

# COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN PARLIAMENT

ON THE IMPLEMENTATION

OF FINANCIAL AND TECHNICAL COOPERATION WITH MEDITERRANEAN NON MEMBERS

COUNTRIES AND ON FINANCIAL COOPERATION WITH THOSE COUNTRIES AS A GROUP

PREAMBLE

1. In line with Article 10(4) of Council Regulation (EEC) No 1762/92 of 29 June 1992, the purpose of this document is to give a progress report on projects financed in the Mediterranean countries from the Community budget and EIB funds.
  
2. In addition to financial and technical cooperation governed by individual financial protocols, the New Mediterranean Policy (NMP) adopted by the Council on 18 December 1990 extended financial cooperation with Mediterranean non-member countries to embrace activities involving all those countries as a group. This document will also report on the implementation of the new instrument, which entered into force in 1992, in accordance with Article 10(1) of Council Regulation (EEC) No 1763/92 of 29 June 1992.
  
3. The report covers cooperation between the Community and the northern Mediterranean countries, cooperation with the southern and eastern Mediterranean countries (implementation of the first three generations of financial protocol, plus introduction of a fourth generation), and finally the "horizontal" cooperation launched in 1992.
  
4. The report contains an overview of financial and technical cooperation going back to the first protocols (1978) in order to give a full picture of such cooperation right up to the present day. From next year, only cooperation taking place in the year in question will be covered.

NORTHERN MEDITERRANEAN

I. INTRODUCTION

1. Turkey was the first northern Mediterranean country to sign a financial protocol with the Community, as an annex to the association agreement concluded on 12 September 1963. The Turks were followed by Malta in 1978, and then Cyprus in 1979, in accordance with the provisions of the association agreements concluded with those countries in 1970 and 1972 respectively.

Slovenia is not taken into account here; it is the only new republic of former Yugoslavia to have benefited from a financial protocol in force in the course of 1993, amounting to ECU 20 million in budget funds and ECU 150 million in EIB funds.

Financial protocols are in principle concluded for a period of five years, and are designed to promote the development of the countries concerned and economic cooperation in the areas targeted by the contracting parties.

2. In the period 1965-93, the Community made a total of ECU 934.5 million available for development activities under three generations of financial protocols. This total comprised ECU 672.5 million from the Community budget, and ECU 262 million from EIB funds.

3. Fourth-generation financial protocols for a further five-year period are due to be negotiated with Malta and Cyprus this year. The fourth financial protocol with Turkey, which ought to have come into force in 1981, remains suspended for political reasons.

During the period covered by the first three financial protocols, EIB loans to the countries concerned benefited from a 2% interest rate subsidy.

4. The type of budget funds deployed has changed over the years, in that, in addition to grants, the first two financial protocols also provided soft loans (at 1% over 40 years, with 10 years' grace). The third protocols with Malta and Cyprus saw the introduction of risk capital, primarily for the development of the banking sector in those two countries.

II. IMPLEMENTATION OF FINANCIAL AND TECHNICAL COOPERATION UNDER THE FIRST THREE FINANCIAL PROTOCOLS WITH THE NORTHERN MEDITERRANEAN COUNTRIES (1965-93)

1. General

1.1. Implementation of the first three protocols has, on the whole, proceeded satisfactorily. The first two protocols have both been wholly committed, with respective disbursement rates of 100% and 98%. The third protocols are 96% committed, with 95% disbursed.

1.2. There are certain differences between the northern Mediterranean countries, with implementation proceeding more rapidly in Turkey and Malta and more slowly in Cyprus, for administrative reasons.

1.3. As regards the structure of the financial protocols, the proportion of EIB funds increased slightly over the three protocols (by 16%, 24% and 38% respectively). The third protocols also saw the introduction of risk

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capital (Cyprus: ECU 5 million; Malta: ECU 2.5 million) primarily targeting the banking sector.

1.4. Budget funds allocated to the northern Mediterranean countries under the financial protocols have primarily been channelled into infrastructure (45%), energy (26%, including construction of thermal power stations), trade, and industry and services (22%).

## 2. Country-by-country analysis

### 2.1. CYPRUS

Under the first three financial protocols, covering the period between 1979 and 1993, Cyprus received a total of ECU 136 million, comprising ECU 92 million from the EIB and ECU 44 million from the Community budget.

All the **budget funds** allocated under the first two protocols went to urban infrastructure projects benefiting both of the island's communities (sewage systems, drains, improvements), while the third protocol was used to promote the integration of Cyprus's economy with that of the Community.

