased by 6.3% in the MENA region:

[21] For the World Bank, the MENA region includes Yemen and Iran which are not in the Mediterranean area.

Figure A22 Worker remittances fell by a moderate 6.3 percent in 2009



Source: World Bank; IMF; national agencies.

Source: World Bank, MENA regional prospects, data updated in January 2010

– The fall in foreign direct investments, analysed further on in this report.

However, the factors that have enabled the impact of the crisis to be limited in countries South of the Mediterranean, in particular the decreased dependence on exports, are also those that may slow down economic recovery.

b. <u>Unevenly affected countries</u>

Countries North of the Mediterranean have been more affected by the economic crisis: in every country, growth was reduced by at least four points in a year. Countries South of the Mediterranean, Eastern European countries and Turkey have seen their external balance fall, mainly due to the drop in European demand.

However the impact of the crisis was reinforced in these countries by a removal of invested capital, following the bank liquidity crisis. Investments were stopped, leading to a decrease in activity and domestic consumption.

Table n° 31 : Contribution of the various aggregates to GDP growth in several countries

	2006	2007	2008	2009(e)	2010(e)	2011(e)
Albania						
Consumption (Government and households)	6,7%	7,2%	6,7%	2,4%	3,2%	3,9%
Fixed capital investment	-0,1%	1,2%	2,5%	0,0%	1,7%	3,0%
External balance	1,8%	3,2%	2,3%	-0,3%	3,2%	3,9%
Croatia						
Consumption (Government and households)	2,6%	4,4%	0,8%	-4,9%	0,3%	1,6%
Fixed capital investment	2,7%	1,6%	2,1%	-4,3%	0,8%	0,1%
External balance	2,8%	1,9%	0,7%	-6,6%	0,3%	1,2%
Turkey						
Consumption (Government and households)	4,3%	4,7%	0,2%	-1,9%	2,1%	3,1%
Fixed capital investment	2,8%	0,3%	-0,9%	-4,1%	0,9%	0,9%
External balance	1,5%	1,6%	0,6%	-3,2%	1,1%	1,7%

Source: World Bank data updated in January 2010.

The brutal losses in growth observed in these countries highlight a volatility that is more significant than in countries South of the Mediterranean. For some countries however, this phenomenon is also accompanied by a more rapid recovery rate. Thus, in Turkey, the GDP fall in 2009 was not as sharp as first anticipated (-4.7% vs. an initial forecast of -5.8%) and the fourth quarter of 2009 was marked by a GDP growth of 6%.

3. The lack of regional integration

Eventually, it must be highlighted that the lack of regional integration leads to many difficulties for the development of countries in the Mediterranean area.

First, these difficulties limit the development of transnational projects.

Second, they greatly limit trade between Mediterranean States, whether for the free movement of people, capital, goods or services. Trade between Arab countries represents on average only 10% of their total trade. Limits for currency conversions within Mediterranean countries significantly reduce the possibilities for trade, in the end limited to the currency reserves held by each State.

A study[22] has thus estimated at 2 growth points a year and 150,000 jobs the cost of non-Maghreb, i.e. the cost of trade restrictions within the Arab Maghreb Union.

The Working Group is convinced that a determining contribution for the development of these countries would be a political unblocking and changes to regulations in order to facilitate trade. The financing of co-development in the Mediterranean may support projects, but cannot replace the decisive impact of political change and the increase of trade between countries, which only relies on national political authorities in the region.

[22] Ministry of economy and finance of Morocco, Research Directorate: *The cost of non-Maghreb*: October 2008

II. CONSTRAINED INVESTMENT REQUIREMENTS

A. FOREIGN DIRECT INVESTMENTS PROVIDE ONLY A SLIGHT LEVERAGE FOR INVESTMENT AND ACTIVITY

1. Volatile FDI

Foreign direct investments (FDI) in the area represent less than 5% of global FDI. But since 2004, they have greatly increased, underlining the economic growth of countries in the area. While FDI remained stable from 2000 to 2004 (around €10 billion), they doubled in 2005 and 2006, fluctuating around €45 billion since then.

The attractiveness of countries in the area is uneven. Three countries (Egypt, Israel and Turkey) benefit from 60% of total inflowing FDI in the area.

Table n° 32 : Inflowing foreign direct investments (in flows)

In € Million	2004	2005	2006	2007	2008	2009*	Decrease 2009 vs. 2008
Albania	239	183	228	463	656	N/A	N/A
Algeria	617	757	1 257	1 166	1 852	1 400	24%
Bosnia	497	426	505	1 478	739	N/A	N/A
Croatia	755	1 252	2 419	3 490	3 358	N/A	N/A
Egypt	877	3 763	7 030	8 105	6 646	4 900	26%
Israel	1 648	3 011	10 333	6 314	6 747	3 500	48%
Jordan	571	1 242	2 253	1 365	1 376	770	44%
Lebanon	1 395	1 954	1 872	1 911	2 524	1 190	53%
Libya	250	727	1 445	3 282	2 878	N/A	N/A
Morocco	551	1 134	1 656	1 965	1 726	490	72%
Mauritania	274	570	109	107	72	N/A	N/A
Montenegro	0	0	433	613	657	N/A	N/A
Palestine	34	33	13	20	N/A	N/A	N/A
Syria	193	350	420	869	1 120	1 050	6%
Tunisia	449	550	2 289	1 072	1 847	840	55%
Turkey	1 950	7 022	14 130	15 432	12 809	5 600	56%
Total	**10 301**	**22 971**	**46 391**	**47 652**	**45 006**	**19 740**	**N/A**

*Source : World Bank, *IMF*

However, FDI are characterised by their extreme volatility: they doubled in 2005 and 2006 but were significantly reduced in 2009 due to the economic crisis. They fell by 72% in Morocco and by around 50% in Israel, Lebanon, Tunisia and Turkey. A similar phenomenon had been observed in 2002 after the crisis in 2001. From 2010, recovery seems slow.

This overall volatility is even sharper in some cases: in Tunisia for instance, FDI quadrupled in 2006 before being divided by two in 2007. They doubled in Jordan in 2006 and were divided by two the following year. In Israel they tripled in 2006 and fell by 40% in 2007.

This volatility is explained in part by privatisations. In the case of Morocco for instance, the many privatisations at the beginning of the 2000's explained in part the significant growth in FDI in that country. Conversely, the decrease in privatisations after 2007 contributed to the decrease in FDI, thereby adding to the effects of the economic crisis. This phenomenon is also particularly marked in Turkey.

In a nutshell, FDI represent a source of financing which, every two or three years, is multiplied or divided by two. This phenomenon raises two important difficulties.

First, it poses external balance problems, in that FDI are a foreign currency resource for these countries.

Second, it drives these countries towards short-term investments: it is difficult to develop medium to long-term investments with such volatile resources.

The instability of FDI is even more penalising in that they represent a significant source of financing for the economy of recipient countries: on average, FDI represented 4.2% of GDP for recipient countries in 2008 and 15.8% of their investments in 2007 (the standard is however closer to 20%):

Table n° 33 : FDI expressed as % of GDP and of gross fixed capital formation

	% of GDP	% of fixed capital formation
Albania	7,8%	23,5%
Algeria	1,8%	4,6%
Bosnia	6,2%	23,4%
Croatia	8,0%	25,8%
Egypt	6,5%	26,0%
Israel	5,3%	28,2%
Jordan	10,1%	36,6%
Lebanon	13,7%	40,5%
Libya	5,7%	15,8%
Morocco	3,1%	8,5%
Mauritania	3,6%	13,7%
Montenegro	23,4%	53,7%
Palestine	N/A	N/A
Syria	3,6%	21,4%
Tunisia	7,8%	24,4%
Turkey	2,6%	11,4%
Total	4,2%	15,8%

Source: author's calculations, World Bank data for 2008 (GDP) and 2007 (gross fixed capital formation).

It can be observed that countries in which FDI represent a significant proportion of GDP and of gross fixed capital formation are those in which the Working Group has observed the greatest deficiencies in medium to long-term investments (Lebanon, Jordan) thereby highlighting the difficulty for these countries to use FDI as a source of financing for the economy.

Over the last few years, the FDI/GDP ratios have regularly been within a range of 5% to 10%, which is a sign of real attractiveness for international investment. By contrast, Morocco, Syria and Algeria have had low ratios, around 1% to 3% depending on the year, and with no clear trend towards an increase.

2. Unevenly efficient FDI

At an economic level, FDI theoretically provide a positive contribution: they are meant to induce an acceleration of growth for the recipient country, in particular through technology transfers. They are also meant to alleviate the domestic savings constraint for investment. The correlation between growth and FDI is in theory positive, which is illustrated for instance by the case of Turkey, Tunisia and Egypt.

Yet, quantitative analysis and modelling have not enabled these positive impacts to be accurately quantified. On the other hand, these surveys have led to understanding better the positive correlation between FDI and growth acceleration. The motivations for international investment are generally twofold: horizontal search for markets and vertical search within an international company for productivity gains and cost reduction. The first motivation is not sufficient to lead to massive inflows of FDI in the area: as regional integration is still in the early stages, internal markets remain weak, which introduces a fundamental difference with the international reference in terms of FDI, China. The second type of international investment is likely to drive substantial flows of FDI towards countries in the area.

However, the conditions for which a dynamic flow of FDI enables positive effects are not met in all countries in the area.

Econometric studies indeed show that FDI only have a multiplying effect when they rely on significant domestic savings and investments. If not, they may even have a negative effect, with domestic investment being in some cases overshadowed by FDI according to some studies.

A favourable institutional environment is also essential: technology transfers are only implemented when the international investor is not constrained by an over-restrictive environment (rules limiting partnerships, trade control, de jure and de facto limits to internal company management). A stable regulatory context, enabling durable relations of trust between the host country and the foreign company is a pre-requisite condition for the efficiency of FDI. In case of reciprocal mistrust, the foreign company will limit its technology transfer as much as possible.

The examples of investments by American or Japanese companies in continental Asia show that FDI can have a multiplying effect on growth and ensure real technology transfers. These companies have sought out exporting platforms that are capable of being competitive at a global scale and have found them in Asia. Investments by German companies in Eastern Europe also show the possibility of finding springboards for growth and exports, while searching for additional sub-contractors and partners.

Countries South of the Mediterranean do not have examples of this type of success on a similar scale, with the exception of Turkey. This country was selected as an export platform by many companies, European first but also Asian (Japanese and Korean). Partnership agreements supported a remarkable increase in Turkey's exports. This country had less than 20,000 export companies at the beginning of the 2000's, it currently has over 50,000. Apart from Turkey, the analysis has not yet found a similar effect by FDI on growth and exports in other countries in the area.

Several countries only imperfectly meet the conditions for implementing the virtuous circle created by FDI. Legal provisions for strategies to replace imports theoretically aiming to support domestic industrialisation remain and have even been recently introduced.

The East Asian example shows on the contrary that the positive impact of FDI on growth is maximised when the strategy of the recipient country aims at strengthening its exporting industries. For the foreign company that invests, the pressure of global competition forces it to transfer technology that is essential to maintain and improve its competitiveness on a global scale. In many countries South of the Mediterranean, because of restrictive legal provisions, the advantage of investment is finally reduced to the difference in salary costs, which is not enough to sustainably attract multinational companies. The fragmentation of the regional area also restricts the openings of the company to domestic markets alone, which also limits the impact of FDI.

Finally, one last factor conditioning the economic efficiency of FDI is the sector in which they are invested. In the Asian growth mode, FDI financed the industrial sector, thereby creating conditions for future growth. In Mediterranean countries, the FDI are mainly directed towards the tourism or property sectors, i.e. highly profitable activities in the short-term, but that do not really increase the medium to long-term growth potential for these countries. Except for Turkey, countries in the Mediterranean area do not really profit from FDI.

B. UNDERDEVELOPED STOCK AND FINANCIAL MARKETS

1. A general lack of development on the markets

Despite recent momentum (the creation of indices, stock market restructuring) in certain cases, the region's stock markets generally lack depth and liquidity.

For example, the Casablanca stock market (Morocco) has been structured since 1993 and set itself the aim of listing between 200 and 600 companies. Today, however, only 75 companies are listed, even though there are plans for major modernisation (opening the market's capital to banks and insurance companies, creating a futures market, developing debt securitizations, creating mortgage bonds). Some countries are still only in the nascent stages when it comes to their financial markets. The Damas stock exchange market (Syria) received technical assistance from the French authorities for its creation in 2005. It now has only 11 listed companies.

Overall, the absence of sufficiently liquid and developed stock markets is a handicap for companies in these countries who, not having access to the long-term savings available on the markets, are limited in their sources of finance.

This situation contrasts with that of other emerging regions of the global economy, Asia and South America in particular. There are however three countries from the Mediterranean region that stand as an exception to this generally worrying situation - Turkey, Israel and Jordan - which have achieved a satisfactory level of stock market capitalisation.

Table n° 34 : Main markers of stock market maturity

	Number of listed companies	Market cap ($Bn)	Market cap/GDP
Croatia	376	27	39%
Egypt	237	83	48%
Israel	610	194	90%
Jordan	272	31	150%
Lebanon	42	13	39%
Morocco	76	65	70%
Montenegro	32	3	58%
Palestine	N/A	2	51%
Tunisia	52	9	23%
Turkey	316	246	50%
Argentina	107	52	16%
Brazil	432	589	37%
China	1 604	2 793	64%
Hong Kong	1 017	468	217%
India	4 921	645	56%
Malaysia	977	187	84%
Mexico	125	232	21%
Philippines	244	52	31%
Singapour	455	180	98%
World	47 644	33 513	55%

Sources: World Federation of Stock Exchanges, local stock exchanges, IMF, data from end of 2009

Israel and Turkey in particular have achieved a considerable degree of maturity. For example, in 2009 Israel managed to raise $19 billion in funds, of which $1.7 billion in shares (compared to $27 billion before the crisis). Today therefore, these two countries are facing new challenges – developing sophisticated instruments, integrating spot and futures markets, and improving the effectiveness of post-market activities.

Jordan is also an exception, having gradually built up a real private individual shareholding (900,000 shareholders, compared to 150,000 in Morocco with only 10,000 small individual shareholders). This growth is primarily due to Jordan's legal framework, which is transparent, protects investors and allows international subscribers (50% of shares are owned by foreign investors). The soundness and modernity of its technological infrastructure are also remarkable, something that has been possible with the financial support of France and the European Union, and technical support from Euronext.

2. Stock markets that do not effectively finance the economy

By comparing the various stock exchanges from the region against an international benchmark, we can see their specific features and their limits. Not including Jordan, the region's exchanges are at once too concentrated, not liquid enough and insufficient to fund adequately economic investment.

Table n° 35 : Key markers of depth and liquidity

	Concentration(1)	Stocks liquidity (2)	Economy financing through capital markets(3)
Croatia		7,4%	
Egypt	48%	66%	12%
Israel		59%	
Jordan	69%	59%	16%
Lebanon		6,8%	
Morocco	74%	23%	2,0%
Montenegro		N/A	
Palestine		N/A	
Tunisia		25%	
Turkey	56%	135%	4,0%
Argentina		19%	
Brazil		74%	
China		121%	
Hong Kong		81%	
India		85%	
Malaysia		33%	
Mexico		34%	
Philippines		22%	
Singapore		101%	
NYSE-Euronext	20%	240%	12%

1) Share of top 10 market caps in global market capitalization

2) Equity portfolio rotation rate

3) Equity emissions / Gross fixed capital formation ratio

Source: Moroccan Caisse des Dépôts et de Gestion, comparative study (2008); World Bank (2008)

Regarding the role that equity offerings play in financing the economy, the differences with international benchmarks do not at first seem worrying, especially if we refer only to the NYSE. However, this does not give us the whole picture. In fact, in addition to the contribution from the NYSE, there is the amount received from its competitors, such as the NASDAQ and OTC trading[23]. In the United States, well in excess of 20% of the economy is funded by the stock exchange. In the United Kingdom, the figure is in excess of 30%. In contrast, in the Mediterranean only Jordanian and Egyptian companies rely on the stock exchange to any great extent to fund their investment activities (16% and 12% respectively).

In addition, a comparison of the liquidity and concentration figures for this region and for NYSE-Euronext highlights the lack of market development. Investors do not have access to a sufficiently wide range of securities and are therefore unable to engage in arbitrage without upsetting all other share prices. Concentration is high in all countries, even Jordan. This places a significant handicap on the region, since international investors prefer liquid and developed markets, on top of their traditional requirements (secure transactions, protective legal framework, and high profitability). Although these conditions exist in Asia, the same cannot be said for Mediterranean countries.

[23] Over The Counter: exchange platforms not governed by any regulated public market; highly developed in the United States.

The liquidity of the region's stock markets is hampered by the small volume of floating capital. In fact, the proportion of tradable floating capital is low in the majority of cases, around 10%, except in Turkey, where it is 30%, and in Israel. This can be partly explained by the specific nature of the shareholding in large private companies around the Mediterranean, a shareholding that is often family-owned. In Syria, although the Damas stock market only has 11 listed companies, there are a further sixty family-run companies with the potential to enter the stock market but not currently meeting the necessary accounting transparency conditions.

The lack of stock market effectiveness can also be explained by the significant role of the public sector in the region. The move towards privatisation, which began in the 1990s, mainly in tourism, agriculture and construction, generally lost momentum in the new millennium. Since 2005, some countries have however embarked on the process to privatise large State-owned enterprises (Telecom Egypt in 2005, Turk Telecom in 2005, Bank of Alexandria in 2006, Tunisie Télécom in 2006, the Tupras oil refinery in Turkey and Ashdod in Israel, Algiers metro in 2007, the national airline and national electricity company in Jordan in 2007 etc.), but the Mediterranean transport and energy industries still largely belong to the public sector[24]. Several companies that are key to these countries' economies remain unlisted, thereby impeding the growth of the stock markets.

The volume of market activity has therefore not reached any significant level in the majority of markets, which raises the question of whether multiple listing on several markets or regional alliances would be possible. Likewise, internationalisation by means of opening the markets to foreign players seems one of the conditions for a dynamic stock market, as shown by the Jordanian example. This is also confirmed by the case of Istanbul, where foreign investors now account for 30% of transactions.

In order to appeal to international investors, stock market valuations need to be attractive without seeming speculative. The situation varies between markets. For example, the PER[25] is only 9 on the Cairo market, which allows for a significant margin of valuation. It is 15 or more on other markets, which may be an indicator of persistent over-valuation due to a lack of transactions and arbitrage. Set when a company is first listed, this over-valuation is retained and does not get corrected due to a lack of sufficient trading.

3. Weak or almost inexistent private bond markets

The region's bond markets are also underdeveloped, even non-existent, at least for the private bondholding. The most surprising case is that of Turkey, which although it has a mature stock market has not seen any private bond issues since 2007. Where they do exist, private bonds are characterised by a very weak secondary market.

For example, one of Egypt's largest companies, Orascom Construction, has only arranged for three bond issues in recent years, none of which had a maturity longer than

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[24] As confirmed by a slightly old but still relevant report by Cécile Kauffmann and Lucia Wegner, "*Privatisation in the MEDA region: where do we stand?*" OECD Working Paper No 261, July 2007

[25] Price Earnings Ratio: The ratio between a company's stock price and net earnings. This figure expresses the value of a company or of a stock exchange as a multiple of its net earnings. For Cairo, a PER of 9 means that its listed companies are worth on average 9 times their net earnings.

five years. Even in Israel, large companies have expressed their difficulties at finding long-term bond financing to fund their PPPs. Véolia confirmed it had only been able to obtain 5-year financing for its 25-year concession projects. In Morocco, the IFC (World Bank Group) launched a 15-year bond issue for €100 million, but the transaction was only subscribed by five investors and the secondary market was virtually inexistent. In 2009, Morocco's primary private debt market represented less than €4 billion, half of which was in the form of certificates of deposit. In Tunisia, bond issues in 2009 only represented €950 million per year.

In a majority of Mediterranean countries, therefore, the financial market is limited to public bonds. Some use sophisticated techniques and have a remarkable technological infrastructure, effective adjudication procedures and players who are structured around specialists in treasury securities (primary dealers/market makers), as for example in Morocco. Other countries are on track to modernise their public debt markets, such as Syria. With a low level of debt (25% of GDP), this country is currently benefiting from technical assistance from *Agence France Trésor* (a French Treasury unit) and is due to launch its first bond issue in 2010.

This technical efficiency cannot however conceal a fundamental structural weakness, namely that public bonds crowd out private investment. By way of example, Lebanese public securities offer an average coupon between 6.5% and 10%, making them an investment opportunity that the Lebanese banking system has no choice but to favour over long-term private bonds. Taking a strictly rational and cautious approach, Lebanese banks have allocated 30% of their deposited resources for the purchase of public debt securities. Subsequently, the private bond market is very weak. In Morocco, twice as much public debt was issued in 2009 as private debt (€8 billion compared to €4 billion).

In most Mediterranean countries, the yield curve, when not totally inexistent, is very flat, which limits the possibilities of growth on financial markets and is one of the symptoms of the weakness of secondary markets.

The weakness of private bond markets not only generates problems for financing the economy; it creates a barrier to economic modernisation by encouraging neither the development of more sophisticated and better suited financial instruments nor the financial transparency of companies. From a macroeconomic perspective, developing the bond markets is also an important tool in the fight against inflation, since it can lower the cost of financing for companies.

4. Markets in need of modernisation

The lack of attractiveness of the stock and financial markets in many of the region's countries is an obstacle to growth. Companies hesitate when faced both with the financial and regulatory costs, and with the accounting requirements they need to meet to make a public issue. Often family-owned, they are reluctant to comply with the obligation of accounting transparency that is imposed by market supervisory authorities.

Some countries have embarked on the modernisation of these obligations. In Egypt, for example, the requirement for companies making a public issue to submit provisional financial statements has been abandoned in favour of an assessment by a credit rating agency. This type of obligation is a powerful spur to modernisation, insofar as it introduces companies to the culture of risk scoring, a culture which is also essential for extending bank credit.

