The Implementation of the New Funding Schemes in the Euro-Mediterranean Partnership

Joan Rosselló
Universitat de les Illes Balears

In 2002, the EU agreed the creation of a new funding scheme (the FEMIP), to relaunch the economic integration with the countries signing the association agreements following the Barcelona Process. To date, the functioning of this scheme has been positive, and this has been reflected in the high level of utilisation of available resources and in an increase of the foreign direct investment (FDI) in some countries of the region. In 2003 its performance was brought under analysis, for the purpose of deciding its continuity or substitution with another type of scheme (such as the proposal for the creation of a Mediterranean Development Bank). Finally, in the 2003 Naples Summit it was decided to postpone the decision until 2006. Moreover, despite some positive results in the field of private investment, impact of the programme on the employment level and poverty levels in the countries of the region has yet to be demonstrated.

Although in the last ten years the economic and financial cooperation of the EU countries (and the EU as an institution) with the Mediterranean non-member countries has been relaunched, these relations started at the beginning of the 1970s, and have gone through various phases. They began with the so-called Global Mediterranean Policy (significantly reformulated several times between 1992 and 1995 under the so-called Renewed Mediterranean Policy), which was complemented in the financial field with the signing of successive protocols based on the community budget and the EIB (1978-1981, 669 million ecus; 1982-1986, 1,050 million ecus; the 1987 agreements, 1,618 million ecus; 1992-1995, 2,375 million ecus).

The poor results of these agreements in the economic field[1] prompted a reconsideration of these initiatives and culminated with the relaunch of a new initiative derived from the Barcelona Process. Based on this, new agreements were considered (established in the so-called MEDA Programme, allocated 3,450 million Euros and 4,600 million Euros from the EIB during the period 1995-1999). These agreements were perhaps more ambitious as they included issues of policy and security as well as the economic and financial fields, and had the final objective of establishing of a Free Trade Area, planned for 2010. Complementarily, new financial aid packages were once again established (also directly from the community budget and the European Investment Bank).

TABLE 6 **Gross Investment**

% GDP	1990-1995	1996-1998	1998	2000	2001
Algeria	26.9	27	26.5	26.9	30.6
Cyprus	22.8	18.7	18	–*	–
Egypt	22	19.7	21.1	16.9	16.9
Israel	22.7	22.1	20.2	–	–
Jordan	29.5	28.3	25	25.9	27.3
Lebanon	26.1	28.4	26.7	16.7	18
Malta	30	26.1	24.2	20.4	–
Morocco	22.2	20.8	22.5	24.8	25.2
Syria	23.5	23.1	22.8	21.2	23.8
Tunisia	25.8	24.3	25	27.9	25.8
Turkey	23.9	25.4	24.8	16.8	21.3

Source: World Bank. (*) Not available.

It could be stated that despite some advances (which have been very varied according to each country) in terms of security, legislative changes on property rights, the regulation of foreign investment, privatisations and liberalisation of markets, and so forth, the programmes have continued to show poor results in relation to the economic situation of the countries signing the agreements (in terms of the GDP per capita, for instance).

These unsatisfactory results are evi-

[1] Most authors coincide in pointing out a significant improvement in the control of inflation, reduction of indebtedness levels, fluctuations of exchange rate, and so on. However, none are noted in income per capita, for instance.

dent in Table Six, in which the gross investment appears as a percentage of the GDP for the periods prior to and after the MEDA Programme, although it seems that for some countries the figures for 2001 reveal substantially better results. The figures indicate that the percentages of gross investment of the GDP do not vary greatly either before or after the establishment of the MEDA Programme.

TABLE 7	Flows of foreign direct investment									
Million $	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Algeria	30	0	0	0	270	260	501	507	438	1,196
Cyprus	107	83	75	86	54	76	69	121	163	163
Egypt	459	493	1,256	598	636	887	1,065	2,919	1,235	510
Israel	589	605	442	1,349	1,387	1,628	1,760	2,889	4,392	3,044
Jordan	41	-34	3	13	16	361	310	158	39	169
Lebanon	4	6	7	35	80	150	200	250	298	249
Malta	40	56	152	132	277	81	267	822	652	314
Morocco	503	590	555	437	357	1,079	333	850	201	2,658
Syria	18	109	251	100	89	80	82	263	270	205
Tunisia	584	656	566	378	351	365	668	368	779	486
Turkey	844	636	608	885	722	805	940	783	982	3,266

Source: UNCTAD.

These figures require certain clarifications. In the first place, we can observe that there are many differences between countries, which indicates that the development of the content of the agreements has been different for each country. In the second place, the investment levels are relatively low, and such figures can easily be altered with the achievement of a single project.

The same arguments are valid when analysing the evolution of foreign direct investment. As we see in Table Seven, the FDI flows have not varied greatly throughout the 1990s, and the flows are very sensitive to the existence of determined projects undertaken in a given year. Apart from the fact that the FDI levels are substantially lower than those of most of the Eastern European and Latin American countries, although we do not show them in these pages, investments fluctuate greatly in part because of the instability of the zone, which does not allow for a constant FDI flow.