In addition, the regulatory framework may actually encourage companies to tap stock market due to the application of the Basel II prudential ratios, in particular the ratios capping the concentration of individual risk. In some countries (such as Egypt, for example), large companies have already nearly reached the ceiling of these single obligor limits, meaning that they may have to rely more heavily on financing from the markets.

However, removal of the barriers to financial market growth cannot come only from financial regulation and changes to corporate incentives. It will depend also on the behaviour of the market players themselves.

The markets are governed by a high quality regulatory and supervisory framework which, on the whole, ensures transparency and invites international cooperation. There are, however, some exceptions, with cases of non-cooperation and instability, even failure to comply with specific rules. These exceptions have a negative effect on the attractiveness of the region's markets. We should therefore welcome the initiative of the Mediterranean partnership of securities regulators, which establishes the grounds for cooperation and communication between regulators on both sides of the Mediterranean basin, paving the way for the harmonization of supervision regulations.

The asset management industry, back-office infrastructure and market operating framework (which govern orders and costs) are also targets for change. As regards the operating conditions, an excellent information technology infrastructure is essential but insufficient to guarantee the attractiveness of using the stock market.

International benchmarks have shown us that growth on the financial and stock markets goes hand in hand with the lowering of transaction fees due to strong competitive pressures. This also applies to the back office and custody sector conditions. Custody is a costly activity requiring significant investment in IT; economies of scale demand high volumes. This is particularly true for international transactions, with the result that the world custody industry is concentrated among a few major banks (global custodians). The cost factor is important as regards making the region attractive to international investors. In the majority of Mediterranean countries, the very high fixed costs of an often remarkable technological infrastructure (especially as regards IT) are not being spread over a large volume of transactions, which then weighs on the unit costs of transaction.

Finally, a proper asset management industry is needed. Among the various changes required in this area, the crucial ones are probably those relating to the banking system. Creating momentum on the region's financial markets will in particular demand greater involvement from banks in the management of financial assets across the whole chain of market transactions, by gaining in volume that which may be lost on prices and fees. Experience from across the world in fact teaches us that the only way markets can grow is with the assistance of the banks and bank intermediation.

C. COUNTRIES PERCEIVED AS UNATTRACTIVE, REVEALING A NEED FOR STRUCTURAL REFORM

The Mediterranean is characterised by difficulties for foreign investors when it comes to getting established and doing business, difficulties that are recognised as real by a majority of managers and experts.

In addition to these objective barriers, we have the problem of subjective international perceptions which are damaging the attractiveness of the region. Even if these countries' rankings have generally improved in recent years, competitiveness and business climate indexes drawn up both by the Davos World Economic Forum and the World Bank illustrate the prevailing negative perceptions.

Table n° 36 : 2010 Competitiveness and Business Climate Index

	World Economic Forum (out ouf 133 countries)		World Bank (out of 183 countries)
	2010	2009	
Algeria	96	108	82
Bosnia	83	99	136
Croatia	109	107	116
Egypt	72	61	103
Israel	70	81	106
Jordan	27	23	29
Lebanon	50	48	100
Libya	N/A	N/A	108
Morocco	88	91	N/A
Mauritania	73	73	128
Mauritanie	127	131	166
Monaco	N/A	N/A	N/A
Montenegro	62	65	71
Palestine	N/A	N/A	139
Syria	94	78	143
Tunisia	40	36	69
Turkey	61	63	73

Source: World Bank (Doing Business 2010), Davos World Economic Forum (2010 ranking)

These rankings are however questionable. The World Economic Forum figures come from an index based on perceptions and are subject to the limitations of sampling. The method used by the World Bank has been found to be affected by ideological and cultural bias. It should be recalled that the World Economic Forum ranked France in 16th place, Spain in 33rd and Italy in 48th position. It is also difficult to understand the rationale behind the World Bank's ranking of Georgia in the 11th position with Morocco being 130th, or even Belarus in 58th position and Syria 138th.

Nevertheless, despite their limitations, these rankings are no less a reflection of the negative perceptions that people have of the economic attractiveness of these countries, which is a problem that must be dealt with as such, all the more so since, apart from Algeria and Egypt, these rankings have shown no real change in two years.

The negative international perception of this region is almost identical in both indices. Only one country, Israel, was placed by both indices in the first quarter of the rankings. Two other countries, Tunisia and Turkey, were placed in the second quarter, again by both indexes. The other countries fall in the second half of both indexes, with the exception of Jordan, which was placed in the first half by the World Economic Forum.

The Davos Forum has published its assessment criteria, of which the ranking is just a summary. Five "problematic factors for doing business" seem crucial for countries placed in the second half of the rankings: inefficient government bureaucracy, tax regulations, access to financing, inadequately educated workforce and inadequate supply of infrastructure. A closer analysis of these negative perceptions reveals that legal protection for economic activities is deemed insufficient, corruption too high, and the work ethic in business questionable. As regards the workforce, regulations are often considered too restrictive, the quality of school education inconsistent, and the too scarce employment of women is seen as a major factor limiting labour market efficiency (as regards this final criteria, all countries with the exception of Israel were ranked in the final third category).

These subjective, negative and converging perceptions are sometimes born from real limits to economic growth, limits which have been identified by a large majority of experts and managers.

Difficulties gaining access to finance is an example. This factor in itself represents a major barrier to speeding up the growth of countries in the region. It is an already well established fact, one which is confirmed by the Working Group. Such "de facto credit rationing" is nevertheless complex. The shortage of savings may be exacerbated by the inefficiencies of the banking system when it comes to handing out credit to the private sector. The banking system in many of the region's countries is in fact highly demanding when it comes to guarantees, and the overcollateralisation[26] of loans is common practice. Private credit is also being ousted by Government-issued public debt, as we have already seen. Finally, many SMEs in the region do not meet the credit institutions' eligibility requirements in terms of accounting transparency. Overall, this limited access to credit is systemic and cannot be explained by one single factor. The solution also does not therefore require a simple single change but a range of convergent, i.e. systemic, reforms.

On the tax side, as regards the excessive red-tape and often too high rates imposed, IMF analysts have confirmed that there is room for reform in this area, too. Cleaning up public finance has been a priority for the region's countries and because of this, company taxation has remained high in some cases, although not all (e.g. Egypt has undergone major tax reform, halving corporation tax; Morocco has embarked on significant reform of the corporation tax and VAT; Syria is going to introduce VAT by 2010). Uncertainty over the stability of policies and of regulations, both administrative and fiscal, in turn introduces an element of uncertainty to profitability calculations, leading foreign investors to demand near-term profitability horizons, a low break-even point and a high risk or uncertainty premium. Here again, the barrier to growth is systemic and the response in terms of structural reform should also therefore be systemic: strengthening legal protection and the rule of law, simplifying administrative procedures and loosening regulations in order to allow the creation of a business climate that can stabilise the expectations of investors and entrepreneurs.

The other barriers to growth that were identified by the indexes concern the quality of the workforce and of education. These go beyond the field of financing, with which this report is concerned, but the Working Group stresses that investment in human capital is a condition precedent to uniform economic growth.

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[26] Overcollateralisation: Demanding a guarantee that exceeds the value of the loan or the amounts usually demanded as security.

D. EXTERNAL POSITIONS LIMITING THE PROSPECTS OF GROWTH AND INVESTMENT

1. A vulnerable external position

The external position of Mediterranean countries is characterised by its vulnerability.

Most of these countries are net importers of oil as well as being highly specialised in exports to industrialised nations (Europe and North America), for want of any regional economic integration. In these circumstances, any macro-economic shocks[27] only serve to reveal the vulnerability generated by this double-barrelled dependence.

Just one country, Algeria, has no global balance of payments[28] disequilibrium, a fact which could appear to be structurally reassuring since it reflects a current balance surplus, large foreign exchange reserves and low foreign debt. However, Algeria is not representative of the region. It is a major net exporter of energy and escapes the restrictions bearing on most Mediterranean countries (dependence on exports to the European Union or North America or on foreign currency brought in by tourism and migrant remittances).

Table n° 37 : Key Indicators of Foreign Financial Soundness

[27] Supply shocks, such as the 2007 rise in oil prices, or demand shocks, such as occurred following the financial crisis of autumn 2008.

[28] Balance of payments: Sum of current transactions (goods and services exports less imports), capital and financial transfers (capital and financial exports less imports, including FDI and migrant remittances).

In € Billion	Current account	Capital account	Foreign exchange reserves(1)	External debt(2)
Albania				26%
Algeria	0,9	1,5	35 months	3,6%
Bosnia				45%
Croatia				90%
Egypt	-2,5	2,6	6,1 months	16%
Israel	5,0	0,4	12 months	39%
Jordan	-1,6	1,2	5,2 months	23%
Lebanon	-2,4	3,2	8 months	180%
Libya				7%
Morocco	-2,8	2,2	6,9 months	25%
Mauritania	0,2	0,1	2,8 months	69%
Montenegro				31%
Palestine				N/A
Syria	-1,6	0,9	10 months	10%
Tunisia	-0,8	1,1	5,6 months	47%
Turkey	-9,8	3,8	4,8 months	41%

1) In months of imports
2) As a % of GDP

Source: IMF, provisional or estimated figures for 2009

Lebanon is in the most obviously fragile situation, with foreign debt totalling 180% of its GDP due to long-lasting internal and external crises. The structural deficit in its current balance is currently offset by a large surplus in its capital balance, thanks to foreign public funding and foreign investment (in particular short-term and portfolio investments in the Lebanese banking system). "Exiting" the exceptional "crisis financing model" and establishing a sustainable management model for foreign debt are therefore the specific targets to this country.

The economic crisis has also weakened the external position of the countries highly reliant on their exports to zones affected by it (Europe, United States). By way of example, we look at the case of Morocco whose cover for its foreign exchange reserves is only 6.9 months, compared to 18 months in 2008.

If we put aside the case of Lebanon, several other countries in the region are highly exposed to negative foreign shocks. The only non-net exporter of oil with a comfortable current position as regards external finance is, at first glance, Israel, but even it depends considerably on the external financial climate. It has a small capital balance surplus which creates uncertainties over how its balance of payments may change in the future. Egypt has a structural commercial deficit which, in normal circumstances, is compensated by an excess in its services and remittances balance (especially from migrants), meaning it can normally achieve a positive current external balance, at least when not in times of crisis.

In the case of Morocco and Turkey, which have a large structural commercial deficit despite often remarkable export performance, this offsetting is only partial. Income from tourism and remittances (those from migrants are low in the case of Turkey) is not enough to obtain a structurally positive external balance. Tunisia and Syria are in similar situations, but to a lesser extent.

For most countries in the region, developing their capital balance and financial transactions is therefore crucial for funding their overall balance without any major tensions.

Multilateral and bilateral flows of public finance, whether concessional or otherwise, are currently stable. The same is not true for portfolio investments and foreign direct investments (FDI), which are affected by severe volatility. The whole region's vulnerability to international movements of capital was revealed during the recent international financial crisis.

2. Effective stabilising strategies

Given these circumstances, it is understandable that the region's financial authorities and central banks are all adopting a cautious external monetary policy. In all but two cases, this strategy translates into official or de facto active management of the exchange rate, as well as foreign exchange controls.

The two exceptions are Israel and Turkey which have opted for a floating currency. We note however that financial analysts are currently discussing the likelihood of Israel anchoring its currency to the US dollar.

Other countries in the region have chosen, either officially or de facto, to peg to a particular currency or a basket of currencies (a *nominal* effective exchange rate target)[29]. Some of the region's central banks seem also to refer implicitly to having a *real* effective exchange rate target[30]. Exchange rates are being managed either by the central bank participating in an interbank market ("managed" floating system) or by direct administrative interventions to control exchange rates.

The results are generally conclusive, at least in terms of the nominal stabilisation of exchange rates. To give but two examples, the Egyptian pound has only fluctuated between 5.28 and 5.69 against the American dollar over the past two years, despite the international financial crisis, and the Moroccan dirham between 10.9 and 11.5 against the euro over the past five years (in the latter case the currency is pegged to a basket containing 80% Euro currency).

The region's central banks are also mostly pursuing a policy of accumulating or reconstituting their official foreign exchange reserves, following a period of shrinkage during the height of the financial crisis in autumn 2008. In at least one case, that of Israel, financial analysts anticipate that the Greenspan-Guidotti rule will be applied[31]. Algeria is obviously a separate case since it has official reserves of approximately $150 billion (€103 billion). At this level, it becomes essential to maximise the use of and return on these reserves.

Table n° 38 : Forex reserves at the end of 2008 (including gold reserves)

[29] Technically, this involves weighting the selected currency basket by the foreign transactions with each partner country. The aim is to target an effective nominal exchange rate.

[30] This exchange rate is obtained by weighting the country's currency both by the structure of foreign trade and by the difference in inflation with the partner countries. This produces real exchange rate target. However, there can be major technical difficulties when calculating this indicator.

[31] According to this "rule", in order for a country to cope with a massive withdrawal of capital, its reserves must be at least equal to its short-term external debt.

In € Billion	2008
Albania	1,7
Algeria	103,7
Bosnia	2,5
Croatia	9,1
Egypt	24,0
Israel*	42,4
Jordan	6,2
Lebanon	19,8
Libya	67,4
Mauritania	N/A
Montenegro	0,3
Morocco	15,9
Palestine	N/A
Syria	N/A
Turkey	51,6
Tunisia	6,3
Total	351

* 2009 data

Source: World Bank

Nevertheless, the economic crisis has considerably depleted the foreign exchange reserves of several countries in the region, which used them either to preserve the exchange rate of their currency, or to prop up domestic demand. For example, Morocco saw its reserves halve between the end of 2008 and start of 2010 (they are currently at about €8 billion). Egypt's reserves fell from $35 billion to $30 billion in just a few days, which came after $16 billion of capital being withdrawn from country in October 2008. This event has limited the financial margins of Mediterranean countries for the coming years.

The major risk of nominal anchoring is the creation of a structural competitiveness misalignment. This risk seems for the time being to have been avoided. The IMF is closely monitoring changes in the real effective exchange rate, which is compared to a long-term real equilibrium exchange rate (a rate that is complex and technically difficult to establish, and should therefore be used with a wide margin of interpretation). In its dialogue with the region's countries, the IMF maintains either that there is no fundamental misalignment between the nominal exchange rates and its long-term real equilibrium rate indicator, or that there is no incompatibility.

In total, and unlike other regions of the world's economy, there does not currently seem to be any systematic policy of competitive depreciation or unsustainable over-valuation between the countries. Expanding the exchange rate range of the administered flotation systems would undoubtedly avoid any structural misalignment in some situations and above all would eliminate the risk of one-way bets on the markets.

3. Need for new exchange rate policies

Given this globally positive situation, it is nevertheless the case that a combination of active exchange rate management and restrictions on capital balancing transactions or financial transfers is not ideal from the point of view of incentives for market players or companies and for their economic conditions of profitability.

As regards these restrictions, the situation in each of the region's countries is clearly quite diverse. At one end of the spectrum, the absence of any interbank markets, direct administrative management, leads and lags obligations for companies and stringent regulations for households all appear to be increasing the economic cost of external protection. At the other end, regulations on monitoring changes have become relatively relaxed for companies, particularly foreign ones. But even in this latter case, the implicit cost for economic activity as a whole is far from negligible. Distinct complex regulations need to be drawn up and implemented, and discriminatory situations are being created. As regards the economic players, a stable and permanent framework for business is lacking. All of this comprises one of the barriers to improving the overall attractiveness of the region.

From this point of view, the commitment from all of the region's countries to moving – gradually but steadily – towards capital account liberalisation is encouraging. Significant reforms affecting balance of payment transactions were put through in nearly all of the region's countries during the first half of the last decade. We are currently seeing a slight slowdown in the progress of these reforms, but which can be explained and justified by the impacts of the financial crisis.

Successful liberalisation of external financial transactions can in effect only be a permanent change in an overall macroeconomic climate in which internal and external economic agents' expectations are well rooted. External liberalisation is just one element of a range of structural reforms that economic agents see as irreversible or, at the very least, difficult to reverse.

These prerequisites having been met, choosing a progressive, coherent and global liberalisation strategy should make it possible in the near future to significantly improve the attractiveness of Mediterranean countries. The case of Turkey shows us that once the prerequisite of internal liberalisation has been met, thereby ensuring increased flexibility of the whole supply side of the economy, complete external liberalisation does mean that the country is harshly exposed to external shocks but then allows it to benefit impressively quickly from the subsequent recovery, including with historically un-conventional partners.

III. ASSESSING FINANCE PROJECTS: SPECIFIC SUCCESSES BUT PERSISTENT FAILURES

A. FINANCING SECURED FOR SEVERAL PROJECTS KEY FOR THE DEVELOPMENT OF MEDITERRANEAN COUNTRIES

Whether structurally-important projects or simply projects for financing economic activity, the failure by the Mediterranean private sector to fund projects that are key for the development of its countries has been highlighted by several experts, most recently by the World Bank[32].

Although its study looked at the whole of the MENA region, which is not exactly the same as the area covered by the Working Group, the World Bank's findings are still largely relevant. In the MENA region, private investment accounts for a small proportion of GDP compared to the Far East, and its companies are only half as profitable as in comparable countries, with the exception of Israel and Turkey. The World Bank also believes that the reforms undertaken in recent years to promote private investment have been applied arbitrarily. Sixty percent of company directors in the

[32] *From Privilege to Competition,* December 2009

region feel that the laws and regulations are not being applied consistently or predictably. The number of private companies per 1000 people is only one third of that in Eastern Europe and Central Asia.

Despite such structural handicaps, these countries have managed to attract major direct foreign investment over the past few years, which the Working Group has valued at €19.7 billion for the countries within our region. This capital has been used to fund various key projects for the private sector which have been launched recently. For example, the Tanger-Med automotive cluster around Renault-Nissan; the Bellara steelworks centre in Algeria (AFV Beltrame, Arcelor-Mittal, Al Ezz); the Airbus plant in Tunisia; high-tech projects for the Jordan Valley (Israel); the uranium project in Jordan (Areva); and the construction materials plants in Syria (Lafarge-Orascom and Binladen). There are also some major Italian projects underway, such as the building of the Istanbul-Ankara motorway (Astaldi); the urban belt in Tripoli in Libya (Impregilo); and the building of silos for storing wheat in Algeria (Salini).

In addition, thanks to Official Development Assistance, which the Working Group has valued at €19.4 billion for the whole region, finance has been obtained for several primary infrastructure projects.

Focus: Example of infrastructure financing - Port of Tangiers

- Grant from the Hassan II Fund: €200 million (for building the port)
- Grant ($100 million) and loan ($200 million) from Abu Dhabi
- Loan from the Islamic Development Bank ($65 million for railway links)
- State budget and bank loans in Morocco (approx. €500 million)
- AFD (€25 million for railway links)
- EIB (€40 million for additional railway links)
- AFESD (€250 million for the motorway)

This is just one example, but illustrates the fact that large structurally-important projects are being globally financed. It also gives an idea of the considerable volume of work created for project managers by each lending institution, each of which will have their own analysis criteria and their own requirements.

B. NEED FOR COORDINATION BETWEEN LENDING INSTITUTIONS

There are several lending institutions active in the Mediterranean region, each with different strategies and different procedures. This generates costs when it comes to coordinating the various projects in place and, sometimes, there is a lack of coordination between lenders.

1. Slow or unsuitable decision-making processes

Each lending institution has its own decision-making processes that it uses for selecting which projects to finance. However, they also have several points in common, such that it may be possible to define a “standard procedure”.

Projects are put forward through various channels - by private or public companies, banks and even by the authorities.

They are then usually assessed several times. An initial assessment will check whether the project is suitable (based on compliance with the lender's strategic priorities, its size and finance sources). A second stage involves an in-depth analysis of the proposal, accompanied in some cases by an on-site visit. Depending on the institution, this analysis will produce more or less lengthy and numerous reports.

The stages that actually culminate in an investment decision then depend on the lending institution's organisational structure. Suffice to say that, in general, the project is examined by several executive bodies (management or investment committee, then the board of directors).

Depending on each institution's internal procedures, the project will also undergo the various legal and financial assessments needed to draw up a financing contract, which will then be signed.

The speed of this process varies from one institution to another, but on the whole remains quite slow. In some cases, these drawn-out procedures even mean that decisions are not taken quickly enough to be able to support the investment project. In this respect, the Working Group can only be concerned by the fact that the MIGA hardly has any dealings with the region, whilst Mediterranean counties lack not so much the capital as the mechanisms for reassuring investors.

We must add that each procedure covers just one lending institution, and that the project managers have to go through a more or less identical process each time they approach a new target.

Most of the Mediterranean countries visited by members of the Working Group pointed out the slowness and bureaucracy of these procedures.

The Working Group shares this opinion, but also points out that this criticism of bureaucracy sometimes conceals another criticism expressed by the Mediterranean Governments. In fact, the finance conditions imposed by certain lending institutions are sometimes seen as interference in the domestic affairs of the beneficiary State, when for example they try to impose environmental requirements, social standards (respect for human rights, as in the case of American aid) or a requirement of good governance (anti-corruption clauses in particular).

2. Coordination efforts with mitigated results

International lending institutions have taken certain steps to reduce the coordination costs generated by these various procedures, but have not yet managed to create a "one-stop service". These steps do however reflect their awareness of the harmful effects of competition between lenders.

The EIB, the AFD, the KfW and other European institutions therefore embarked on a process of mutual delegation and cooperation, culminating in a delegation mechanism that is highly accomplished in Sub-Saharan Africa (the European Financing Partners initiative). This mutual delegation method has been extended to the Middle East and North Africa region, and has the support of the European Union. The NIF (Neighbourhood Investment Facility) has set itself the rule of providing additional finance (in the form of grants) when at least two European lending institutions (AFD and KfW, for example) are backing the same project. The AFD has signed an agreement with the EIB and the German KfW to standardise the ways in which they invest in the region and jointly finance its projects. These three institutions are currently involved in a dozen shared projects within the region. During its visit to Syria, the Working Group found that the KfW and the AFD in Damas were discussing how to distribute projects on a sector basis (transport projects directed from the KfW to the AFD).

Likewise, the private financing arms of European lending institutions are also jointly financing projects within the region. These subsidiaries - Proparco for the AFD, DEG for the KfW, FMO for The Netherlands, the Commonwealth Development Cooperation for the United Kingdom - together with Italian, Spanish and Portuguese institutions, have created an automatic syndication vehicle with the EIB - the European Financing Partners (EFP). For example, Proparco can propose a financing project to the EIB. If accepted, the bank will provide 50% of the finance, Proparco 25%, and the other partners will automatically put forward the remaining 25%. This distributes the risk between different European lending institutions and is a step towards achieving a “one stop shop” procedure.

Finally, we note the launch of the Marseille Centre for Mediterranean Integration in October 2009, which presents itself as a platform for linking the major financial institutions actively involved in the Mediterranean.

C. AN UNANSWERED NEED FOR FINANCIAL ENGINEERING

Countries in the Mediterranean find themselves in a paradoxical situation: even though the banking sector is very liquid and there are significant savings in want of investment, there is a shortage of finance for SMEs.

In many countries, the Working Group found companies expressing a great need for know-how and technical assistance. Banks need training for credit analysts and companies need help with drawing up their projects, financial statements and business plans, or with developing more sophisticated financial instruments that are better adapted to the needs of their projects.

More generally, a real need for greater information can be felt in these countries, whether about the state of the banking sector or about exactly how the credit market or capital markets work, even though the World Bank does partially fulfil this role of knowledge bank.

Despite the fact that the international financial institutions actively working in the Mediterranean have this know-how, they are not managing to transfer it to the banks and the companies that are receiving their aid.

The Working Group believes this is a crucial point. Financing for co-development should not simply be about handing out finance and reaping in any returns, but should on the contrary be about these international institutions transferring their knowledge and expertise to the local project managers. This financing should culminate in the training and emergence of a financial elite in these beneficiary countries.

The way in which the Mediterranean’s international lending institutions are currently organised does not encourage this sort of knowledge transfer. There is no institution that is specifically dedicated to financing development within the Mediterranean, with the exception of the FEMIP (but this is only a funding envelope and not an institution with its own employees and its own expertise).

The Working Group wrote a letter to the main active international lenders in the region asking for information about their team structure, but as of the date of this report not all had replied.

At the EIB there are legal restrictions on the recruitment of employees and it can only hire nationals from the European Union Member States. With the exception of four nationals from Turkey, a country in the process of becoming a member of the EU, the EIB's teams contain no nationals from any Mediterranean country, other than a few rare employees with dual nationality. On the other hand, in 2010 the FEMIP recruited 18 trainees, all from Mediterranean countries, but who are not necessarily working on project management.

Similarly, the EBRD recruits exclusively nationals from its 61 shareholder States. According to the information it gave the Working Group, 54 employees (3.6% of its workforce) come from Southern and Eastern Mediterranean countries, of which just over half have work that relates to the financing of this region.

According to available information, the Working Group notes that matters relating to financing for the Mediterranean are not usually dealt with by Mediterranean nationals. This is not a problem in itself when it comes to managing such projects. However, this situation could jeopardise the transfer of knowledge and expertise and therefore the formation of a Mediterranean financial elite.

D. PROJECTS LACKING FINANCE: SMES AND INFRASTRUCTURES

There are two types of project that seem to lack finance, but not for the same reasons. SMEs - due to the banking sector's problems with transformation and to being ousted from the credit market, and infrastructures - due to the volumes required.

1. Infrastructure projects: significant financing needs

a. Available estimates of finance requirements

Infrastructures in this region's countries need such huge amounts of financing that it is useless to try to quantify them.

There are several estimates available, but it is impossible to confirm how realistic they may be. When making their assessments, some of the available studies included projects that are still in the launch stage, for which feasibility studies are underway, and projects that are completely unprepared, still under consideration.

One estimate made in 2008 by McKinsey at the request of Inframed, based on projects currently being prepared within the region (not including Eastern Europe, Libya and Mauritania), gave a figure of between $150 and $300 billion over the next ten years. The Mediterranean Energy Observatory placed its estimate of the finance needed for energy infrastructure alone at $450 billion by 2020[33]. Finally, a recent report from 2IM[34] estimates that all countries within the region will require total finance of $200 billion.

The region's macro-economic fundamentals, which are studied in this report, also give an idea of volumes in question. In order for gross fixed capital formation to reach 35% of GDP, the level observed in other countries during their development stage (e.g. China, India, Japan), the average investment requirement for the whole region

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[33] *Mediterranean Energy Perspectives*, February 2009

[34] Mediterranean Investment Initiative, *Investing in the Mediterranean Region, current trends and future prospects* (report by Guillaume Alméras and Abderrahmane Hadjnacer), January 2010

would be €170 billion, which is consistent with these estimates (the equivalent of $238 billion).

If we look at existing major projects by countries, the actual figures could even be much higher.

Among the key structurally-important projects currently being prepared there is in particular the canal linking the Red Sea and the Dead Sea ($40 billion), railway projects especially in the Maghreb, and the electrical interconnection project between Europe and the Southern Mediterranean (ELMED, between Cap Bon in Tunisia and Sicily).

Investment has recently picked up the pace in Morocco. Over the past four years, the country has invested as much as it had in the forty years before. The financing requirements established by the Moroccan government are around €13 billion per year over the next few years (Port of Nador for oil tankers, a Solar Plan, a high-speed rail link between Tangiers, Casablanca and Marrakesh, motorways etc.).

In Tunisia, the 11th Development Plan (2007-2011) hopes for example to build a Tunis light railway (€1.7 billion) and a Tunis tramway network (€220 million), to electrify the suburban Tunis-Borj Cedria line and to complete seven major water purification programmes by 2016.

In Jordan, the banking authorities estimate their infrastructure requirements at €20 billion over 10 years (water, energy including nuclear, regional railways, Red Sea-Dead Sea canal etc.).

In Israel, Working Group representatives identified approximately $15-17 billion of major projects that were currently awaiting finance.

Syria's major projects are the development of road links to the largest regional cities (Beirut[35], Baghdad, Ankara, Amman etc.), and water management (irrigation from Euphrates in the North and from Yarmouk in the South).

Whatever the perimeter used and however financing requirements are assessed, the conclusion is as follows: infrastructure requirements greatly exceed the financing capacities of both the lending institutions present in the Mediterranean and the local banking sector.

For example, in Israel the banking system is only able to put forward $4 billion of the $15 billion of identified needs. In Morocco, if the banks pooled resources they could finance a power station to the tune of €2-3 billion, but not all the existing projects.

b. <u>Increased restrictions on lending institutions</u>

These financing requirements are all the more important since the sources of finance are becoming more and more limited.

It seems to be becoming harder and harder for multilateral finance institutions to carry out capital increases. There are negotiations underway and some which have been completed wherein shareholders are trying to minimise their amount of paid-in capital.

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[35] During its visit the Working Group found that due to a bottleneck at a border post between Lebanon and Syria and a lack of equipment (scanners to check goods), it takes a week for goods lorries to cross the border.

This process has been criticised by credit rating agencies as a way of maximising the ratio between paid-in capital and callable capital (see below, section III.B).

Some States have reached the single borrower limit for risk exposure permitted by international financial institutions (Morocco in particular, with the AfDB). The fact that Egypt, a shareholder in the EBRD, applied to it for finance illustrates the restrictions on lending institutions and the recipients.

Lastly, the Working Group found that many States felt that the finance from international lending institutions was too concessional, in particular when comparing it to the finance being offered by other players with a growing presence in the region - China and the Gulf States. The AFESD, for example, is granting an ever increasing number of loans at concessionary rates (3% loans for infrastructure projects). In Tunisia, China has granted, conditional to the purchase of Chinese goods and services, a loan of $95 million over twenty years, with a five year grace period at 0.2%, for the purchase of 20 multiple unit trains.

2. Financing for SMEs

The fragility of SMEs has long been identified as one of the major barriers to growth for the economies in the Southern Mediterranean. Despite real progress since the start of the millennium, SMEs continue to suffer from a difficult business climate.

There are also structural weaknesses caused by the difficulties encountered by SMEs wishing to find financing. According to a report ordered by the EIB[36], only 15-20% of SMEs in the Mediterranean partner States have access to bank finance. Despite being liquid and properly capitalised, the banks' behaviour is marked by a strong aversion to risk, due in particular to significant levels of defaulting loans. They therefore lend little, at relatively high rates, with short maturities and demand high collateral (systematically higher than the value of the loan).

Moreover, the implementation of Basel II, which is already in force in some countries (Morocco) and is due to be implemented by most others by 2011-2012, depends on a risk weight system that could further ration the amount of credit available to SMEs.

Microenterprises and start-ups will in particular need assistance due to an inability to correctly formulate loan applications (crossovers between personal accounts and company accounts, lack of accounting transparency, no reporting) and due to the additional cost and risk that they represent for banks and investment funds. As regards raising equity capital, investment funds, which are undergoing rapid expansion within the region, are concentrating solely on investments greater than €1.5 million. Venture capital is therefore virtually non-existent in the region, with the exception of one annual envelope of €32 million from the European Working Group to the FEMIP for venture capital and technical assistance.

It is difficult to evaluate the financing requirements of SMEs, especially given the absence of any comprehensive statistics for the credit markets in some of the region's countries (Palestinian territories, Egypt, Syria). The aforementioned report ordered by the EIB sets forth a €2.2 billion action plan for SMEs of which:

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[36] European Consultants Organisation (ECO), Study in Support of the implementation of the Mediterranean Business Development Initiative, March 2010

- €650 million to develop micro-finance, which is underexploited except in Morocco, and in Egypt to a lesser extent. The report mentions 3 million clients (including 1.3 million in Morocco and 1.2 million in Egypt) each benefiting on average from €700 in loans;
- €600 million to develop equity investments in SMEs. The report has valued the managed funds invested in Mediterranean's SMEs at about €2 billion, but microenterprises and start-ups have virtually no access to this finance due to the high fixed costs and a lack of exit strategies. The report recommends portfolios of 40-50 companies (compared to 10-15 at the moment) and an investment horizon extended to 15 years (compared to 8-10 years now);
- €250 million for existing guarantee mechanisms and to create a Mediterranean counter-guarantee fund. Guarantee bodies do already exist in some countries (e.g. in Tunisia, the Palestinian territories, Morocco), but they have produced few results to date, particularly due to the problem of adverse selection (the banks finance the best projects and send the not-so-good ones to the guarantee funds). A Mediterranean counter-guarantee fund could act as a catalyst, encouraging the pooling of risk at regional level, by providing expertise and promoting the adoption of good practice. Instead of limiting itself to guarantees for debts, it could also partly guarantee equity or quasi-equity investments as part of a programme to promote funds specialising in microenterprises and start-ups.

This estimate certainly falls well below the actual financing needs of the region's SMEs, but the Working Group supports the conclusions of this report, which accurately outlines the financial instruments that are currently lacking for Mediterranean SMEs.

Such actions could be launched as part of a Mediterranean Business Development Initiative (MBDI). According to this same report, the MBDI could be implemented within the EIB or by creating a new dedicated agency. In the light of the present study, the MBDI could be integrated in the scope of a dedicated Mediterranean financing institution, which could effectively provide the necessary finance, coordination and expertise.

A single agency for developing SMEs (whether independent from the EIB or otherwise) would be easier to achieve than an international financing institution. However, the creation of such an institution would be perceived among private investors and commercial banks as a strong signal of confidence, even if it takes modest stakes (5-10%) in projects. Beyond its financing role, via funds or funds of funds (which could also be provided by the FEMIP), it would also be able to provide the expertise and support needed for SMEs to develop within the region.

There is one final point to add. Large multilateral lending institutions, such as the World Bank and the EIB, are better organised to write cheques for larger amounts than to fund SMEs. At the current time, even though infrastructure project managers know which institution to contact, none of the lenders involved in the region has been identified as a preferred partner for financing SMEs.

E. THE UFM: PRIORITIES BEING MET BUT A MAJOR SHORTAGE OF FINANCING

1. The driving role of the UfM

As part of the Union for the Mediterranean, six major priorities were set out at the Paris summit in July 2008: the Mediterranean Solar Plan; the de-pollution of the Mediterranean; the creation of maritime highways; the Mediterranean business development initiative; the creation of a Euro-Mediterranean university and research centre; and the Mediterranean civil defence programme.

With the exception of the Mediterranean Solar Plan, it is difficult at this stage to list any projects specific to the UfM, insofar as it is the Union's Secretary General who is in charge of labelling them. But the Secretariat, which was officially inaugurated on March 4th, 2010 in Barcelona, is still getting established.

However, the UfM did act as a catalyst by channelling a large majority of available financing towards its identified priorities.

a. 80% of the FEMIP's transactions in 2009 were directed at UfM priorities

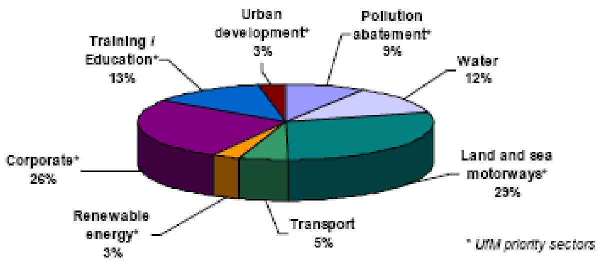
In line with the targets of its 2009-2011 operating plan, nearly 80% of the transactions signed off by the FEMIP in 2009 were for the priority areas of the Paris Declaration of July 13th, 2008 and the final declaration by ministers of foreign affairs (Marseilles, November 2008):

- De-pollution of the Mediterranean: This project is in the concrete stage, particularly thanks to the implementation of the Mediterranean Hot Spot Investment Programme (MeHSIP) which comes as part of the Horizon 2020 initiative with the participation of several multilateral and bilateral financial institutions, under the coordination of the EIB. The following financing has been obtained: €70 million in Lebanon for the construction of wastewater processing plants in Kesrwan, a tourist region with a high population density, with the aim of preventing untreated water being dumped into the sea; €70 million for improving the access of 4 million people to a drinking water and purification system in the Nile Delta in Egypt; a €165 million loan to Jordan for supplying the town of Amman with drinking water; a €25 million loan to Israel for increasing the capacity of the desalination plant in Hadera;
- Maritime and land highways: €234 million to build a toll motorway between Sfax and Gabès in Tunisia; €225 million for widening the Rabat-Casablanca motorway in Morocco; €70 million for building an international airport in Enfidha in Tunisia (concession granted to a Turkish operator); €15 million for the Rabat-Salé tramway;
- Alternative energies: €50 million for a 200 MW wind farm in Gabal el Zait in Egypt. We note that in this area the EIB, the AFD and the KfW have drawn up a tripartite initiative for standardising their project assessment strategies and criteria;
- Business development: €27 million for subscribing to three regional funds in the Mediterranean (including the Middle East Venture Capital Fund, the leading venture capital fund focusing on the Palestinian territories); a local currency loan for a microfinance association in Egypt; four loans totalling

€390 million have been granted to the industrial sector in Tunisia, Morocco, Israel and Syria;

- Urban development: €50 million to Syria for urban renewal programmes, in addition to the programme for modernising local authorities initiated by the European Working Group;
- Training and education: €200 million in Morocco (40% of the external financing requirements for the national schools modernisation programme), in order to improve access to education for children aged 6 to 15.

Table n° 39 : The FEMIP and financing for UfM projects



Source: EIB, February 2010

b. <u>Neighbourhood Investment Facility (NIF)</u>

Similarly, the allocation of funds from the NIF is gradually coming into line with the priorities of the UfM.

As of December 31st, 2009, the NIF had approved a total of nine projects in the Southern region, representing €74.8 million in grants. Of these nine projects:

- Three are for water and sanitation: Lebanon (€4 million for water processing facilities in Kesrwan); Egypt (€5 million for cleaning the Nile Delta); Tunisia;
- Two relate to the Mediterranean Solar Plan: Egypt (€1.5 million in technical assistance for a solar energy plant, and €10 million for the wind farm in Gabal el Zait); Tunisia (€1 million for a feasibility study for a solar power plant);
- Three are for transport: €14 million for the Tunis light railway, €9.8 million for a rural roads programme in Morocco and €5 million for the Rabat-Salé tramway;
- And the last is a programme in support of the Moroccan education sector.

Since then, four further projects have received provisional approval: two energy projects in Egypt, one water project in Morocco and one transport project in Tunisia, totalling €40.5 million in grants.

2. Still a significant financing deficit for the UfM priorities

a. The Mediterranean Solar Plan (MSP): Shortfall of at least €40 billion

The aim of the MSP is to create 20 GW of new renewable energy capacity by 2020, of which 5 GW will be exported back to Europe. The financing requirement has been estimated at about €50 billion, including network connection costs.

So far, €5 billion has been earmarked for this project by the AFD, the EIB and the KfW, and $750 million in highly concessional finance, at a nearly zero rate, has been allocated by the World Bank through its Clean Technology Fund. By adding the financing that has been secured from other countries (in particular from the Kingdom of Morocco via the Hassan II Fund) and investment funds (especially Inframed), commitments of between €8-10 billion have so far been obtained.

Two major industrial consortiums will manage the project: one German, Desertec, which already has 17 industrial members, and the other French, Transgreen, which is still being set up.

The MSP has been broken down by stages into national solar plans for the various Mediterranean partners. By way of example, in November 2009 Morocco unveiled its plans for solar-powered energy production, which involve the building of five sites, the largest of which will be in Ouarzazate (500 MW). The Moroccan Solar Plan will provide 2,000 MW additional capacity and will alone require investment of $9 billion.

Even though it is attracting sizeable investment, the MSP, the UfM's flagship project, still needs significant additional finance. Even though the wind farms are close to turning a profit, the solar energy projects remain very costly. The amount of finance required will however depend partly on the results of the feasibility studies currently underway into the economic model for alternative energies. This model currently relies heavily on grants though long-term power purchase agreements or feed-in tariffs and on being able to export the electricity to Europe. The programme is currently pending on new electrical interconnections (e.g. the ELMED project linking Sicily and Tunisia) and the completion of the "Mediterranean electric loop" (resolving synchronisation problems, especially with Turkey).

b. Maritime and land highways

The aim of this project is to develop land highways and to modernise Mediterranean ports (infrastructure and governance) with a view to reducing logistics-related problems.

The most advanced projects are the following: Morocco-Port Vendres (Perpignan, France); Algeria-Barcelona and Marseille; Tunisia-Marseille and Genoa; Israel-Trieste.

As regards the financing for these projects, the European Working Group opened a one-stop helpdesk on February 10th, 2010.

One year after the launch of the UfM, the Working Group launched phase II of the project which focuses on maritime and port activities and on connecting maritime routes and railways. The Working Group has announced a further €7.5 million for this next phase. Nevertheless, maritime highway projects, in addition to financing, need to find a viable economic model and demonstrate their economic and environmental "added value" compared to intermodal transport (i.e. by containers).

c. De-pollution of the Mediterranean

A total of 73 projects have been identified, with a value of €5.2 billion; 45 of them have obtained financing, totalling €3.5 billion.

Recent examples of projects that come under this priority area are the de-pollution of Nador Lagoon in Morocco, the recycling of wastewater in greater Tunis, the Moroccan national purification plant, and the extension of the wastewater processing plant in Cairo. The European Working Group has allocated an envelope of €22 million in technical assistance for 2009-2011.

In addition to the initiatives for de-polluting the Mediterranean in the literal sense of the word, a common water strategy (distribution, purification, irrigation, desalination, wastewater recycling etc.) needs to be drawn up in order to provide long-term responses to the problems of water stress suffered by nearly all Mediterranean countries, problems that are made worse by the prospect of climate change.

Water management infrastructures therefore need to mobilise significant amounts of finance. For example, in Lebanon alone the cost of the dams that will need to be built to hold rainwater (80% of which currently ends up in the sea) is $2 billion.

The financing requirements of the 73 projects identified so far therefore come to about €2 billion. However, overall water requirements are much greater and for the moment there are no overall estimates of the financing that would be needed for a Mediterranean water strategy.

d. The Mediterranean Business Development Initiative

This project is aimed at strengthening the support from Governments for the development of SMEs, by structuring it around a Mediterranean business development initiative which needs to be drawn up on the basis of recommendations formulated by the EIB.

A report recently published by the EIB[37] calculates a further €2.2 billion in financing requirements for SMEs in its Mediterranean partner countries.

This finance will in particular help develop microfinance, support the creation of an investment capital sector dedicated to SMEs and create a Mediterranean counter-guarantee fund. Currently, only 15-20% of SMEs in the partner countries have access to bank finance. In addition, venture capital and technical assistance for microenterprises and start-ups are virtually non-existent in the region at the moment, if we discount an annual budget envelope of €23 million from the FEMIP.

[37] European Consultants Organisation (ECO), Study in Support of the implementation of the Mediterranean Business Development Initiative, March 2010

IV. INSUFFICIENT USE OF PRIVATE FUNDS

A. INSUFFICIENT BANK CREDIT FOR FINANCING THE ECONOMY, AGAINST A BACKGROUND OF INCOMPLETE FINANCIAL INFORMATION AND LOW PENETRATION OF BANKING SERVICES

Within the region's countries, bank credit does not sufficiently finance the economy and is not channelled adequately to SMEs. This situation can be explained as much by the transformation difficulties encountered by banks as by the poor quality of financial information available about companies.

1. Insufficient bank credit to finance all companies, in particular SMEs

In general terms, bank credit is still not doing enough to finance the economy in these countries. Most of them have an average private sector bank credit/GDP ratio of 50%. The figure even falls below 20% in Algeria and Syria. Some countries, such as Lebanon, Jordan, Tunisia, Morocco and Israel, have tangent ratios or ratios higher than 70%. These figures are nevertheless far from those seen in developed countries (ratios greater than 100%) and in some developing countries (China, Korea) whose banking sector correctly performs its role as intermediator.