The European response to this lack of results,[2] also visible in other fields (due to the slow advancement of the economic reforms), led to the reform of the MEDA Programme (the modifications referred mainly to the processes that were followed in order to select the projects for funding), which in 2000 had only managed to allocate twenty-six percent of the total resources. Substantial modifications were introduced, insisting on a greater advance of institutional reforms and an additional volume of resources was allocated (5,350 million Euros for the period 2000-2006). However, it was simultaneously decided to promote the improvement of the private initiative in the region even further. To this end, the mandate of the EIB in the region was enlarged, which would now have 6,400 million Euros (which the EIB can invest in soft loans in the countries of the area, and 1,000 million Euros, to be put at the disposal of the institution from the community budget).

Although it is still early to execute an analysis of the success or failure of the MEDA II Programme and the new resources managed by the EIB, the figures seem to indicate that the initiatives of the EIB are bearing fruit, as we can observe in the reactivation of the FDI in some countries.

We should also note that during the Spanish Presidency of the institution in the first half of 2002, the cooperation of the EU with the countries signing the association agreements was relaunched, which culminated in a proposal for the creation of a Mediterranean Development Bank. Although this proposal was rejected, the creation of a new financial scheme (the FEMIP)[3] was finally achieved, with the objectives of contributing to the sustainable growth of the countries in the region, reducing the unemployment rates, and encouraging a greater level of integration and fight poverty. In particular, the FEMIP aims to encourage the economic activity of small and medium sized companies by facilitating access to loans and new funding schemes (risk capital companies, guarantee companies, and so on).

In financial terms this institution was created as a direct link to the EIB, and the objective of the FEMIP was to invest between 8,000 and 10,000 million Euros before 2006 – around 7,000 million Euros from its own resources and 250 million in risk capital (derived from the community budget). It would also manage around 100 million Euros in

[2] See the publications of the European Commission on the results of the different programmes: *Annual Report of the MEDA Program*, 1999, 2000, *MEDA Global Allocation Evaluation*, 02/2001.

[3] One year after it was put into practice, the feasibility of this scheme or the creation of a new one was to be studied, based on an analysis of the functioning of the FEMIP. Finally, in the Naples Summit of November 2003, it was agreed to postpone the decision until 2006.

technical assistance (also provided by the community budget).
As is logical, it is still early for an accurate analysis of the results shown by these initiatives. However, we already have some figures at our disposal, to make some kind of assessment. Firstly, we should note that in 2002 alone the loans granted by the EIB to the countries in the region amounted to the record figure of 1,800 million Euros. The data on FDI (in many cases, projects linked to the funding of the EIB) seems to indicate that private companies have decided to invest in some of the countries.

TABLE 8 **Total loans to MEDA countries, EIB** *(millions of Euros)*

Year	Total loans	Loans to the private Sector	%	Risk capital
2000	1,214	148	12.17	21
1999	802	114	14.25	56
1998	886	198	22.36	86
1997	1,122	157	13.95	0
1996	681	57	8.37	5

Source: EIB.

TABLE 9 **EIB loan**

by project size, in millions of Euros (excluding global loans)

Size	No. of projects	%
> 200	5	1.45
150-200	8	2.31
100-150	9	2.60
50-100	53	15.32
20-50	109	31.50
15-20	29	8.38
10-15	30	8.67
5-10	40	11.56
1-5	47	13.58
<1	16	4.62
Total	346	
Global loans	131	
Total	477	

Source: EIB.

TABLE 10 **EIB loans per sector**

Sector	Euros	%
Basic Infras.	465,000,000	3.44
Energy	3,592,544,680	26.58
Agriculture	183,600,000	1.36
Global loans	2,234,194,091	16.53
Health, education	150,000,000	1.11
Industry	1,554,415,661	11.50
Services	90,868,000	0.67
Telecommunications	165,000,000	1.22
Transport	2,592,623,000	19.18
Urban Infras.	10,000,000	0.07
Water, sewer system	2,479,945,500	18.35
Total	13,517,827,332	

Source: EIB.

However, we should remember that the objective of the FEMIP and EIB initiatives was to allow an improvement in the economic situation, and in particular to help reduce unemployment rates and the scale of poverty. Although it seems, at an aggregate level, that the expectations are relatively optimistic (as indicated by the figures on FDI), the impact that these initiatives will have on the creation of employment is not yet clear.
If we analyse the destination of the projects funded by the FEMIP in 2002, we will be able to observe how most of the projects are quite extensive. Only 4.62 percent of the projects is for a value lower than one million Euros. This would indicate that most of the resources are not exploited by small and medium sized businesses.
However, we should specify that these figures refer to the total of resources, excluding the denominated global loans, which are resources managed by intermediate institutions, and are directed to the small and medium sized businesses. The resources destined to this objective represent only 16.53 percent of the total resources.
With this we would like to conclude that the success of the EIB and the FEMIP interventions for the creation of employment and the reduction of poverty will depend on the destination of these resources. Insofar as the resources continue to be destined to the funding of works on basic infrastructures, environmental projects, energy projects or the funding of big projects in the private sector and few resources are destined to the small and medium sized companies, the effects can be reduced in economies in which the agricultural sector is very important (a sector which has not yet received an appropriate treatment in the field of relations with the EU) and with a private sector dominated by the presence of smaller companies, which in some countries employ the majority of workers.