Table n° 40 : Bank credit in the private sector expressed as % of GDP

% GDP	2008	*% GDP*	2008
Albania	36%	Brazil	56%
Algeria	14%	China	108%
Bosnia	58%	France	108%
Croatia	65%	Germany	108%
Egypt	43%	India	51%
Israel	90%	Italy	105%
Jordan	84%	Japan	163%
Lebanon	76%	South Korea	109%
Libya	7%	Malaysia	101%
Morocco	77%	Portugal	180%
Mauritania	N/A	Spain	201%
Montenegro	80%	UK	211%
Palestine	N/A	USA	194%
Syria	16%	Switzerland	168%
Tunisia	67%	Vietnam	91%
Turkey	33%	Russia	41%
Average	53,2%	Average	125%

Source: World Bank

The crowding out of SMEs from the credit market is due to three factors.

First, credit is mostly directed towards large enterprises and rarely to SMEs. For example, in Turkey 62% of credit granted is for a volume greater than €300,000. In Egypt, too, a bank is allowed to concentrate up to 25% of its commitments in one single counterparty. This single obligor limit can limit the finance available for large groups, but on the other hand means available bank resources get concentrated in a small number of companies.

Secondly, the large public sectors in Mediterranean countries absorb a significant part of the available credit. The Government and State-owned enterprises mobilise 50% of credit in Syria, and 30% in Lebanon.

Finally, a larger number of SMEs and especially VSEs fall within the informal sector, creating an obstacle when it comes to obtaining bank finance.

In order to loosen the credit restrictions weighing on SMEs, some Mediterranean governments are considering creating banks specifically for financing them. We note the creation in Tunisia of the BFPME, a public bank established in 2005 and which is growing fast.

Other States have set up guarantee funds (reformed guarantee funds in Morocco, Sotugar in Tunisia, Palestinian sovereign fund, Kalafat in Lebanon etc.) but whose resources are still insignificant compared to the amounts needed by enterprises.

2. Sufficient capitalisation at first glance, revealing in fact the weaknesses of the banking sector and significant equity capital needs

a. Insufficient equity

Available statistics on the banking sectors in Mediterranean countries seem, at first glance, positive. However, a closer analysis of the data reveals their weaknesses.

During its visits, the Working Group found many spokespersons stressing the under-capitalisation of banks in the region. A more detailed examination of the available statistics sets this situation in context.

The banks have high capital to asset ratios, equivalent to those in major developing countries i.e. nearly double those observed in developed countries. These high ratios could, at first sight, indicate over-capitalisation of the banks. However, we recall that in several of the region’s countries (Algeria, Egypt, Tunisia), banks have been regularly recapitalised by the State. In fact, therefore, these ratios express the large degree of liquidity in the banking sectors of these countries, i.e. that there is capital available to invest but which is not being invested. They also reveal the shortage of bank assets, which are scarce in proportion to available capital. In other words, this ratio should be interpreted as follows: the region’s banks are correctly capitalised for the work that they are doing *currently*, but they are insufficiently so for the work that they *should* be doing, in particular financing SMEs, an activity that is higher risk and consumes more capital.

Table n° 41 : Bank capital to assets ratios

	2008		2008
Albania	6,7%	Brazil	9,1%
Algeria	N/A	China	6,1%
Bosnia	N/A	France	4,2%
Croatia	13,5%	Germany	4,5%
Egypt	5,3%	India	N/A
Israel	5,7%	Italy	6,6%
Jordan	10,4%	Japan	3,6%
Lebanon	7,8%	South Korea	8,8%
Libya	N/A	Malaysia	8,0%
Morocco	7,3%	Portugal	6,1%
Mauritania	N/A	Spain	6,4%
Montenegro	8,4%	UK	4,4%
Palestine	N/A	USA	9,3%
Syria	N/A	Switzerland	N/A
Tunisia	N/A	Vietnam	N/A
Turkey	11,7%	Russia	13,6%

Source: World Bank

b. Regulatory changes will restrict financing for SMEs

The application of Basel II to banks within the Mediterranean region or, for those which are already applying it, the transposition of the future Basel III, will result in greater capital requirements. It will also impose the requirement of having better quality equity, in other words equity comprised mainly of ordinary shares and cash (reserves, carryovers). For banks in Mediterranean countries, this means that these future prudential regulations will create an additional need for equity and will therefore risk impeding even further the granting of credit to the economy, in particular to SMEs.

It is difficult to quantify the equity increase that Basel II or, in the more advanced cases, the future Basel III, will demand of these countries. In Egypt, the Working Group spoke to a banker who felt that the application of Basel II might cause equity consumption to double, albeit acknowledging that no precise studies had been carried out in this area.

In theory, Basel II was designed not to penalise credit access for SMEs which, *a priori*, carry a greater risk. The agreement therefore allows the minimum equity requirement when granting credit to SMEs to be lightened, meaning that they only need to be covered by 6% equity and not 8%. On a like-for-like basis in terms of probability of default and attrition rate, the debts that lenders have with SMEs will generate a smaller regulatory capital requirement (compared to large enterprises). The SME risk is largely linked to specific factors (sector, geographic location, human resources etc.) that the bank can diversify by pooling a large number of SME debts in its loan portfolio. The regulatory capital associated with SME debts should therefore in theory fall by about 30% compared with the requirements of Basel I. On the other hand, by encouraging greater differentiation of fees based on risk, Basel II is supposed to reconcile bank charges and, *in fine*, improve the credit offering for SMEs.

Therefore, in Morocco, the application of Basel II does not seem to have caused a rationing of credit. On the contrary, the credit facilities granted to SMEs rose by 22% in 2008, compared to 19% in 2007, and bank assistance to companies in general rose by 24.6% in 2008, compared to 23.5% in 2007.

In practice, the situation should certainly be more tempered due to the essentially procyclical nature of Basel II. In a favourable economic cycle, the use of equity for SME credit is reduced by 30%, all other things being equal, but in a difficult economic cycle, since the probability of default is higher, the regulation demands more capital also leading banks to reduce credit, in particular for those most vulnerable to economic crises such as SMEs and VSEs.

We can therefore conclude that in the current economic cycle, there is a real risk of credit for SMEs being rationed due to the application of Basel II, although it is not possible to quantify either this risk or the cost in equity with any degree of certainty.

3. Incomplete financial information limiting bank credit

The Mediterranean banking sector finds itself in a paradoxical situation: most of its banks are over-liquid, in other words they have funds to invest, but at the same time, companies still have a large financing deficit.

This paradox can be explained by an asymmetry of information between lenders and borrowers.

On the banks' side, credit analysts are either too numerous or poorly trained. In many countries (Lebanon and Morocco, for example), credit is only granted if the borrower agrees to provide the bank a first-rank guarantee (collateral in the form of personal property, usually real estate, or several personal guarantees).

This is not specific to the Mediterranean zone. Within the OECD, more than 70% of credit that is granted requires a guarantee. However, the problem seen in Mediterranean countries is one of overcollateralisation. The guarantees demanded by the banks usually exceed the amount being given in credit, sometimes due to a lack of information about the projects and sometimes due to difficulties for project managers to provide enforceable collateral (e.g. in the Palestinian territories land registries don't exist; in Morocco, land ownership falls into several categories (Government land, collective property, Guich, Habous etc.) each of which has its own procedure for pledging it as collateral). The credit assessments conducted by banks do not investigate the intrinsic risk of the project, but rather the personal solvency of the project manager.

On the companies' side, the main problem comes from the informal sector. When applying for loans, most companies provide either incomplete or false financial statements. Companies often have several different sets of accounting records, depending on whether they are for the bank or the tax authorities. Auditors carry out their role without applying international standards. This is the case in Egypt, for example, where the law governing audits dates from 1951.

Lastly, some countries do not have even the most basic credit statistics and are quite simply unaware of the state of the credit market and of the conditions relating to company access to credit (Syria).

This context of incomplete information is illustrated by the level of non-performing loans, i.e. loans that are in default or that eat into the credit institution's capital reserves. Apart from Croatia and Bosnia-Herzegovina on the Northern side of the Mediterranean basin, and Turkey and Jordan which have levels of non-performing loans equal to those of developed countries and major developing countries, the number of non-performing loans in Mediterranean countries is double, even triple, that of developed countries. In fact, the MENA region has the highest level of non-performing loans in the world[38].

Table n° 42 : Non-performing loans (as % of total credit exposure)

	2008		2008
Albania	6,6%	Brazil	3,1%
Algeria	N/A	China	2,4%
Bosnia	3,1%	France	2,8%
Croatia	4,9%	Germany	N/A
Egypt	14,8%	India	2,3%
Israel	1,5%	Italy	4,9%
Jordan	4,2%	Japan	1,7%
Lebanon	7,5%	South Korea	1,1%
Libya	N/A	Malaysia	4,8%
Morocco	6,0%	Portugal	2,0%
Mauritania	N/A	Spain	3,4%
Montenegro	7,2%	UK	1,6%
Palestine	N/A	USA	3,0%
Syria	N/A	Switzerland	0,5%
Tunisia	15,5%	Vietnam	N/A
Turkey	3,6%	Russia	3,8%

Source: World Bank

This situation is also found in the level of average risk premiums being applied to the loans granted to companies – an indicator which should nevertheless be interpreted with caution.

The average risk premiums appear to be quite high in this region's countries compared to the average risk premiums seen in the United Kingdom or the United States, although only partial data are available. This is as much a sign of the difficulties that companies have when obtaining finance through bank credit as of the high risk perceived by lenders due to a lack of company transparency. However, in the case of Egypt, the very low average risk premium (1%) does not stem from a low risk but, on the contrary, extreme difficulties obtaining financing. Only the least risky companies can get access to bank credit[39], which explains why the average risk premium is so low.

Table n° 43 : Average risk premiums applied to loans

[38] World Bank, *From Privilege to Competition*, December 2009

[39] Less than 20% of Egyptian companies have access to bank credit.

	2008
Albania	6,7%
Algeria	7,6%
Egypt	1,0%
Israel	2,1%
Lebanon	4,7%
Montenegro	8,7%
Canada	2,3%
Italy	3,0%
UK	0,3%
USA	3,6%

Source: World Bank

In such circumstances, the most risky projects (SMEs) and the least profitable ones (infrastructures) continue to have a financing deficit, whereas projects that are profitable in the short term, backed by large investors and able to offer guarantees to banks (hotel industry, tourism, real estate, FMCG) find it easy to secure finance and are numerous.

By way of example, we note the existence of the Palestine Investment Fund, which is the sovereign fund of the Palestinian Authority but whose investment portfolio reflects the difficulties encountered also by banks. It manages $8 million in assets and although it does offer credit lines to SMEs and guarantee instruments, it also invests a large part of its resources in real estate and commercial projects (a project for a shopping centre in Ramallah for a total value of $400 million).

Finally we should state that, since the crisis, banks have tightened their criteria for accepting credit applications, thereby limiting even further the access to credit for SMEs.

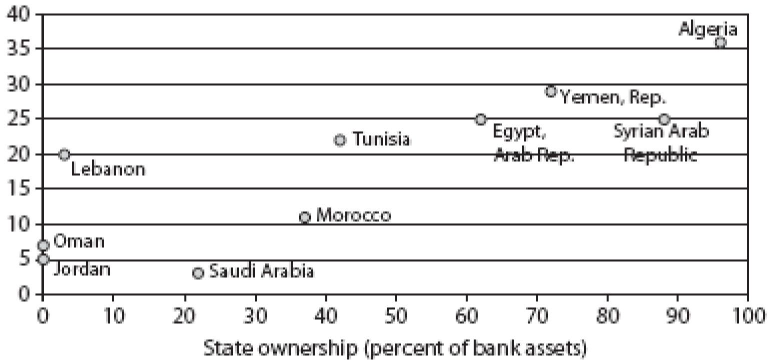
4. Inefficiency that can partly be explained by the size of the public banking sector

The presence in many of the region's countries of a large public finance sector can partly explain the difficulties encountered in terms of bank intermediation, which penalises credit for SMEs.

The work of the World Bank has revealed a very clear correlation, except in the case of Lebanon, between the level of non-performing loans and the proportion of State-owned banks.

Table n° 44 : Non-performing loans vs. public sector

Note: The higher the proportion of public banks in the banking sector (x-axis), the higher the rate of non-performing loans (y-axis)



Source: World Bank, From Privilege to Competition, December 2009; based on IMF data from 2007 and 2008

The reason for this has been clearly identified by the World Bank: since State-owned banks are less independent, they have less freedom to select their own investments using a risk/return ratio and are sometimes required to fund investments for political motives. In addition, this type of organisational structure is not a great incentive for ensuring profitability.

Mediterranean countries have embarked on the privatisation of their State-owned banks to differing degrees. Whilst Egypt has privatised a number of its financial institutions (Bank of Alexandria, CIB and Egyptian American Bank in 2006, Heliopolis Housing and Talaat Mustafa Holding-Misr Insurance in 2007), and Libya privatised two major public banks in 2007 and 2008 (Sahara Bank and Wahda Bank), Algeria has put back its privatisation programmes and neither does Syria seem to be making any moves in this direction.

5. Bank penetration remains insufficient and limits the transformation of savings

Bank services in Mediterranean countries are not being used in a way that is favourable for financing the economy.

Bank penetration remains low (43% in Morocco, despite clear improvement) or even extremely low (about 10% in Egypt, for example). This negative assessment should however be taken in context. The level of bank penetration has clearly increased in recent years. In addition, countries in the Mediterranean zone without exception do not have a particularly low level of bank penetration compared to other countries with a comparable per capita income.

This does not however change the fact that these levels of bank penetration do not support the chances of transforming savings into investment. They are a sign of mistrust towards the banking system in general, but they can also be explained by cultural reasons in cases where the banking sector is suspected of employing more people from a particular region of the country. Just as was once the case in France, savers prefer to keep hold of their money and to be paid in cash, even though these countries do have bank card networks. In Syria, for example, the salaries of Syrian employees working for the lending institutions present there are paid in cash (e.g. the office of the KfW). This behaviour is more prevalent in the countryside than in the larger Mediterranean cities (e.g. Rabat and Casablanca), where banking behaviour is comparable to that seen in European countries.

Most of the banks' resources are comprised of short-term sight deposits (70% of resources in Jordan). This situation can be explained by a lack of trust and of information about available financial investments, and by religious regions, since interest is forbidden in Islam. It can also be explained by a lack of any incentives for savers, in most of these countries, to set up any long-term savings (e.g. in Morocco, capital gain is taxed in the same way regardless of how long the securities have been held).

For the banks this is an inexpensive option, insofar as for religious reasons, sight deposits do not normally accrue interest. However, the predominance of sight deposits does not encourage their transformation for medium-to-long term use.

In Lebanon, the excess liquidity of banks, which is available but not invested in companies, totals about $10 billion.

B. MIGRANT SAVINGS NOT BEING CHANNELLED INTO MEDIUM-TO-LONG TERM INVESTMENTS

The savings that migrants accumulate in their country of work can generate very significant remittances to their country of origin, which are all the more important for the economy of this country since they are a foreign currency resource which is therefore recorded in the receiving country's balance of payments.

Although they remained stable between 1998 and 2003, at around €15 billion for the whole region, migrant remittances almost doubled between 2003 and 2008.

We can therefore estimate that in 2008, a total of €28 billion was transferred into the Mediterranean. The countries benefitting the most from this resource are Egypt (€6.6 billion), Morocco (€4.7 billion), Lebanon (€4.2 billion) and Jordan (€2.6 billion). Most other countries receive about €1 billion.

Table n° 45 : Migrant remittances to country of origin

In € Million	2003	2006	2008
Albania	622	951	1 047
Algeria	1 225	1 127	1 541
Bosnia	1 224	1 510	1 915
Croatia	760	864	1 121
Egypt	2 073	3 731	6 633
Israel	296	661	995
Jordan	1 541	2 018	2 616
Lebanon	3 320	3 641	4 200
Libya	5,6	11,2	11,2
Morocco	2 530	3 816	4 711
Mauritania	1,4	1,4	1,4
Montenegro	N/A	N/A	N/A
Palestine	330	419	419
Syria	622	557	595
Tunisia	875	1 057	1 309
Turkey	510	778	952
Total	**15 936**	**21 141**	**28 067**

Source: World Bank

These are official estimates. However, it is very difficult to quantify the volume of informal transfers that would be in addition to these figures, even though Mediterranean States have in recent years made numerous efforts to channel these remittances through the formal banking system (e.g. Tunisians are allowed to open foreign currency and convertible Dinar accounts, they receive a 80% tax rebate on retirement pensions, and get customs benefits in the form of an incentive to import personal goods and cars).

These remittances however make up a significant part of the GDP in these countries, except in the more developed States where they represent less than 1% of GDP. Remittances account for 23% of GDP in Lebanon, 19% in Jordan, 16% in Bosnia-Herzegovina, 8.4% in Morocco, 6.5% in Egypt and 5.5% in Tunisia. The figures for Algeria and Syria are lower, 1.5% and 1.9% respectively, due to Algeria's considerable natural resources and the low number of expatriate Syrians. Even though migrant remittances have doubled since 2003, their proportion of GDP has remained stable, indicating the economic growth of these countries.

Table n° 46 : Migrant remittances as percentage of GDP

	2003	2006	2008
Albania	17,3%	14,6%	12,4%
Algeria	2,8%	1,5%	1,5%
Bosnia	22,7%	17,1%	16,1%
Croatia	3,9%	2,6%	2,7%
Egypt	3,2%	5,2%	6,5%
Israel	0,4%	0,6%	0,8%
Jordan	21,2%	19,0%	19,1%
Lebanon	25,1%	22,7%	22,8%
Libya	0,0%	0,0%	0,0%
Morocco	8,1%	8,2%	8,4%
Mauritania	0,2%	0,1%	0,1%
Montenegro	N/A	N/A	N/A
Palestine	13,2%	N/A	14,6%
Syria	4,1%	2,6%	1,9%
Tunisia	5,6%	4,9%	5,5%
Turkey	0,3%	0,2%	0,2%
Average	**3,2%**	**2,6%**	**2,6%**

Source: World Bank

In 2009, even though detailed figures are not yet available, we nevertheless note a significant fall in remittances due to the economic crisis (unemployment and fall in migrant revenues in Europe, and stricter immigration policies in certain States). The World Bank[40] and the AfDB[41] indicate a fall of 5-6%.

The total value of migrant remittances greatly exceeds the amount of official assistance received (€28 billion compared to about €20 billion received in aid). However, they are used in a different way. Migrant remittances often represent a major source of additional income for local populations, and the African Development Bank

[40] World Bank, *MENA regional prospects*, January 2010

[41] Subha Nagajaran, *Impact of global financial crisis on remittances flows to Africa,* AfDB development research brief No. 4, May 2009

estimates[42] that approximately 20% is used to purchase property in the country of origin. Only a residual portion gets saved and transformed into investment for companies. The main problem is that the recipients of migrant remittances do not usually have a bank account, and so these savings are lost for the financing of the economy.

Any amounts that remain in the banking system are on the whole invested in very liquid, very short-term products due to a lack of any incentive to invest in products such as home-ownership savings plans, regulated savings accounts, share savings plans or life insurance. It was products like these that allowed France to extend its savings investment horizon.

In order to fully contribute to the economic development of these countries, efforts needs to be made to offer the chance to invest these savings in long-term savings products, whilst maintaining the principle that not all of migrant remittances should be used to finance co-development, insofar as this resource bolsters earnings and consumption in the countries of origin. Channelling migrant remittances into investment will need, in the host country, for specific and incentivised products to be created and, in the banking sector of the country of origin, the development of techniques for transforming these savings into investment, without sequestering the part of the remittances that is used to bolster local income. This proposal raises two much wider issues: that of the intermediation and transformation abilities of the banking sector, and that of the bank penetration rates in Mediterranean countries.

C. PRIVATE EQUITY FUNDS FOCUSING ON THE SHORT TERM AND SPARINGLY ALLOCATED TO FINANCING SMES

1. The level of funds raised is increasing, but is not tailored to finance SMEs and infrastructure

The private equity industry has shown an increasing interest in the Mediterranean in the last five to six years. Capital raised between 2005 and 2007 by 141 new funds in the region amounted to €11.5 billion, i.e. more than the overall amount raised between 1990 and 2004 (€10.6 billion)[43]. In 2008 there were 320 funds operating in the region, compared to 30 in 2005. Israel alone hosts 181 funds.

The term "private equity" covers a wide range of funds, such as funds of funds (Averroes Finance), investment banks (the Venture Capital Bank of Bahrain), investment funds, sovereign funds, development funds (in particular regional ones) and Islamic (Shariah-compliant) private equity funds[44].

There are differences in size irrespective of their type.

The average profile of funds operating in the region can nonetheless be outlined.

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[42] *Savings without borders*, October 2009

[43] ANIMA, Med Funds : Panorama du capital investissement dans la région MEDA : April 2008

[44] For a more detailed presentation: ANIMA, *présentation de l'Observatoire des fonds d'investissement en Méditerranée (MIFO) :* November 20th, 2007

In geographic terms, 51% of funds operating in the Mediterranean are local funds (primarily in Israel). 23% come from North America, 22% from the Gulf and only 3% from Europe.

In financial terms, profiles are inappropriate for financing SMEs or large-scale infrastructures. The average amount raised per fund is €78 million. The average ticket per fund is €5.5 million. Investment is concentrated on tickets ranging between €1.4 million and €9.3 million. The average fund portfolio consists of 5.9 companies. The average expected IRR[45] is 21%.

In other words, there is an equity gap (insufficient financing) for lower sections. Funds invest in large-scale and highly profitable projects (simplistically described: real estate projects or the tourism sector), which tend to exclude SMEs and infrastructures.

2. Changes are required to enhance the appeal of the region outside Israel

The fast development of private equity in the Mediterranean reflects investors' belief in the ability of local companies to generate high returns. It can also generate many positive externalities in addition to the capital contribution to companies. Ensuring private equity development also helps improve company management and productivity, transfers of know-how and the development of more sophisticated financing vehicles. Above all, private equity is an effective lever for modernisation. By imposing high transparency requirements in terms of reporting and accounting, private equity motivates companies to grow out of informal models and thus help remove a major obstacle for bank investment in the region.

The development of private equity is, however, highly uneven from one country to the next. Israel alone accounts for 181 funds out of the 320 identified by ANIMA, whilst private equity activity in Algeria, Libya, Syria and the Palestinian territories remains practically non-existent.

Fund activity also varies depending on the investment strategy. Outside Israel, funds are simply not involved in financing research and development or in venture capital (in the pre-seed and seed phases). In fact, all 110 funds operating in R&D in Mediterranean partner countries are in Israel. 120 out of 134 funds active in the seed phase are also located in that country. A maximum three funds are present at the seed phase in each of the remaining countries in the region. Algeria, Jordan and Lebanon have one each.

Although the region appears to attract a growing number of investors, its potential remains largely untapped, in particular given the uncertainty of investment profitability in a post-recession situation and the lack of extensive financial markets.

Most funds have been created in the past five years and have yet to divest their investments, which means that there are insufficient data on fund profitability. Furthermore, as the data under study date from before the recession, its impact on fundraising and profitability requirements is yet to be assessed.

Above all, the difficulty in devising an exit strategy deters funds from investing in the region. 42% of funds interviewed by ANIMA were considering divestitures, with only 39% considering an initial public offering and 12% a sale of assets. Given the lack of extensive financial markets in the region's countries and the shallowness of current

[45] Internal Rate of Return

stock markets, some funds may face a dearth of exit opportunities. The fact that some 170 Israeli companies trade on the NASDAQ and 80 on European markets is a major contributive factor to Israel's private equity success.

The solution implemented by Israel is worthy of description here. In 1993, the Yozma programme offered funds the possibility to buy back their initial fund stake in the first five years. At the beginning, investors exercised this option in 90% of cases. Some years later, the mechanism helped foster a genuine private equity market with genuine return opportunities, which means that the public guarantee option is no longer exercised.

A public guarantee mechanism applied to funds raising or corporate borrowing would therefore make it possible to further develop the private equity industry in Mediterranean partner countries.

D. THE USE OF PUBLIC/PRIVATE PARTNERSHIPS COMES UP AGAINST VARIOUS OBSTACLES

Given Mediterranean partner countries' infrastructure needs and financing constraints, public/private partnerships (PPPs) are a particularly well-suited response by enabling to:

- Finance infrastructure by using private equity
- Promote the transfer of technology and expertise and disseminate technical, management and organisational know-how both in the public sector and in local companies
- Hasten the pace and quality of implementation of public procurement contracts.

Although some countries in the Southern Mediterranean such as Turkey and Morocco boast a long history of PPPs, particularly in the water supply sector, others (notably Egypt and Libya) have joined the trend only recently.

In Egypt, a draft PPP law is currently being reviewed by Parliament, although an ambitious \$15 billion programme managed by the PPP Central Unit has already been launched with a preliminary 20-year PPP contract signed in December 2009 to build and operate a waste water station in New Cairo (contract awarded to a consortium led by the Egyptian Orascom Construction Industries and the Spanish group Aqualia), followed by another in 6th of October City (won by the same consortium). Other projects are currently being tendered in the fields of transportation, water, health and education.

In Libya, where the development of PPP is hindered by a lack of expertise rather than funding, a programme has been launched in the transportation (Tripoli airport, railways, motorways) and water distribution sectors (public service delegation to manage Tripoli's water, with the contract yet to be awarded), albeit within a legal framework yet to be clarified.

In Israel, the PPP approach has been active for a longer period. Financing for large-scale projects in the last ten years or so has been developed using this type of mechanism, in particular for desalination facilities, the no. 6 toll motorway and the Jerusalem tramway. However, developing the financial package for such operations can encounter problems, as shown by the project for an underground system in Tel Aviv, which has been faced with this difficulty for the last three years.

Public/private partnerships are also highly advanced in Morocco, in particular in energy (coal plan of Taqa Abu Dhabi), water and electricity distribution (GDF-Suez in Casablanca and Rabat) and transportation (urban transport in Rabat and Casablanca) sectors. Financing issues have, however, been noted in Morocco; several projects have been slowed down or deferred in light of uncertainty about their financial profitability.

Many projects have been launched in Tunisia using PPP schemes, such as the airport and deep-water port at Enfidha, the power stations in Sousse and Bizerte and the development of the Hasdrubal oil and gas fields, not forgetting motorways.

Finally, Syria is currently preparing (first half of 2010) a draft bill to authorise PPPs. The bill is being drafted with technical assistance from France. In Lebanon, a draft bill is also being prepared.

Two types of factor check the expansion of PPPs: financial and legal. PPP expansion faces difficulties arising from the length of concession deals (up to 30 years). Although the private operator is ready to assume the operating risk, the same does not apply to other types arising from long-term infrastructure management, such as political risks, foreign exchange risks, legal insecurity and complex regulations, etc. Private operators also face a significant financial risk to refinance their debt, as available maturities on markets do not extend as far as the life cycle of the projects in question.

European States must carefully monitor PPP expansion in Mediterranean countries. In addition to their contribution to the growth of the region’s countries, it should be remembered that PPPs are important for the competitiveness of European companies in a region facing increasing prospecting from Chinese and South-Korean companies (in particular Algeria and Libya). Despite the extent of the need (uncontrolled urban growth, pollution, water stress, insufficient public transport, etc.), and the market share afforded by Mediterranean countries, many European companies specialising in delegated public services shy away from tenders in some Southern Mediterranean countries.

V. SUMMARY OF CURRENT LIMITS TO CO-DEVELOPMENT FINANCING

In the first two sections of this report the Working Group identified successes, but also the limits of co-development financing around the Mediterranean.

Funding throughout the region amounted to approximately €20 billion in 2009. The European Union is the leading financier, with aid from the EU budget amounting to €2 billion and financing levels from the EIB at €5 billion. In comparison, the various financing commitments from the World Bank group accounted for €4 billion.

Funding is primarily allocated to large-scale infrastructure projects. In macro-economic terms, one may qualify the choice made by multilateral financial development institutions as the expression of the conventional financial priority for capital accumulation, in particular physical capital. Such an approach is very well supported by the need to create the physical infrastructure needed for economic growth, as investors deem insufficient infrastructure an economic obstacle. Furthermore, a study of countries that have succeeded in developing shows that the "launch pad" does entail a preliminary phase of capital accumulation.

However, the demand for infrastructure funding in the region is structurally greater than financing possibilities, both domestic and international. Funding for large-scale projects is still an activity in which the expertise of current institutions has long been demonstrated and where it is doubtful that a new institution specialising in "conventional" financing (as opposed to instruments less frequently used, such as equity stakes and guarantees) can offer a genuine comparative advantage, even though it is likely that it should at least take part in "round tables".

Even so, the de facto priority given by financial institutions to physical capital accumulation has mechanically generated less support in some aspects of economic activity. The second part of the report highlights these structural weaknesses:

- Excessive liquidity of the banking system and reticence by domestic savings in investing in long savings products
- Difficulties in long-term financing for companies, in particular SMEs and VSEs; a propensity towards informal approaches for VSEs and accounting practices that are incompatible with easy access to bank financing; as for banks, requests for excessive real or personal collateral
- Difficulties in deploying available financing sources (FDI, remittances) that are often volatile in medium-term investments
- Weakness of private equity funds aimed at SMEs
- Need for transferring engineering in both banks and companies
- Shallowness and reactivity of primary and secondary financial markets (equities and bonds), which have been exacerbated by a major crowding out effect by public debt onto private debt issues, thus precluding adequate financing for the economy
- Mediocre perception of the appeal of countries in the region by investors given the political risk, which is deemed high, but also due to objective factors (in particular the requisite of the legal and fiscal environment, as

shown by the PPP example), which requires structural reforms to be implemented.

The structural weaknesses listed above can all be traced back to the lack of investor confidence, which applies equally to savers from Southern and Eastern Mediterranean countries and to international investors.

The assignments carried out by Working Group members and the team of reporters confirmed the acuteness of these problems in the field in most of the countries, with the possible exception of Israel. Even Turkey, a special case given the size of its economy and its status as a candidate for membership in the European Union, suffers in part from these growth obstacles.

The Working Group noted that the diagnosis previously made on several occasions, about the lack of coordination between international lending institutions, the lack of ownership by Southern countries and the lack of direct support for the private sector, remains essentially valid, despite successive improvements, particularly within the framework of EIB operations and extensive support provided through FEMIP. The Mediterranean is paradoxically the region with probably the largest number of intervening parties whilst being the only region without a dedicated institution to catalyse their efforts.

In light of demographic dynamics and the development outlook of European countries and countries in the South and East of the Mediterranean respectively, economic convergence between the two sides affords a genuine opportunity for countries in Europe to engage in a co-development approach.

For all these reasons, the Working Group considered it necessary in the third part of this report to outline a possible institution, which could instil confidence and accelerate economic development and regional integration around the Mediterranean.

PART III : ESTABLISH A NEW FINANCIAL INSTITUTION DEDICATED TO CO-DEVELOPMENT IN THE MEDITERRANEAN

I. PRINCIPLES AND PREREQUISITES ACCORDING TO THE WORKING GROUP

A. FUNDAMENTAL PRINCIPLES GUIDING THE WORKING GROUP'S CONSIDERATIONS

The Working Group followed five fundamental principles in searching for solutions to the limitations or deficiencies in the financing approach in the region analysed above:

- The first principle is that of conditionality or subordinating to progress in macro-economic stabilisation, which implies implementing a permanent economic governance model that protects investors, mechanisms to foster flexibility as well as an institutional framework that is favourable to free-market economy. A new institution can facilitate the transition to a framework of operations to benefit companies and can help implement such a framework. It cannot make up for for this type of reform;
- The second is the principle whereby all proposals for new instruments should be complementary. A new financing institution for the region will be meaningful only if it offers functions and businesses that are poorly or not at all ensured by international financial institutions already operating in the region. The Working Group cannot recommend the creation of a new institution which would merely duplicate one that already exists;
- The principle of subsidiarity vis-à-vis the private sector must also be a criterion for operating any new institution. While it is intended to operate in the private sector, the new institution should not, under any circumstances, replace it by undertaking what the private sector could achieve. To maximise the leverage effect, the new institution would support private financial and banking sectors by providing types of funding and products that are not available on local markets, and with the sole aim of private operators finding relays;
- The subsidiarity rule implies that a new institution would be subject to a transitional mandate, and would subsequently withdraw once the target functions have been implemented. Such an objective is, however, a long-term one, and may be even be very long term in some countries;
- The principle of AAA-rating is a non-negotiable prerequisite for any proposal to create a new institution. A new institution can only have exemplary financial solidity with rigorous financial and risk management policies and would be operationally managed in a completely professional manner.

B. PREREQUISITES FOR FAVOURABLE INSTITUTIONS AND ENVIRONMENT

Fundamental prerequisites for such a financial institution, dedicated to co-development in the Mediterranean, to be effective include a stable macro-economic framework, conditions ensuring that domestic savings are efficiently used, and a dynamic private sector. In other words favourable institutions are a major prerequisite.

Monetary stability and a stable macro-economic framework are prerequisites for mobilising both domestic and international savings. Southern Mediterranean countries have achieved remarkable progress in lowering inflation and reducing their budget deficit. Macro-economic stabilisation is, however, a recent accomplishment dating from no more than a decade or half a decade in some cases. Economic agents, investors and savers, have a long memory and can recall double-digit inflation and exchange-rate depreciations exceeding 100% in some countries. Anticipation therefore implies continuing current macro-economic and monetary policy and making its stability undeniable for economic agents both at home and abroad. No instrument transforming banks or markets can be effective if the macro-economic situation is allowed to slide.

The implementation of a framework that is favourable to the private sector is the second condition for a successful new institution designed to meet insufficiently covered financial needs. The bottlenecks affecting corporate growth analysed above must be removed by a consistent reform strategy. A new institution can support the reform process, as demonstrated by the EBRD example. However, creating such an institution cannot, whatsoever, make up for insufficient governmental involvement to overcome hurdles and resistance. Such a drive can, however, be observed in most countries.

II. SIX ACTIVITIES AND ONE SPECIFIC FEATURE JUSTIFYING THE IMPLEMENTATION OF A NEW FINANCIAL INSTITUTION

In response to the limits outlined in this report, the Working Group has identified six activities (or different business lines) currently lacking in the Mediterranean region, which a new financial institution could take up.

A. LONG-TERM FINANCING OF THE ECONOMY

This need, which has been identified in this report, could be met through two channels: the local banking industry and specific support to the development of public-private partnerships.

All financial institutions operating throughout the Southern Mediterranean already issue credit facilities to local banking systems. Searches for leverage normally (or should normally) make them a preferred instrument favourite. There are, however, limits to their effectiveness in the current system. Furthermore, they turn out not to be completely operational in practice.

Firstly, the maturities of credit facilities are frequently short term (under five years), in particular to limit risks for the lending institution. Medium and long-term maturities (five to ten years and over) are poorly covered or not at all. There is accordingly a limit to the current financing approach, which could be removed by a new institution that would give priority to financing with medium/long-term maturity.

In addition, authorisation procedures for credit facilities are often slow and complex, as noted by the Working Group throughout its visits in Mediterranean countries. It is necessary to simplify procedures, and above all, to reduce execution delays.

Credit practices from local banks are not systematically changed when they secure credit facilities. In many cases, local banks keep their current requirements for excessive collateral, as described in this report, which slows down the use of these credit facilities. A conditionality mechanism, requiring less stringent credit standards, would have to be considered.

The preferred financial instrument for financing long-term infrastructures – public-private partnerships – also faces serious impediments, which a new, dedicated institution could help to remove.

The main hurdles to PPP development concern uncertainty as to the stability and security of the legal framework. Contract instability is clearly a detrimental obstacle to the promotion of this approach. Legal stability and security are preliminary requirements. The involvement of a public, multilateral financial institution in the financing of these schemes would accordingly foster confidence for the private partners.

Furthermore, financial conditions also explain the difficulties met by PPPs in the region. Local banks find it difficult to make long-term commitments, whilst outside financial partners can impose deterrent remuneration rate requirements. Private partners are reticent, in particular to commit to long-term prospects involving indexation mechanisms and variable rates. A public, multilateral financial institution guaranteeing variable rates, while covering its risk on markets, could help launch a number of projects.

B. ACTIVE USE OF GUARANTEES

An analysis of the countries in the region, along with field interviews conducted by the Working Group throughout the region, show that these countries require additional funding sources as much as mechanisms instilling confidence to provide a stable environment for investors and prompt the use of capital in medium and long-term operations. The guarantee instrument is particularly appropriate for this situation.

A transitional period is required to ensure a long-term transformation of domestic savings and encourage investors to extend the time frame of their projects. During this period, it would be vital to help the banking system extend the term of its facilities and effectively manage the asset-liability imbalances that may ensue.

Accordingly, active and systematic use of a guarantee instrument for medium/long-term credit or securities is vital. International financial institutions have long shunned this approach. Operations are by nature risky and equity-intensive. There are no controls over operation development, in contrast with conventional project financing. The use of guarantees as a major operation instrument would require specialised expertise, as well as complex risk management systems.

For these reasons, financial institutions operating in the Mediterranean have been extremely conservative when venturing into this field and apply very cumbersome authorisation procedures. Sections covered by guarantees have often been insufficient and limitations on the scope of guarantees debatable (exclusion of debt-financing components; exclusion from funding for extant companies, Brownfield investment[46]). Such precautions, which may be deemed excessive, have further limited the effectiveness of an instrument, which is also only parsimoniously used by international lending institutions themselves. This is a major limitation on current funding.

The use of guarantees and securities for medium/long-term credit facilities to promote the expansion of long savings resources should increase long financing for local banking systems. An international financial institution offering such vehicles would be extremely useful in supporting this direction.

C. FINANCIAL MARKET SUPPORT

The report highlighted that the lack of depth and vigour from financial markets for private projects is a major structural limitation on long financing for the economy in Southern Mediterranean countries. Capital injections in companies as well as long-term debt resources are not effectively supplied.

Several countries have technically sophisticated financial markets, but operators are constrained by the nature of their markets, which in reality are captive. State treasuries exercise de facto control over financial markets on which there are no genuine alternatives to State issues for banking system facilities. The situation can afford a degree of comfort for States, although their leaders generally realise that this is merely a second-stage balance, the cost of which in efficiency terms is ultimately incurred by companies.

After a phase of purging public finances (completed, for the most part), it is now probably time to ensure a better modus operandi for capital markets.

Current international financial institutions have scarcely tapped into domestic bond markets in the Southern Mediterranean. When they have done so, the motive more often than not was to manage their own cash assets (issues referred to as "opportunistic", i.e. exchanged against target currencies (swaps) by the cash manager of the institution to ensure better conditions). In contrast, the rationale for a new dedicated institution to appeal to local markets would be radically different. Its issues would be intended to provide specifically long-term loan resources to local banking systems at attractive conditions, which would be made possible by AAA-rating.

A top-tier, multilateral financial institution (i.e. one with an AAA-rating) could arrange issues over a wide range of maturities with reassuring conditions for both investors and savers. A systematic policy of bond issues could ensure a comprehensive rate curve active over all maturities and could consolidate dynamism conditions for the secondary market. Such a curve, which would be developed with complete transparency in conjunction with monetary and financial authorities, would serve as a linchpin for private equity markets. Close coordination with the authorities is clearly required to prevent any competition on the local market between sovereign vehicles in the country concerned and AAA-rated instruments. The EBRD experience shows that some countries, albeit not all, deliberately opted for a role of benchmark issuer played by a multilateral financial institution, in particular to make local investors grow used to long terms, an option not available even to public borrowers.

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[46] Investments in which a foreign company acquires or leases production capacity in a country, in contrast with Greenfield investments, where the foreign investing company builds the production facility itself.

D. The specific features of SMEs and VSEs must be taken into account more effectively

The difficulty of accessing bank financing, not to mention access to financial markets, is a well-established obstacle to growth. In the vast majority of cases, SMEs and above all VSEs, do not meet bank credit norms.

The first reason for this is the extent of the informal sector. Without wishing to compound examples or single out specific countries, it is however interesting to note that according to the Working Group's contacts, the informal economy in Turkey may amount to between 30% and 40% of GDP, and may be higher in other countries.

Even companies better integrated in the formal economy do not meet the requirements for accounting transparency. Under such circumstances, banks require extremely high collateral levels, as the Working Group noted. The ratio of collateral to loans often exceeds 100%. Banking institutions routinely request personal collateral in addition to concrete pledges. The demand for Islamic financial products, which was raised on occasion during the Working Group's assignment interviews, may be explained in part by this situation.

Another hurdle should also be mentioned: cultural attachment to family ownership of companies, a feature which can be in companies ranging from VSEs to large corporations. Sharing ownership – and therefore executive authority – is often rejected, even in large, listed companies.

The multilateral institutions operating in the Mediterranean are aware of this situation. They have all developed credit facility mechanisms for banking systems to help companies and SMEs in particular, along with micro-credit approaches for VSEs. Some concentrate their operational effort on financing the private sector, such as the SFI, which relocated its vice-presidential office for MENA from Washington to Istanbul to be closer to the field. The EIB commissioned a market study to bolster the Mediterranean Business Development Initiative (MBDI) launched by Italy and Spain as part of the Union for the Mediterranean.

Nevertheless, the overall result is unsatisfactory. Such procedures are lengthy and, despite current endeavours, remain bureaucratic and ill-suited to the reality facing local SMEs. For example, the Working Group was made aware of a financial institution fielding a standard authorisation application aimed at SMEs that contains 90 pages.

This observation justifies a new approach. Making funding access easier for companies and particularly SMEs entails a preliminary step in technical assistance both to local banking systems and companies. The application of accounting standards on the one hand and the adoption of a risk-taking model based on scoring on the other are preliminary requirements. A very high proportion of technical assistance is required and could be provided by a new institution.

E. Development of innovative investment funds

With the exception of Israel, countries in the region do not have a sufficient venture capital industry, even though the report highlights the current effort in that direction. Equity investments in funds are also little used by the international financial institutions of funds operating in the region.

A new institution focusing on supporting innovative investment and venture capital funds, particularly in the seed and pre-seed phases (i.e., venture capitalists and business angels) would fulfil a necessary function without replacing private initiative.

The search for maximum leverage would focus attention on funds of funds and promote their IPO. It is, however, important for the new institution to also take part in individual funds, both to ensure better transfers of financial know-how and to understand more effectively the characteristics of local markets. A partial IPO of this type of financial instrument would both diversify and invigorate stock markets whilst consolidating the equity of these funds. Accordingly, an equity investment in a financial institution could facilitate the IPO by reassuring stock market investors. Long savings mobilisation would also be easier.

F. TRANSFER FINANCIAL ENGINEERING

The technical assistance component is a prerequisite for operational efficiency.

Supporting financial engineering is a necessity for the businesses and specialities in a new financial institution taken as a whole. In operational terms, this implies a high degree of technical assistance.

In order to amend local banks' credit behaviour to achieve longer financing, there must be a change in their risk management methods. The introduction of risk management systems and of a formalised framework for handling applications entails training bank management in a culture of risk assessment that is better quantified and automated (i.e. credit analysis methods, scoring, etc.).

Financial engineering and high-level expertise are also required for any market coordination activities undertaken by a new institution or to support the implementation of institutional and regulatory frameworks. Such skills would have to be imparted through technical assistance programmes.

G. A CHANGE IN GOVERNANCE IN COMPLIANCE WITH CO-DEVELOPMENT REQUIREMENTS

The professions, specialisations and activities referred to in the previous paragraphs are not radical innovations. Some instruments are already used by financiers in the region, although their effectiveness is sometimes limited. It is the degree, the extent of systematic application and the consistency of use of such instruments through a new institution specialising in these activities, which would provide a vital transformation, given its vocation focusing primarily or exclusively on the private sector.

A change in governance would also improve the operational efficiency of a new institution in comparison with current facilities.

Institutions operating in finance in the Southern Mediterranean region are penalised by limitations to governance. Recipient countries are not sufficiently involved in developing projects or in decision-making mechanisms.

Institutional distance is greatest in the case of the European Commission, although the European Union is the leading source of assistance in the region. With regard to loans and other financial instruments, the EIB has implemented with FEMIP a consultative mechanism to meet the expectations of Mediterranean countries more effectively. However, the mechanism applies to only nine countries in the region and remains strictly consultative. The European Commission and especially the EIB are admittedly attentive to needs perceived and forwarded by their regional offices to head quarters. However, a recent report on the international mandates of the EIB[47] stressed its weaknesses as a development institution given its traditional role as a pure financier. Despite every effort made to identify projects or adapt procedures to the reality in the field, the failure to include recipient countries in decision-making mechanisms checks the structural effectiveness of the EIB, even though its role may well become vital to the region.

The lack of senior management hailing from the Southern Mediterranean in EIB staff is another major institutional obstacle to full operational effectiveness. High-level local expertise does, however, exist. Using such expertise in a new, dedicated institution would ensure a more effective structure for appreciating national specifics and fundamental technical expertise. It would also help organise the transfer of know-how, which is necessary to ensure development in the region.

Involvement by Southern countries in the new institution as shareholders therefore seems the most plausible solution.

III. TRIPLE-A RATING CONSTRAINTS AND REQUIREMENT

Triple-A rating has become an exception both for countries and companies. No continental European company has been AAA-rated by the three main rating agencies; there are fewer than 10 AAA-rated corporations worldwide. Fewer than 20 countries can boast AAA rating, of which only five are Euro zone members.

A group of twelve multilateral financial institutions are the only exception to the above rule. They are a separate category and have kept their AAA rating in spite of the crises in the last ten years. The EBRD, for example, posted a loss in the 2008 financial year without any major difficulties affecting its rating.

However, the exceptional triple-A rating is based on highly constrictive requirements even for the small group of public financial institutions. The constraints were made more stringent after the financial crisis in the autumn of 2008.

A. A MORE STRINGENT OVERALL METHODOLOGY

After the first financial meltdown in the summer of 2007 and especially after the systemic crisis in the autumn of 2008, rating agencies toughened up their rating criteria for credit institutions to a significant degree. They had been accused during the Asian financial crisis in 1997-1998 of not having planned ahead for the event and then of exacerbating it through hasty decisions to downgrade under the pressure of exaggerated market reaction. Criticism focused on the lack of a clear methodology. The agencies bowed to pressure and developed new methods, which they made public.

Criteria are most severe with regard to private credit risk exposure. Risk weighting on private transactions is contingent on a ranking of the country to which the company belongs, which is divided into ten risk levels. Rating agencies submit that that there is a high degree of correlation between default risks in private operations and

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[47] *EIB's external mandate 2007-2013, mid-term review, Report and recommendations of the steering committee of wise persons* (chaired by Michel Camdessus), February 2010

sovereign risk defaulting. For S&P, for example, the breakdown of countries into ten groups ranked one to ten by increasing order of risk is carried out using BICRA (banking industry country exposure risk assessment) methods. Agencies have developed a convex weighting model for risks, i.e. one that rapidly raises the weighting factor as the risk scale rises. Southern Mediterranean countries are generally ranked in level 8 or higher, i.e. in highly convex risk areas. The two exceptions are Turkey (risk group 7) and Israel (risk group 4).

As long-standing lenders to States, international lending institutions have to date relatively low non-sovereign risk exposure, even though it is rising quickly for an institution such as the EIB. The EBRD and, indeed, the SFI have the highest non-sovereign risks. A new, multilateral financial institution whose operational statutory priority would be to finance the private sector through guarantees of credit facilities to local banking sectors, should take account of this constraint.

B. SPECIFIC RATING CRITERIA FOR INTERNATIONAL FINANCIAL INSTITUTIONS

The International Bank for Reconstruction and Development (IBRD) is the benchmark for rating agencies. The EIB is not a development bank by statute and despite its exceptional size and financial solidity cannot serve as a methodological standard to rate the group as a whole. The EIB is in a category of its own from this point of view.

Rating agencies summarise the foundations of the IBRD's triple-A rating in three criteria:

- A strong capital position and high liquidity
- Prudent policy and financial management
- Strong shareholder support that has been long confirmed.

Ratings for multilateral development institutions are in practice developed with assessments by the agencies of the differences with the IBRD. Differences in terms of risk concentration and geographic diversity, exposure to the private sector, behaviour of loan or capital subscription arrears are reflected in practice by heightened financial requirements for other institutions.

1. Capital adequacy ratios: subscribed, paid-in, callable and usable capital

The first capital adequacy ratio is the gearing ratio, i.e. total commitments (loans, guarantees, and equity stakes) to subscribed capital and reserves. Although in most cases statutory, the gearing ratio is generally discussed upfront with rating agencies.

The general rule is that of a 100% ratio, as it is the case for the EBRD, the AsDB and the AfDB. This level is highly conservative and underlines the difference between triple-A finance and conventional finance. Some institutions have higher ratios, e.g. the EIB (250%) and the IFC (400%), although this can be attributed to exceptional financial strength (EIB) or to a particularly conservative financial policy (the IFC has a paid-in capital ratio of 100%). In the present case of a Mediterranean institution focusing on support to the private sector, a gearing ratio being significantly divergent from this 100% benchmark would be difficult to conceive.

The two other adequacy ratios are based on the development of specific indicators for international financial institutions: usable capital in the narrow sense of the word ("narrow risk-bearing capacity" or NRBC) and usable capital in the broad sense ("large risk-bearing capacity" or LRBC).

Subscribed capital in international financial institutions is generally broken down between paid-in capital (payable in convertible currency) and callable capital in various proportions depending on the institution and successive capital increases. The breakdown is discussed by shareholders and the institutions' executives. The proportion of paid-in capital normally reduces as capital increases, as the institution is supposed to have consolidated its equity base by accumulating reserves and provisions. Conversely, it is very high when an international financial institution is first established. For example, the latest capital increase of the IBRD was done with a 3% paid-in ratio, but this proportion has been criticised by Standard & Poor's. The rating agency released a methodology paper on 31st December 2009, whose sub-title was patently clear: "for development banks, callable capital is not a substitute for paid-in capital". The agency implicitly considered that excessive differences between paid-in and callable capital could be perceived as a sign of weak shareholder support, in particular for recent institutions that have not historically demonstrated support in difficult times. In any event, it is more relevant for an institution focusing primarily on financing the private sector in the Mediterranean to refer to the EBRD, whose shareholders decided a paid-in ratio of 22.5% at the latest capital increase (in comparison with a 30% proportion when the bank was established). The other relevant reference is the IFC, whose paid-in ratio is 100%.

Usable capital in the narrow sense (NRBC) includes paid-in capital, provisions (including provisions for arrears) and reserves. The rating agencies call it "adjusted equity". Usable capital in the broad sense (LRBC) adds AAA callable capital to this "adjusted equity", and thus excludes callable capital from shareholders whose rating is below AAA. The methodology stance recently adopted by S&P in all likelihood implies that the broad gearing ratio is less relevant than the narrow one.

Based on the above definitions of usable capital (narrow and broad senses), agencies compute two capital adequacy ratios, NRBC and LRBC divided by the overall risk exposure (loans outstanding, equity investments and guarantees). In 2008, the "narrow" ratio for the IBRD was 37% and the "broad" ratio was 108%.

The rating agencies evaluate other multilateral financial institutions by reference to these IBRD benchmarks, taking into account the relative gap in terms of financial strength, cautious financial policy, and risk exposure. The IRBD is supposed to have the best shareholder structure, in particular with the US as its reference shareholder, an optimal geographic risk diversification (being global), and a status of leading creditor, since borrowers are deemed to depend mostly on its financing. Rating agencies therefore conduct a comparative analysis of risk concentration ratios, indices that measure the commitment of their shareholders (in terms of consent to capital increases, paid-in proportion, presence of any arrears on payable capital), the history of arrears on loans and provisioning policies put into effect.

In practice, other international financial institutions must establish higher capital ratios to retain their triple-A rating. The AfDB had a narrow ratio of 77% and a broad one of 163% in 2008, the highest ratios among international financial institutions. This very strong capital base makes up for a risk exposure that is perceived by the agencies as the highest in the peer group (concentration of risks in a few countries, history of extensive arrears). As for the EBRD, it had a narrow ratio of 77% and a large ratio of

137% in 2008. These ratios are justified in the eyes of the rating agencies by its special focus on the private sector.

A Euro-Mediterranean financial institution focusing on the private sector would naturally be benchmarked against these two institutions, given its exposure to private sector risk and its limited geographic diversification. Its financial requirements would be raised by a possibly weaker AAA shareholder base, which means that ensuring a strong financial structure would require significant adjusted equity, i.e. paid-in capital at the time of creation, and subsequently a speedy process to constitute reserves.

2. Borrowing and liquidity ratios

Leverage and liquidity ratios are also constrained, in consistency with the "large" gearing ratio, conservatively set at 100%.

However, standards are not as precisely defined as for gearing ratios, as rating agencies tolerate a greater degree of flexibility from international financial institutions in this field.

A number of institutions (IsDB, AsDB) opt for a debt level ratio based on equity (paid-in capital plus reserves) to which the callable capital of non-borrowing members is added. The AfDB retains the tighter of the two alternative ceilings: a statutory debt level of 80% of the overall callable capital (but in practice only 43% as of end 2008) and a 100% level of a "large" usable capital which is slightly more generously designed than usable capital for capital gearing ratios because it includes paid-in reserves and callable capital from AA shareholders. This ratio is what is observed as a priority by rating agencies and amounted to 60% at the end of 2008.

The key point is that triple-A international financial institutions all have a very constrained leverage ratio, which makes them stand out from conventional financing.

High liquidity ratios are the third requirement of the rating agencies for AAA-rated international financial institutions. The liquidity indicators applied by the agencies are broader than the usual interest coverage ratio, as they also include loan disbursement forecasts.

Using the same benchmarking approach as for capital adequacy ratios, agencies require higher liquidity ratios as the perceived risk increases. In practice, the standard interest coverage ratio is replaced by a liquidity ratio measured against payable liabilities in the broad sense (liquid assets / short-term maturity debt charge plus scheduled disbursements on loans). Unsurprisingly, this ratio is highest in the case of the AfDB (140% at the end of 2008) with a ratio of liquid assets to overall debt at 77%. The liquidity ratio of the AfDB retains two years of debt charges and forecast disbursements.

This third specific constraint in triple-A finance means in practice to have and to keep an "excess" liquidity in order to absorb any negative shock over a timeframe of one year or more.

The financial ease of international financial institutions has diminished since the mid-1990s. Shareholders imposed, first on the IBRD and then on other institutions, a policy of self-contributing to their "concessional windows" (like IDA for the IBRD or the AsD Fund for the AsDB). Such pressure drained their reserves and reduced their ability to affect their net income to their reserves (and therefore their equity and excess liquidity). However, the limit to shareholder pressure is the need to retain AAA rating, since excess liquidity is a major criterion for securing a AAA rating.

IV. THE NEED TO ESTABLISH A NEW INSTITUTION: POSSIBLE SOLUTIONS

A. AN ISSUE ALREADY EXAMINED BUT WHICH SHOULD BE UPDATED

The European Union's Council of Ministers has already considered establishing a Euro-Mediterranean development bank on two occasions, in 2002 and 2006. In March 2002, under a Spanish presidency, the ECOFIN Council considered that "the most effective way of implementing the considered action [would be] to create a consolidated facility for Euro-Mediterranean investment within the EIB […] as well as to establish EIB representation in the region". In October 2002 this decision resulted in the creation of the FEMIP. In the same decision the Council added, however, that "after an assessment of how the facility operates […] plans should be considered to establish a subsidiary in which the majority shareholder would be the EIB and with a focus on partner countries in the Mediterranean basin"[48]. This was done by the European Commission in October 2006[49].

According to the approach submitted at the time, the EIB would provide activities and a portfolio of assets from FEMIP to a new Euro-Mediterranean bank in which it would become a 60% shareholder, with the remaining capital shared between the European Union (10%), Member States (15%) and Mediterranean partner countries (15%). The EIB estimated capital requirement for the institution at the time at €22 billion which, using the assumption of a gearing ratio of 100% and a paid-in ratio of 20%, would require a shareholder contribution of €4.3 billion. The European Commission's report therefore stressed that the feasibility of this option was in part contingent on the EIB's approval to acquire a stake in return for the FEMIP contribution (the project was incidentally more expensive and more difficult to implement without a degree of pooling of resources with the EIB).

The European Commission's report emphasised the benefits of this option over a reinforced FEMIP (involvement of Mediterranean countries in decision-making and shareholder structure; greater tolerance for riskier projects, in particular in the private sector). The European Commission did, however, reject the option in favour of a strengthened FEMIP, primarily owing to the cost and technical and political implementation difficulties. Specifically, the Commission underlined the need to amend the EIB statutes in order to establish a subsidiary (which legally should be done by amending the EC treaty and thus involved an inter-governmental conference and the signature of a ratified treaty by each Member State thereafter). This major issue was dispelled by the Treaty of Lisbon, which now authorises the EIB to establish subsidiaries without having to amend European treaties.

Also of note was the project in the 1990s to establish a development bank for the Middle East, which was supported by the United States of America. This project was

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[48] Conclusions of the ECOFIN Council, March 14th, 2002, DOC 7229/02

[49] Communication from the European Commission to the Council, Assessment of the FEMIP and future options: COM(2006)592, October 17th, 2006

intended to finance infrastructure projects in Palestine, Israel, Jordan and Egypt and included these countries with the USA in the bank's capital. Despite the initial agreement in principle between the heads of State, the technical Working Group tasked with drawing up the main features of the new institution never really worked. The project did not gain any momentum and failed given political difficulties which soon arose.

The Working Group now believes that this issue should be reconsidered. The report highlights needs not met by current operators, one of the main ones being the need to involve and ensure the ownership of Mediterranean States, along with the need to transfer know-how and financial coordination in the region through instruments which are little used in it (guarantees in particular) and the need to finance SMEs.

The creation of an institution confined to these fields would ensure genuine added value in financing co-development in the Mediterranean. The Working Group has no desire to determine its status in advance, but does believe that it is necessary to establish such an institution.

B. POSSIBLE OPTIONS

Several options have been considered after this analysis to meet the requirements described above (subsidiarity, conditionality, complementary approach and withdrawal once objectives have been met) and to address the very high expectations of Southern and Eastern Mediterranean countries.

These options also meet the following criteria: to enable Southern and Eastern Mediterranean countries to be involved with a genuine co-development outlook, i.e. co-financing and joint responsibility, and, in the case of a new institution, to gain AAA rating to deploy savings under optimum conditions.

1. Option N° 1: establish a Mediterranean development bank: advantages, albeit at extremely high cost

This option entails establishing a new regional development bank with capital owned for the most part by countries and financial institutions (public or multilateral) in the North (at least 51%) and by Southern and Eastern Mediterranean States (not exceeding 49%). The bank would set itself the sole goal of meeting identified needs and could open offices in the leading countries where it would operate.

The solution offers a number of advantages, the main being that it meets the request made by Southern and Eastern Mediterranean countries. Ownership from these States would be maximal with this option. They were significant shareholders, would field members of the board, executives and managers in the institution. It would also meet a need for political institutionalisation, as stated within the framework of the Union for the Mediterranean.

The existence of such an institution would help establish a human capital focusing on development in the Mediterranean, which would stem in part from Southern and Eastern Mediterranean countries. Managers would be trained within the institution and could then return to their home countries to disseminate the methods acquired in the institution.

The establishment of a new institution would also ensure that certain errors made in the past would not be repeated. The new institution would accordingly select its domains of activity without having to resume those in current institutions. It would recruit managers with a tailored profiled and could devise more flexible governance rules. In other words, the institution could be established perfectly to match the needs identified by the Working Group.

There is, however, one major drawback: obtaining AAA rating, which would be absolutely vital, would be extremely expensive in terms of initial capital.

Such an option seems unlikely at a time when European States' budgetary restrictions continue to grow. The ratio of commitments to equity in such an institution should have to be very high and called capital very extensive for three reasons:

- The risks relating to the businesses it would assume (guarantees, long-term financing, equity contributions, market coordination) are more extensive than those carried by more conventional activities (such as infrastructure projects)
- The institution's clients would hail primarily from the private sector (banks, funds, etc.) and would present a higher risk than traditional public partners
- The scope of intervention for the institution would be limited to a small number of developing nations and would therefore reduce risk diversification.

Given the high budget cost, it will be very difficult to convince States facing their own major internal difficulties to participate in such an institution. Only France and Germany among potential shareholders enjoy a AAA rating. The absence of one of these two shareholders would place the entire financial burden on the other, which would also make the proportion of called capital automatically higher given the lower credit quality of the other shareholders.

In addition to the capital cost, the cost of implementing and launch a new multilateral bank would be significant before the bank can being generating positive results after a few years of operation to consolidate its equity (as shown by the example of the EBRD).

Instead of simplifying or ensuring better coordination of the development financing system in the Mediterranean, the establishment of a new institution might well make it more complex. Even though objectives and businesses would be theoretically different, the new bank would soon perform the same task as FEMIP, which operates in the same region and would consider it more of a competitor than a partner.

2. Option N° 2: establish a financial institution dedicated to financing co-development in the Mediterranean using current structures

A second option is to create a new institution using current structures in order to minimise the cost.

The new institution could result from spinning off the Mediterranean activity of the EIB, which could become the leading shareholder. The institution's capital would be open on a voluntary basis to member nations of the Union for the Mediterranean (either directly or through their public investment vehicles), including Southern and Eastern Mediterranean countries and other partners directly interested by the region's economic development (for example, the European Union, Gulf countries and other multilateral institutions such as the World Bank and the African Development Bank).

The EIB would keep its current potfolio of loans in the region so as not to extend the capital requirements of its subsidiary. This issue would be a major difference compared to previous spin-off projects for the EIB's "Mediterranean" operations. The new institution would lose the income from loans already arranged. However, the option would divide initial capital requirements by two (see below, section C).

In contrast, it is important that the EIB transfer all functions from FEMIP and financing under mandate in the FEMIP region to its subsidiary, along with staff members currently assigned to the region who would be willing to work in the subsidiary. This means that the EIB would no longer intervene directly in the FEMIP region in order not to make the current financing system more complex. The EIB would intervene solely through the new subsidiary.

The EIB would continue to operate in Turkey and the Balkans as it currently does, because these countries are subject to a different status (EU membership candidates) and are at a different stage in development which does not require the same tools to be implemented.

The main objective of the new subsidiary would be to meet private sector needs identified in our study, which implies opening offices in the main countries of operation. Local presence is probably a major condition for effectiveness. The Working Group noted that projects carried by lending institutions often fell behind in countries where they were not represented. Taking over the FEMIP framework, the new institution would continue financing under European mandate, in particular for infrastructure projects.

The new subsidiary would also entail recruiting qualified staff for new operations, some of whom would come from countries in the Mediterranean region.

The new subsidiary could continue participating in financing projects carried by regional States to ensure continuity with activities currently undertaken by FEMIP with the same support conditions as the European Union at present. Diversifying operations and clients would also help lower its capital requirements compared to a riskier activity focusing exclusively on private sector clients.

The level of the stake held by the EIB should be discussed with the main interested partners and should take account of several criteria, as well as the need to retain a AAA rating. This implies retaining a 30-35% stake by the EIB, which has technical and financial experience, AAA rating and institutional links with the European Union.

It is also necessary for the new institution's financial solidity that the EIB, the European Union and European States serving as the region's main lending institutions and public financial institutions (such as the *Caisse des dépôts*, *Cassa depositi e prestiti* and the KfW) that can ensure AAA rating be able to retain a high share in the capital and at least 50%.

At the same time, the capital should be significantly opened up to Southern and Eastern Mediterranean countries so that they can embrace the new institution. Capital should also be opened up to other countries directly interested in the region's economic development (Gulf countries, other European countries) as well as other multilateral institutions (World Bank, African Development Bank, etc.), to limit the budget contributions from other shareholders.

Eventually, it would be advisable, in order to simplify the visibility of European financing supply in the region and to increase the new institution's financial capacity, that the European Commission delegates part of the management of its Mediterranean grants to the new institution. The subsidiary would then serve as a development bank financing its operations using resources borrowed from markets, and as a subsidising authority using EU budget resources to provide technical assistance, training and financing for general interest operations, which are not directly profitable.

This proposal is consistent with the recommendations in the Camdessus report[50]. The report proposes consolidating the human resources of the EIB and its offices in recipient countries; consolidating cooperation and coordination with other financing instruments outside the European Union; making an additional effort to finance SMEs and regional cooperation projects and developing new financing instruments with guarantees, equity and technical assistance. To implement these recommendations, the Camdessus report suggests beginning by creating an EIB subsidiary to cover its external operations and then establishing a European external financing agency to include the EIB subsidiary and the external financing instruments of the European Union.

Option N° 2 consists of partially implementing the Camdessus report with a focus on the Mediterranean region. Regional concentration offers the advantage of being simpler to implement that a global solution for all EU external mandate. Choosing the Mediterranean as the priority region for applying the Camdessus reform proposal can be justified by the need for Europe to help the development of a region that it is geographically close and vital for its own growth. Another reason for choosing the Mediterranean as the test case for applying the structural reforms recommended by the Camdessus report arises from the fact that applying the reforms in Eastern Europe entails an integration of the EBRD, which does not fall within the scope of our Working Group.

There are several advantages in this option: strong ownership by States in the Southern and Eastern Mediterranean, fulfilment of the need for institutionalisation as part of the Union for the Mediterranean process, and constitution of skilled human resources that partly originate from Southern and Eastern Mediterranean countries.

However, the main advantage of the second option over the first one stems from the fact that AAA rating is possible at a lower budget cost given the strong degree of involvement by the EIB (which is triple-A rated) and the retention of less risky operations: financing infrastructures under European mandates carried by States.

In addition, the implementation of such a subsidiary can be speedy based on the operations and teams in FEMIP. Recruitment of specialists in new businesses in particular from Southern and Eastern Mediterranean States can be gradual.

The establishment of such an institution would also make it possible to incorporate specific Union for the Mediterranean initiatives such as the Mediterranean Business Development Initiative (MBDI), and thus limit the duplication of efforts.

In legal terms the EIB has been allowed to establish a subsidiary without amending its statutes since the Lisbon Treaty (previously, establishing a subsidiary required an amendment to the treaties, as the EIB statutes were incorporated into them).

[50] *EIB's external mandate 2007-2013 mid-term review, Report and recommendations of the steering committee of wise persons* (chaired by Michel Camdessus): February 2010

The establishment of a subsidiary does, however, accordingly with article 28 of the new statutes of the EIB, require a unanimous decision from the Council of governors (i.e. the finance ministers of the 27 Member States of the European Union).

Option N° 2 comes down to the solution already submitted in 2006, which had been ruled out owing to cost factors and primarily because of the requirement to amend European treaties to establish a subsidiary. This requirement made the establishment of an EIB subsidiary impossible in practice. The new statutes of the EIB now make such an operation possible.

All the economic arguments advocating in favour of this proposal in 2006 are still valid and even more persuasive. The global economic recession requires States to be more efficient, in particular in Europe's external financing, with budget resources that may not increase as in the past.

On a political level, Southern and Eastern Mediterranean countries are vocal in their demands to take part in an instrument that would help finance their development. At European level, the European Parliament supported the project to establish a Bank of the Mediterranean in two resolutions dated March 15th, 2007 and February 19th, 2009. The Mediterranean Parliament Assembly, which includes MPs from all sides of the Mediterranean, is also supporting the project. The lower house of the Italian Parliament unanimously adopted a resolution on May 12th, 2010 requesting that FEMIP be transformed into a Bank of the Mediterranean.

The Union for the Mediterranean was established with all Member States of the European Union and nations along the Mediterranean. Just like the World Bank with regard to the UN, a Euro-Mediterranean bank would be the UfM financial agency with its own governance that would be capable of financing actions meeting the region's needs. Historically, regional integration attempts have always included a financial 'spearhead', beginning with EU's EIB and then the EBRD. The Working Group therefore considers that the effect of a Union for the Mediterranean without a specific financial instrument would be singularly curtailed.

3. Option N° 3 (secondary): establish a Mediterranean public fund

Option N° 2 appears a technical solution best suited, for all the reasons stated above, to meet the needs highlighted by the Working Group and which are currently poorly or not addressed by current institutions. It would do so at a lower capital cost to States than solution N° 1 thanks to the high degree of involvement by the EIB.

Nevertheless, the establishment of an EIB subsidiary may no longer require revising European treaties, but still requires a unanimous vote by its council of governors, i.e. the approval of all 27 finance ministers in the European Union.

A political obstacle to this technical solution cannot be excluded. This is why the Working Group has considered other options that do not necessarily meet all the region's requirements, but that may be easier to implement.

One such option is to establish a "Mediterranean public fund", a financial institution as a subsidiary of long-term public investors which exist in certain countries on both sides of the Mediterranean, i.e. French, Italian and Moroccan *caisses des dépôts* and possibly the KfW, who could be its first shareholders. Other partners could join on a voluntary basis.

In order to meet our subsidiarity criterion, a Mediterranean public fund should not directly compete with current banking systems by tapping local savings, as strengthening banking systems in Southern and Eastern Mediterranean countries is precisely one of the priority targets identified by our Working Group.

Furthermore, an institution with a financing model based on collection and transformation of migrant remittances could be counter-productive in macro-economic terms, by depriving households of extensive complementary income sources, and States from a significant foreign currency resource. In some of the countries of the region, the balance of payments is highly dependent on such remittances. Studies by the World Bank and the French Treasury have shown that the economy of countries such as Morocco, Egypt and Lebanon, would be severely impacted by a drop in remittances.

Such an institution should therefore seek financing from markets and should be triple-A rated for the reasons mentioned above. The capital amount of the new institution subscribed by current public institutions would necessarily be far lower than in option N° 2. French, Italian and Moroccan deposit funds have established an investment fund with an Egyptian partner focusing on financing infrastructures (Inframed), with an initial endowment of €400 million. The amounts these investors could allocate to the capital of a new institution would be in the same order of magnitude, i.e. several hundred million Euros, whilst the capital considered in option N° 2 is in the region of €10 billion.

The activity of a "Mediterranean public fund" would be significantly curtailed compared to the first two options and would not meet all the identified requirements. It would have to content itself with not meeting some of them, such as risk coverage, which is highly capital intensive. Furthermore, it would be able to meet local banks' long-term financing requirements and market coordination needs only in part.

Nevertheless, option N° 3 may be considered a fallback solution in the event of political impediments in option N° 2. It would have the benefit of variable-geometry implementation not requiring the political endorsement of every EU Member State and could meet some of the needs identified in our report, albeit only very partially.

Long-term public investors could begin with a common platform before establishing a joint subsidiary. As a sub-option of option N° 3, this would entail establishing a common instrument such as a federation of public institutions which would decide to act in concert or on a variable-geometry basis to meet the needs identified in our report. In the same manner as Inframed was established, public investors could create investment funds specialising in financing SMEs or other specialist vehicles. They could also co-finance specific banks or funds and intervene together on specific markets.

The common platform could also be opened to long-term private investors which would intervene in specific, specialist instruments to meet the region's needs. This sub-option should be considered with specific reference to the principles of subsidiarity and non-competition compared to current private investment vehicles.

C. CONSTITUTING CAPITAL FOR A FINANCIAL INSTITUTION WITHIN THE FRAMEWORK OF OPTION N° 2 WOULD REQUIRE A SIGNIFICANT FINANCIAL EFFORT FROM SHAREHOLDERS

For a new, multilateral Euro-Mediterranean institution to be established, it is vital to obtain AAA rating. Any other rating would mean that it could not provide the region's economic agents with the requisite resources under favourable conditions, which would ensure only meagre operational utility. Compared to other international lending institutions in the Mediterranean, without triple-A rating it would lack any genuine competitive edge, whatever its operational vocation might be.

Triple-A rating is expensive to secure and to preserve. The effort requested from shareholders would largest in option N° 1 (establishing a new Euro-Mediterranean bank from nothing). Consideration of acute budget constraints affecting the potential shareholder nations in a new institution, as well as the operational benefits of creating an EIB subsidiary for Mediterranean operations have therefore prompted the Working Group to favour option N° 2.

The specific financial constraints affecting any euro-Mediterranean institution with a triple-A rating would depend on the operational priorities decided by its shareholders. It is, however, possible to outline a statement of constraints with the following requirements as an operational hypothesis for the institution to meet the requirements identified by the Working Group:

- It would be dedicated to providing support to the private sector as a priority
- It would seek leverage through credit facilities to local banking systems for the medium and long term
- It would actively use guarantee instruments for long maturities including debt instruments and not just equity vehicles
- It would acquire equity stakes (venture capital type investments)
- It would cover a number of risks, in particular foreign exchange risks
- It would actively resort to local financial markets for medium/long-term operations.

The above operational characteristics are highly capital-intensive, even with leverage, and imply a greater tolerance to risk. Foreign exchange risks and above all the difference between assets and liabilities implied by a policy of local currency borrowings over the medium and long terms would have to be managed.

A new institution of this type would be qualified in geographical terms as highly concentrated, compounded by priority exposure to the private sector. This two-fold concentration would increase the risk profile in relation to its peers as far as the rating agencies are concerned. Instruments used by the new institution would require high-level expertise and above all expensive risk management systems: pressure on overheads would probably be very carefully monitored by rating agencies and certainly by its shareholders.

In sum, these characteristics taken as a whole imply a financial institution with a greater appetite for risk than comparable institutions. Securing triple-A with these features would entail a strengthened capital structure.

In terms of capital volume for the new institution, the initial subscribed capital would appear to have to lie within the range of €10-15 billion to ensure a normal annual commitment of €1.5-2 billion. If the portfolio of FEMIP loans was transferred to the new institution, the initial capital would have to be far above €20 billion. Given the constraint of the 100% gearing ratio, taking on the FEMIP portfolio would indeed imply that a volume of capital around €8 billion would be immediately "consumed" (excluding Turkey). Despite the obvious benefits (immediate transfer of income from prior loans), a consideration of the financial effort requested from public shareholders facing major budget constraints has prompted the Working Group not to favour a capital scenario of €20-25 billion.

The main operational objective of the new institution, i.e. provide long-term resources, implies a low rate of capital rotation, which would differ significantly from, for example, the EBRD. This means a lengthy deferred amortisation period and specialising in commitment maturities exceeding three to five years. Such characteristics also mean a rapid consumption of equity because of a slow reconstitution of capital through reimbursements.

Furthermore, an annual commitment level of €1.5-2 billion at the cruising tempo appears vital if the new institution is to fulfil its operational objectives, generate added value compared to other lending institutions and carry out the functions undertaken by FEMIP. Needless to say, this hypothesis assumes that candidate nations for EU membership such as Turkey and Croatia would not be common-law borrowers from the new institution, as they would have access to other sources of European financing. It is, however, conceivable to implement an exceptional eligibility mechanism for these countries, for example, at the formal request of the UfM secretary general. Outside exceptional cases, the main 'core' borrowers would be the nine Southern Mediterranean partner countries of the EIB, along with the Balkan members of the UfM not designated candidates for EU membership.

In this context, capital below €10 billion would very quickly overstretch the lending capacity of the new institution if, for example, it adopted a debt leverage and liquidity ratio similar to those of the AfDB or the EBRD (two obvious peers), whereas experience shows that shareholders in multilateral financial institutions are very reticent about accepting capital increases in cycles of under ten years.

As for capital adequacy, a highly marked operational and risk profile for the new institution would have to imply a very strong capital structure with very financially demanding levels of usable capital, especially of equity. This would mean a very high proportion of paid-in capital. The highest reference in the multilateral financial institutions category in terms of private sector risk exposure is the SFI, with a paid-in capital equal to subscribed capital. Perhaps a more suitable case is the EBRD with a ratio of subscribed to paid-in capital of 30% at its inception. However, the paid-in ratio should probably be higher, as the EBRD is diversified in terms of geographic risk and exposure to sovereign risks that could not be claimed by a new financial institution focusing primarily on supporting the private sector in the Southern Mediterranean. A ratio of 40% of paid-in capital to subscribed capital therefore seems justified.

The financial room for manoeuvre ensured by the broad capital adequacy ratio LRBC (adding up triple-A callable capital) also runs the risk of being relatively tight for the new institution.

A significant level of triple-A rated shareholders is, however, vital to avoid the model of the Islamic Development Bank, i.e. an institution with a narrow risk-bearing capacity (NRBC) of over 100% (which means more equity than commitments). The broad adequacy ratio LRBC (including triple-A callable capital) admittedly has its limits, as pointed out above, but it is vital to prevent the financial policy of the new institution to be so conservative (accumulation of reserves at a rapid rate to consolidate equity) that it would undermine the operational effectiveness of the new institution by forcing unattractive terms and conditions on borrowers.

For the reasons given above, the Working Group believes it is vital ensure a triple-A rated foundation with the EIB as the leading shareholder (with a stake around one third of subscribed capital), consolidated by other triple-A rated shareholders. To secure the triple-A rating, the agencies would probably accept triple-A rated subscribed capital in excess of 50% as proof of a solid capital structure along with a clear financial support from others key shareholders.

The above considerations prompt the Working Group to consider that the new institution should in any event be expensive for shareholders in terms of initial support. In sum, subscribed capital should exceed €10 billion for an average annual level of financial commitments of €2 billion in order to avoid a capital increase too early in the new institution's operations. The initial paid-in proportion should amount to approximately 40% to ensure an equity level and narrow capital ratio NRBC able of justifying triple-A rating, given the high risk profile facing a financing institution focusing primarily on medium/long-term lending to support the private sector in Southern Mediterranean countries.

D. INNOVATIVE GOVERNANCE AND OPERATING RULES

1. An open and adaptable institution

A Euro-Mediterranean institution should be open and adaptable in terms of capital structure and investment thinking.

The institution should be sufficiency flexible to welcome new shareholders who might prefer to assess its preliminary operational experience before joining. This would apply for instance both to specific Northern European countries and to countries and sovereign funds in the Gulf region. A significant proportion of capital authorised but not offered to the initial subscription could be retained. This proportion cannot, however, be too large in order to avoid giving the impression for the rating agencies that initial shareholder support is too weak.

The institution's operational definition should also be adaptable. The primary justification for establishing a new institution is the limits to the effectiveness of current financing tools applied to the private sector in Southern Mediterranean countries. Such omissions and deficiencies may have a solution in the six business lines or specific activities previously designed for the new institution in this report. The organising axis for these six businesses is the priority given to facilitating long-term financing in the region's economies and a specific support for the private sector. The new institution would therefore be operationally consistent with such a priority given to the private sector.

As for undertaking the operations currently carried out under European mandate by the EIB, the new institution would also additionally finance infrastructure and major structural projects. The experience and success of other multilateral financial institutions in this field brook no debate, but participation in joint financing syndicates by the new institution could be sometimes vital. The justification for such financing would be particularly convincing in the case of major regional integration projects involving the private sector.

As a general rule, the new Euro-Mediterranean institution would be intended to carry out the functions of FEMIP within a mandate outside the EIB and therefore for support for EU financing and subsidies. Fulfilling such a role would make coordination easier for European intervention in the region and would be a desirable aim in its own right.

2. Flexible governance ensuring a very high degree of professionalism

With regard to governance, the Working Group has considered only an institution managed according to the most stringent professional standards.

The Board of directors would set financial and operational policy; monitor the financial position and risk management, in particular through its audit and risk committees; assess achievements and set the budget. Investment decisions could be delegated to specialist committees within specific limits, although the principle of applying common law to projects and financing by the board is clearly a cardinal point in governance. The board must retain the ability to approve any projects and monitor compliance with the priorities it has identified. It is crucial to the institution's professionalism that its approach focus strictly on projects and not on countries.

The risk management systems required by the new institution will probably be expensive in IT investment to begin with. One of the board's first tasks will probably be to monitor overhead costs trends. The new institution will have to be frugal with respect to general administrative operating expenses.

The innovative operational character of the new institution would not automatically imply a large staff. In contrast, it would entail highly specialised professionals, in particular in the fields of guarantees, risk management and markets activities. Such staff members are available only in the private banking and financing sectors and will be expensive to recruit. In return, recruitment could be based on set-term contracts, for example, three to five years with equally limited renewal options. This form of staff management is compatible with high-level staff with easy shuttling between public and private sectors. It would provide the strongly dedicated and highly-qualified staff that the Working Group intends to endow on the new institution. It would also make it possible to organise a transfer of know-how to Mediterranean countries by recruiting professionals who intend to return to their home countries after their contract has expired and disseminate their know-how.

APPENDIX N° 1: MISSION LETTER

LE PRÉSIDENT DE LA RÉPUBLIQUE

Paris, le 17/12/2009

Monsieur le Président,

Dans le cadre de l'Union pour la Méditerranée dont la France assure avec l'Égypte la coprésidence, je souhaite vous confier la mission d'étudier la possibilité de créer une banque dédiée au financement du codéveloppement en Méditerranée.

A cet effet, vous réunirez une commission composée de membres français et étrangers spécialistes du développement, de la finance ou du secteur bancaire. Cette commission aura pour tâche d'évaluer la capacité des institutions financières actives dans la région à mobiliser des financements et de proposer des pistes de réforme visant à une plus grande coordination et/ou à un renforcement des instruments existants, dans le cadre des projets de l'Union pour la Méditerranée.

Il s'agira dans un premier temps de dresser un bilan de l'activité et de la coordination des institutions financières opérant déjà dans la région (opérateurs nationaux - AFD et KfW -, BEI, banques régionales de développement – BERD sur la rive nord et BAfD sur la rive Sud, groupe Banque Mondiale – principalement BIRD et SFI, mais aussi les fonds spécialisés comme le fonds pour les technologies propres de la Banque Mondiale), sans oublier l'aide européenne. Vous réfléchirez au moyen de les mobiliser au profit des projets portés par l'Union pour la Méditerranée.

Il vous faudra dans un second temps faire une analyse circonstanciée de leurs inconvénients et de leurs avantages, en proposant des pistes d'amélioration de leur coordination en Méditerranée, en envisageant éventuellement un renforcement de leur action, tout en appréciant la plus-value éventuelle qu'apporterait une nouvelle institution.

Il conviendra enfin d'étudier l'opportunité de la création d'une banque, en tenant compte des contraintes politiques, économiques et techniques existantes et, le cas échéant, de réfléchir à son fonctionnement, en termes de périmètre, d'action et de moyens.

.../...

Monsieur Charles MILHAUD
Ancien Président du Groupe Caisse d'Epargne
431 rue Paradis
13008 MARSEILLE

Dans cette éventualité, vous réfléchirez aussi à sa structure capitalistique, aux modalités de son financement par les pays membres, à sa gouvernance, à ses moyens d'action. Vous proposerez des modalités concrètes d'articulation de cette banque avec les autres institutions multilatérales et les opérateurs nationaux.

Dans le cadre de votre mission, vous serez placé sous l'autorité de la mission interministérielle pour l'Union pour la Méditerranée. Vous pourrez en tant que de besoin vous appuyer sur les services du Ministère de l'Économie, de l'Industrie et de l'Emploi.

En vous remerciant d'avoir bien voulu accepter cette mission, je vous prie d'agréer, Monsieur le Président, l'assurance de ma sincère considération.

Nicolas SARKOZY

APPENDIX N° 2: WORKING GROUP HEARINGS AND COUNTRIES VISITED

Algeria	Abderrahmane	Hadjnacer	Former Governor of the Central Bank
Germany	Norbert	Kloppenburg	Member of KfW's board
	Andreas	Hermès	Director General, European coordination, Chancellery
	Rolf	Mafael	Deputy Director General, EU External relations,Ministry of Foreign Affairs
	Ralph	Muller	Deputy Director General, European Financial Policies, Ministry of Finances
Croatia	Mirko	Galic	Ambassador to France
	Lidija	Vizek Mrzljak	Cousellor, Croatian Embassy
Egypt	Samiha	Fawzy	Vice Minister for Trade and Industry
	Hisham	Ramez	Deputy Governor, Central Bank of Egypt
	Mohamed	Tamman	Deputy Governor, Central Bank of Egypt
	Mohamed	Hamman	Ministry for International Cooperation
	Zahia	Abu Zeid	Ministry for International Cooperation
	Ola	Gadallah	Chairman, Export Credit Guarantee Company
	Mahmoud Abdel	Latif	Chairman, Bank of Alexandria
	Tarek	Amer	Chairman, National Bank of Egypt
	Sherif	Tantawi	CFO, Orascom
	Riham	Beltagui	Deputy CFO, Orascom
	Alaa	El Bahay	CEO, Mass Food
	Yasser	El Mallawany	Chairman, EFG Hermes
	Essam	El Wakil	CEO, Commercial International Bank
	Aly Moustafa	Moussa	President, Cairo Chamber of Commerce
	Nasser	Kamed	Ambassador to France
	Françoise	Meley	Executive Director, French Embassy Trade Office
Spain	José Antonio	Olavarietta	Director General, CECA
	Other meetings ongoing		
European Institutions	*Other meetings ongoing*		European Commission
	Philippe	Maystadt	President, EIB
	Philippe	de Fontaine Vive	Vice President, EIB
	Thomas	Mirow	President, EBRD
France	Michel	Camdessus	Former IMF Director General
	Jean-Pierre	Jouyet	Chairman, French Financial Services Authority, former Minister
	Augustin	de Romanet	Director General, Caisse des dépôts et consignations
	Jacques	Attali	Chairman, Planet Finance
	Charles	Milhaud	Chairman, CM conseil
	Hubert	Védrine	Former Minister
	Xavier	Musca	Deputy Secretary General, French President Office
	Jean	Lemierre	BNP Paribas CEO's Special Advisor, Former EBRD President
	Daniel	Houri	Senior Magistrate, French Court of Audit
	Laurent	Vigier	Director for European and International Affairs, Caisse des Dépôts
	Olivier	Pastré	Economist
	Philippe	Peuch Lestrade	Director for Public Sector Affairs, Ernst & Young
	Bruno	Deletré	CEO, Océor
	Jean Michel	Severino	Director General, French Development Agency

Israel	Stanley	Fischer	Former Governor of the Central Bank
	Einat	Wilf	Member of Parliament
	Oded	Sarig	Commissioner for Capital markets, Ministry of Finances
	Haim	Shani	Director General, Ministry of Finances
	Gil	Bufman	Chief Economist, Leumi Bank
	Edouard	Cukierman	CEO, venture capital fund
	Dan	Carativas	Director for International Affairs, Manufacturers Association of Israël
	Nissim	Zvilli	CEO, Alstom-Israel
	Avner	Halevi	Consultant
	Charles	Reisman	CEO, BNP-Israel
	Bernard	Namet	Private Equity Director, Crédit agricole
	David	Lahmi	Projects Finance Director, Crédit agricole
	Henri	Starkman	CEO, Véolia-Israel

Italy	Franco	Bassanini	Chairman, Cassa Depositi e Prestiti

Jordan	Bassam	Saket	President, Stock Exchange Markets Commission
	Jajil	Tarif	CEO, Amman Stock Exchange Market
	Adli	Khanda	Director General, Association of Banks in Jordan
	Jean-Philippe	Guiltat	Cousellor, French Embassy Trade Office
	6th Session - Parliamentary Assembly for the Mediterranean		

Lebanon	Riad	Salameh	Governor of the Central Bank
	Gebrane	Bassil	Minister for Energy and Water
	Adnan	Kassar	Minister of State, Chariman of Fransabank
	Raya	Haffar	Minister of Finances
	Elie	Assaf	Counsellor, Lebanese President's Office
	Fadi	Comair	Director General, Ministry of Energy and Water
	Monsieur	Lienne	President, Banking Regulation Authority
	Denis	Pieton	French Ambassador
	Patrick	Laurent	EU Ambassador
	Cécile	Abadie	Head of Infrastructures Unit, EU Embassy
	Denis	Cassat	Director, French Development Agency
	Adel	Kassar	CEO, Fransabank
	Farid	Rafael	Chairman, Franco-Lebanese Bank
	Georges	Achi	Chairman, Audi Bank
	Raymond	Audi	CEO, Audi Bank
	Mansour	Bteich	CEO, Fransabank
	Tanal	Sabbah	Chairman, Lebanese Swiss Bank
	Monsieur	Osseiran	Chairman, Blom Bank
	Marwan	Iskandar	Director, IM Associates
	Varouj	Nerguizian	Chairman, Emirates Lebanon Bank
	Francis	Hartmann	CEO, Emirates Lebanon Bank
	Roger	Khayat	Economist, Beirut Chamber of Commerce
	François	de Maricourt	CEO, HSBC
	Makram	Sader	Secretary General, Association of Banks in Lebanon
	Frédéric	Kaplan	Head of French Embassy Trade Office
	Jean	Messiha	Cousellor, French Embassy Trade Office

Morocco	Zouhair	Chorfi	Director General, Treasury
	Adil	Douiri	Former Minister, Mutandis Chairman
	Ismaïl	Douiri	Chairman, Attijariwafabank
	Driss	Alaoui Mdaghri	Former Minister
	Anas	Alami	CEO, Caisse de dépôts et de gestion
	Hassan	Boulaknadel	Director General, Stocks Regulation Authority
	Karim	Hajji	CEO, Casablanca Stock Exchange Market
	Dominique	Bocquet	Head of French Embassy Trade Office
	Mohamed	El Kettani	CEO, Attijariwafabank
	Mohamed	Horani	President, Association for businesses in Morocco
	Mohamed	Tamer	Vice President, Association for businesses in Morocco
	Abdelhakim	Marrakchi	Vice President, Association for businesses in Morocco
	Abdellatif	Jouahri	Gouvernor, Al Maghrib Bank
	Tariq	Sijilmassi	Chairman, Crédit Agricole
	Mohamed	Benchaaboun	CEO, Banque populaire

Palestian Territories	Hassan	Abu Libdeh	Minister for Economy
	Mazen	Jadallah	Counsellor, Prime Minister Office
	Estephan	Salameh	Counsellor, Minister for Planning Office
	Riyad	Abu Shahadeh	Deputy Gouvernor, Monetary Authority
	Maraee	Durgham	Deputy Director, Palestine Investment Fund
	Monsieur	Amdaj	Deputy Director, Palestine Investment Fund
	Mahdi	Al-Masri	President, Palestinian Association for Industry
	Hervé	Conan	Director, French Development Agency

Syria	Abdallah	Dardari	Deputy Prime Minister for Economic Affairs
	Mohammed	El Hussein	Minister for Finances
	Adib	Mayaleh	Central Bank Governor
	Walid	Abdelnour	CEO, Byblos Bank
	Ahmad	Abelaziz	Director, Investment Agency
	Jean Louis	Barjolle	CEO, Total-Syria
	Robin	de Mouxy	CEO, BEMO Bank
	Bassam	Ghraoui	President, Franco-Syrian Business Club
	Bassel	Hamwi	CEO, Audi Bank
	Joseph	Khouri	CEO, Air Liquide-Syria
	Ulrike	Lassman	Director, KFW
	Philippe	Lecrinier	Director, French Development Agency
	Ismail	Ould Cheick Ahmed	UNDP Head of Office
	Bruno	Pescheux	CEO, Lafarge-Syria
	Georges	Sayegh	CEO, Syrian and Outre-mer Bank
	Firas	Tlass	CEO, MAS Economic Group
	Akiko	Tomita	Director, JICA

Tunisia	Mohamed	Jouini	Minister for Development and Cooperation
	Taoufik	Baccar	Central Bank Governor
	Donald	Kabureka	Chariman, African Bank for Development
	Khalil	Ammar	Chairman, Banque de financement des PME
	Ahmed	Abdelkefi	Chairmen, TLG
	Kahled	Abdelkefi	Chariman, Tunisie Valeur
	Abdelghaffar	Ezzedine	CEO, BTK Tunisia
	Slahedine	Ladjimi	Chairman, BIAT
	Aziz	Mebarek	Partner, Tuninvest
	Jacques	Torregrossa	Head of French Embassy Trade Office
	Pierre	Bergé	Counsellor, French Embassy Trade Office
	Hédi	Djilani	Chairman, UTICA

Turkey	Axel	Baroux	Director, Ubifrance
	Laurent	Duriez	Director, French Development Agency
	Levent	Celebioglu	Deputy CEO, Turk Ekonomi Bankas (BNPP)
	Gunduz	Findikcioglu	Chief Economist, TSK Bank
	Riza	Kadilar	CEO, Natixis Pramex International
	Ekrem	Keskim	Secretary General, Association for Banking in Turkey
	Alain	Terraillon	Head of EIB's Office in Turkey
	Pekin	Baran	Vice President, Tüsiad

APPENDIX N° 3: ABBREVIATIONS

ADIA	Abu Dhabi Investment Authority
AFD	Agence française de développement (French Development Agency)
AfDB	African Development Bank
AFESD	Arab Fund for Economic and Social Development
BFPME	Banque de financement des petites et moyennes entreprises (Tunisia)
CDC	Caisse des Dépots et Consignations (France)
CDG	Caisse des Dépôts et de Gestion (Morocco)
CDP	Cassa Depositi e Prestiti (Italy)
CEDB	Council of Europe Development Bank
CTF	Clean Technology Fund
EBRD	European Bank for Reconstruction and Development
EDF	European Development Fund
EIB	European Investment Bank
EIDHR	European Instrument for Democracy and Human Rights
ENPI	European Neighbourhood and Partnership Instrument
FDI	Foreign Direct Investments
FEMIP	Facility for Euro-Mediterranean Investment and Partnership
FISEM	Investment and support facility for the Mediterranean
FMCG	Fast Moving Consumer Goods
GEF	Global Environment Facility
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFDC	Instrument for Financing Development Cooperation
IMF	International Monetary Fund
IPA	Instrument for Pre-accession Assistance
IsDB	Islamic Development Bank
KFAED	Kuwait Fund for Arab Economic Development
KFW	Kreditanstalt Für Wiederaufbau
KIA	Kuweit Investment Authority
MCMI	Marseille Center for Mediterranean Integration
MDBI	Mediterranean Business Development Initiative
MENA	Middle East and North Africa
MIGA	Multilateral Investment Guarantee Agency
MSP	Mediterranean Solar Plan
NIB	Nordic Development Bank
NIF	Neighbourhood Investment Facility
NSCI	Nuclear Safety Cooperation Instrument
ODA	Official Development Aid
OIC	Organisation of the Islamic Conference
SME	Small and Medium Enterprises
UfM	Union for the Mediterranean
UMA	Arab Maghreb Union
UNCHR	United Nations High Commissioner for Refugees
UNDP	United Nations Development Program
UNPF	United Nations Population Fund
UNWRA	UN Relief and Works for Palestinian Refugees
WFP	World Food Program

APPENDIX N° 4: OTHER EUROPEAN FINANCING

1. The European Development Fund: the specific case of Mauritania

Mauritania is not eligible for preliminary membership funds (it has not applied for membership in the European Union) or for neighbourhood funds (the country is not in proximity with the Union). It is, however, a member of the Union for the Mediterranean.

Mauritania receives EU funds as aid for cooperation and development for ACP States[51]. These funds are not provided through the EU budget, but through the European Development Fund (EDF).

The tenth EDF (2008-2013) amounts to €22.8 billion, of which €156 million have been allocated to Mauritania. Supported projects concern governance (€47 million for support for decentralisation, modernising the State and enhancing a citizen culture), regional integration and road infrastructure (€56 million), support for measures against poverty (€40 million), as well as a general fungible envelope (€13 million).

In 2009, €72 million partially allocated the previous year should be paid out including €46 million for the road infrastructure program.

Table n° 47 : Provisional schedule of funds allocated by the EDF to Mauritania

In € Million	2008	2009	2010	**Total 2008-2010**
Regional administration			20	
Government reform		17		**47**
Citizenship		10		
Infrastructures (roads)	46			**56**
General funding		5	5	
Budgetary funding		40		
Regional development	5			**53**
Migration	8			
Total	**59**	**72**	**25**	**156**

Source: European Commission data, DG Development, country strategy paper

[51] Cotonou agreement signed in 2000 and revised for 2008-2013, lays down the framework for financial relations between the European Union and 79 countries in the Africa-Caribbean-Pacific region (ACP). The EDF also finances aid to countries and overseas territories of Member States of the European Union.

2. Food facilities

Created in December 2008, the food facilities are intended to provide assistance to 50 priority countries to offset the price in commodities with a €1 billion budget for 2009-2011.

With regard to the Mediterranean region, the following countries are eligible:

- Mauritania, €7.6 million over the period
- Palestinian territories, €39.7 million over the period (of which €21.6 million in 2009-2010).

3. Other EU instruments: amounts are difficult to identify and are marginal

Other EU instruments may assist countries in the region, although the breakdown by country is not published. These are, however, minor amounts which do not undermine the balances described in this report.

a. Budget allocations for human rights

The European Instrument for Democracy and Human Rights (EIDHR) has a €1.1 billion budget for 2007-2013.

The instrument is intended to develop fundamental freedoms by providing financial support to charities, democratic institutions (parliamentary assemblies) and to finance the organisation of elections or field teams of observers. These are small-scale subsidies which rarely exceed €150,000.

Text box: examples of projects financed by the Human Rights Instrument

- Turkey: €1.2 million staggered over 2008 and 2009 to finance 13 projects, for example the association of Turkey journalists (€92,000 in 2009), a research program on discrimination at the University of Istanbul (€84,000) and a charity defending the rights of prisoners (€74,000)
- Morocco: a training program for members of parliament about fiscal policy (€130,000), an training program for legal professionals about the labour law, which is poorly applied in the country (€140,000)
- Subsidies for organisations defending human rights in all countries on the Southern shore of the Mediterranean (€1 million)
- Subsidies to organisations defending the freedom of the press in Lebanon, Jordan, Palestinian territories and Syria (€1.1 million)
- Palestinian territories: psychological and medical care for victims of torture (€1.6 million), financing of a freedom of the press organisation (€160,000), media (press and TV: €200,000)
- Israel: financing of a study intended to establish standards for intervention complying with human rights for Israeli special forces (€250,000) or prevent the use of torture by them (€500,000), program of social housing for nomads in the Negev (€200,000)
- Lebanon: medical and psychological care for torture victims (€1.2 million), financing for caring for migrants (€200,000)

- Jordan: awareness program to counter “honour” crimes (€200,000), to promote women’s rights (€200,000), financing for a weekly radio show on human rights (€70,000)
- Albania: training for lawyers in the procedure and case law of the European Court of Human Rights (€70,000), financing of a charity working to apply the Albanian labour law (€90,000) and a charity defending prisoners (€99,000)
- A general training program for political and administrative executives in Eastern Europe (€1.7 M)
- Bosnia-Herzegovina: financing of a charity defending the freedom of the press (€85,000) and of another defending human rights (€90,000), medical and psychological assistance program for torture victims (€800,000)
- Croatia: financing of a charity with the duty to remember, to monitor and film trials before the International Criminal Court (€600,000), publications on cultural links between Balkan countries (€90,000).

It should be noted that in Egypt, Algeria, Syria, Libya and Tunisia, interventions under this instrument are rare or non-existent.

The aggregate amount of financing allocated by Mediterranean country is not published. The above list is not comprehensive. However, these are minor amounts, which do not impair the financial balances of European financing.

b. Budget allocations for development

The Development Cooperation Instrument (DCI) is intended to achieve Millennium Development Goals[52]. Its budget for 2007-2013 is €16.897 billion:

- €10.057 billion are allocated to geographic programs. Countries benefiting from the European Development Fund (EDF) are also eligible
- €5.596 billion are allocated to theme-based programs: investment in human resources and social sectors, financing civil society and decentralisation, the environment and sustainable management of energy resources, food safety instruments, cooperation in migration
- €1.244 billion for Africa-Caribbean-Pacific (ACP) countries that signed the sugar protocol.

The DCI tends to finance actions aimed at Asia and Latin America, but also countries listed by the Development Assistance Committee (DAC) drawn up by the OECD can be eligible for funds allocated to theme programs.

For the Mediterranean region, all countries are in the list and are therefore potential eligible except Monaco and Israel.

[52] The Millennium Development Goals (MDG) are an initiative of the United Nations General Assembly (2000) with eight goals to be reached by 2015: reduce poverty by half (number of persons living on less than $1 per day), make primary school education widespread, equality and independence of women (in every level of education), reduce infant mortality by two thirds, reduce maternal mortality by 75%, counter epidemics (HIV, malaria, etc.), protect the environment and finally set global principles (good governance, measures against poverty, debts of the poorest countries, etc.).

The theme programs for which Mediterranean countries are eligible are as follows:

- DCI Environment and sustainable management of natural resources (including energy): budget of €470 million for 2007-2010
- DCI non-State actors and local authorities: €1.6 billion budget for 2007-2013
- DCI Food safety: €925 million budget for 2007-2010
- DCI Migrations and asylum: €384 million budget for 2007-2013
- DCI Social and human development: €1 billion budget for 2007-2013.

In 2009, no country in the Mediterranean region appears to have received DCI funds.

c. Instrument for Stability

The Instrument for Stability is intended to meet crisis situations and has a €2.1 billion budget for 2007-2013.

In concrete terms, the instrument finances redeployment into economic sectors for military scientists and engineers who have worked on nuclear, chemical or bacteriological programs, constructing infrastructure dedicated to decommissioning non-conventional weapons, economic intelligence projects intended to detect threats or reconstituting public authorities after a conflict.

In 2009, no country in the Mediterranean region appears to have received funding from this instrument.

d. Nuclear safety cooperation

The nuclear safety cooperation instrument (NSCI) has a €524 million budget for 2007-2013.

In 2009, no country in the Mediterranean region appears to have received NSCI funding. The instrument is aimed primarily at countries holding inventories of nuclear weapons from the former USSR.

e. Emergency aid reserve

This is a budget line which can be used in the event of emergencies, for example cases of armed conflict. In the Mediterranean region it is applied primarily to Palestinian territories, although the precise amount allocated has not been disclosed.

APPENDIX N° 5: FINANCING FROM OTHER INTERNATIONAL INSTITUTIONS

Other international institutions also intervene in the region, albeit to a lesser extent.

1. International Monetary Fund: occasional intervention not aimed at development

The International Monetary Fund (IMF) did not issue any loans to Mediterranean countries in 2009, even though there are remnants of loans from previous years and for small amounts, except in Bosnia-Herzegovina, where the amount is significant (approx. $270 million).

Palestinian territories, which are not members of the IMF, do not receive financial aid, but do receive technical support and economic advice from the Fund.

After the G20 summit meeting in London in April 2009 in response to the economic crisis, Mediterranean countries received two allocations, as did every country, for special drawing rights (SDRs) in August and September 2009 in proportion to their share in the IMF. These amounts amounted to €6.7 billion for the region which were incorporated in central bank reserves (Algeria, Libya and Turkey each received over €1 billion).

As IMF intervention is occasional and non-recurring, it cannot be included in development funding for the Mediterranean in the same category as loans and grants from other lending institutions.

Mention should be made of the amounts allocated by the IMF to the region: €257 million were still allocated in April 2010, mostly in Bosnia-Herzegovina. SDRs allocated in August and September 2009 are stated as a reminder in that these are exceptional allocations intended to deal with the financial crisis:

Table n° 48 : IMF allocations in 2009

In € Million	Current SDRs (April 2010)	SDR crisis-related allocation (August and September 2009)	**Total**
Algeria	0	1 122	**1 122**
Egypt	0	799	**799**
Israel	0	815	**815**
Jordan	7	151	**158**
Lebanon	0	197	**197**
Libya	0	1 064	**1 064**
Morocco	0	499	**499**
Mauritania	11	54	**64**
Palestine	0	0	**0**
Syria	0	253	**253**
Tunisia	0	250	**250**
Turkey	5	1 006	**1 011**
			0
Albania	44	48	**92**
Bosnia	191	147	**338**
Croatia	0	317	**317**
Monaco	0	0	**0**
Montenegro	0	26	**26**
Total	**258**	**6 748**	**7 006**

Source: IMF

2. UN agencies: humanitarian aid

Various UN agencies operate in the region for amounts totalling €645 million in 2008: the International Fund for Agricultural Development (IFAD), the United Nations Development Program (UNDP), the United Nations Population Fund (UNFPA), the United Nations High Commissioner for Refugees (UNHCR), the United Nations Children's Fund (UNICEF), the UN Relief and Works Agency for Palestinian Refugees in the Middle East (UNRWA) and the World Food Program (WFP).

However, most of the financing (€564 million) is earmarked for Palestinian refugees (UNRWA):

Table n° 49 : UN agency financing (2008)

In € Million	IFAD	UNDP	UNFPA	UNHCR	UNICEF	UNRWA	WFP	**Total**
Albania	1,1	0,7	0,4	0,3	0,5	0,0	0,0	**3,1**
Algeria	-0,1	0,6	0,2	1,9	0,8	0,0	2,8	**6,2**
Bosnia	1,1	0,8	0,3	2,5	0,5	0,0	0,0	**5,2**
Croatia	0,0	1,1	0,0	1,5	0,3	0,0	0,0	**2,8**
Egypt	4,6	1,8	1,9	1,1	2,1	0,0	0,4	**11,8**
Israel	0,0	0,0	0,0	0,0	0,0	0,0	0,0	**0,0**
Jordan	2,9	0,5	0,3	0,3	0,4	91,6	0,0	**96,1**
Lebanon	-0,8	1,0	0,4	0,7	0,4	85,8	0,0	**87,5**
Libya	0,0	0,1	0,0	0,7	0,0	0,0	0,0	**0,8**
Mauritania	3,2	1,5	2,1	0,3	1,8	0,0	4,6	**13,5**
Montenegro	0,0	1,0	0,0	1,0	0,4	0,0	0,0	**2,4**
Morocco	3,8	1,0	1,2	0,4	0,9	0,0	0,0	**7,3**
Palestine	0,0	2,9	1,2	0,0	2,6	347,6	2,4	**356,7**
Syria	0,6	1,2	1,4	0,4	0,5	40,0	0,8	**44,8**
Tunisia	0,0	0,6	0,3	0,2	0,5	0,0	0,0	**1,6**
Turkey	0,0	0,8	0,8	3,4	1,1	0,0	0,0	**6,0**
Total	**16,4**	**15,5**	**10,4**	**14,6**	**12,8**	**564,9**	**11,1**	**645,8**

Source: OECD, Development Assistance Committee

The aid provided by UN agencies is primarily humanitarian. However, the type of projects financed justifies such financing being included in the statement of financing available to the region.

> ***Text box: various UN programs in the region***
>
> - The UNRWA finances companies through micro-credit instruments as well as education measures for Palestinian refugees
> - The UNPD applies small amounts in the region. The largest financing (€1.8 million in Egypt) helps finance an education and literacy program
> - The UNFPA finances projects to help ensure birth control and women’s health
> - The UNHCR applies its financing primarily for exceptional needs, for example, providing assistance during the earthquakes in Turkey, floods in Algeria or refugees in Bosnia-Herzegovina.

3. Other international financial institutions

a. The Council of Europe Development Bank

The Council of Europe Development Bank (CEDB) has minor outstanding loans (€3.4 billion at the end of 2008). Its financing is intended primarily to improve the quality of life in urban and rural environments by renovating various facilities.

Some countries on the Northern shore of the Mediterranean are eligible for loans and received financing in 2008: Albania (€10 million), Bosnia-Herzegovina (€50 million) and Croatia (€50 million). Turkey also received loans in past years.

b. Northern institutions

The Nordic Investment Bank (NIB) is an international financial institution owned by Denmark, Estonia, Finland, Iceland, Lithuania, Latvia, Norway and Sweden. Among the countries in the region, Croatia, Egypt, Jordan, Montenegro, Morocco, Tunisia and Turkey are eligible for financing. However, the NIB has not intervened in these countries for several years.

No country in the region is eligible for loans from the Nordic Development Fund.

c. The Global Fund and the Montreal Protocol

To ensure a comprehensive list, it is worth mentioning the €48 million provided by the Global Fund, which aims at eradicating AIDS and finances prevention actions e.g. in Morocco, Tunisia and Egypt, as well as financing from the Montreal Protocol to reduce emissions from products harmful to the ozone layer.

d. Future Arab Maghreb Union bank

Mention should also be made to the subsequent establishment of an institutional bank of the Arab Maghreb Union (UMA), which has been under study for many years.

A political agreement occurred in March 2010 regarding the governance of the institution. It should receive capital of $500 million, of which $150 million paid in, divided equally among the five member nations of the UMA: Morocco, Algeria, Tunisia, Libya and Mauritania. To date, no funds have been paid in.

e. Summary

The financing provided by other international institutions can be summarised as follows:

Table n° 50 : Financing in 2008

In € Million	Global fund	Montreal Protocol	COEBD	**Total**
Albania	1,1	0,0	10,0	**11,1**
Algeria	1,5	0,0	0,0	**1,5**
Bosnia	2,9	0,0	50,0	**52,9**
Croatia	0,0	0,0	50,0	**50,0**
Egypt	7,0	0,0	0,0	**7,0**
Israel	0,0	0,0	0,0	**0,0**
Jordan	0,9	0,1	0,0	**1,0**
Lebanon	0,0	0,0	0,0	**0,0**
Libya	0,0	0,0	0,0	**0,0**
Mauritania	5,3	0,0	0,0	**5,3**
Montenegro	1,1	0,0	0,0	**1,1**
Morocco	16,8	0,0	0,0	**16,8**
Palestine	0,0	0,0	0,0	**0,0**
Syria	0,8	0,0	0,0	**0,8**
Tunisia	11,2	0,1	0,0	**11,3**
Turkey	-0,3	1,2	0,0	**0,9**
Total	**48,2**	**1,5**	**110,0**	**159,7**

Source: OECD, Development Assistance Committee, CEDB