The **risk capital** (ECU 5 million) input primarily took the form of a general loan to the banking sector to provide support to Cypriot SMEs associated with European partners. ECU 100 000 was used to secure a direct EIB holding on behalf of the Community in the Cyprus Development Bank.

**EIB funds** were channelled into the water, energy and industry sectors via a general loan.

Overall, the implementation of financial and technical cooperation with Cyprus has progressed satisfactorily: 77% of the ECU 44 million in budget funds has been committed, with 94% disbursed, while 68% of the EIB funds have been committed, with 87% disbursed.

### 2.2. MALTA

The three financial protocols concluded between the Community and Malta since 1978 have provided a total of ECU 93.5 million, consisting of ECU 55 million in EIB funds and ECU 38.5 million in budget funds.

The bulk of the **budget funds** allocated has gone to telecommunications infrastructure, particularly under the first two protocols. More recently, the emphasis has been on aligning the Maltese economy with the Community's (standardization), developing tourism and protecting the marine environment.

The ECU 2.5 million **risk capital** allocation under the third protocol took the form of a general loan to the banking sector.

**EIB funds** have been channelled into transport (40%) and telecommunications infrastructure (20%), and the environment (desalination, waste).

Commitment rates: budget funds (ECU 38.5 million) - 100%; EIB funds (ECU 55 million) - 100%. Disbursement rates: budget - 57%; EIB - 76%.

### 2.3. TURKEY

Between 1963 and 1981 Turkey received ECU 705 million, of which ECU 590 million in budget funds (not counting the ECU 75 million in special assistance granted outside the protocol in 1981) and ECU 115 million in EIB funds.

Budget funds went chiefly to the infrastructure, energy and industrial sectors (47%, 29% and 22% respectively), while EIB funds were allocated mainly to the industrial sector (91%), with the balance going to the energy sector.

EIB and budget funds were committed and disbursed in full.

SOUTHERN AND EASTERN MEDITERRANEAN**I. INTRODUCTION**

1. Since 1978, when the cooperation agreements concluded with the Southern and Eastern Mediterranean (SEM) countries entered into force,<sup>1</sup> the Community has used the associated five-year financial protocols to contribute to the development of those countries and to economic cooperation with them in the sectors targeted by the contracting parties.

2. Over the period covered by the first three financial protocols (1978-91),<sup>2</sup> the Community contributed a total of ECU 3 169 million, consisting of ECU 1 337 million in budget funds (42%) and ECU 1 832 million from the EIB (58%).

3. The fourth generation of financial protocols entered into force in 1992, and covers the period ending on 31 October 1996.

During the period covered by the first three financial protocols, EIB loans to the countries concerned benefited from a 2% interest rate subsidy. This arrangement became optional for the fourth protocols, with only Egypt and Jordan choosing to retain it.

In view of Israel's level of economic development, it has not been eligible for subsidized EIB loans.

4. The type of budget funds deployed has changed over the years, in that, in addition to grants, the first two financial protocols also provided soft loans (at 1% over 40 years, with 10 years' grace).

The third protocols saw the introduction of risk capital to promote joint ventures between Community and SEM companies. This trend was consolidated in the fourth generation of protocols, which - as part of the NMP - also introduced a special allocation designed to support the structural adjustment policies adopted by several of the countries concerned.

The total of ECU 2 075 million was allocated under the fourth protocols, including ECU 775 million (37%) from the Community budget. An additional ECU 300 million has been made available from budget funds to support economic reform in countries carrying out structural adjustment programmes. The total contribution under the fourth protocols is 47% higher than the previous generation.

**II. IMPLEMENTATION OF FINANCIAL AND TECHNICAL COOPERATION UNDER THE FIRST THREE FINANCIAL PROTOCOLS WITH THE SEM COUNTRIES (1978-91)****1. General**

1.1. Implementation of the first three protocols has, on the whole, proceeded satisfactorily. At 31 December 1993, the first and second protocols were almost entirely committed (99%), with disbursement rates of 95% and 81% respectively. For the third protocol, the figures were 90%

1 The SEM countries are: Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Syria and Tunisia.

2 First financial protocol: 1978-81; second protocol: 1982-86; third protocol: 1987-91.

(commitment) and 43% (disbursement).

1.2. There are significant differences between the SEM countries, with implementation generally proceeding more rapidly in Jordan, Morocco and Tunisia than in the other countries, for either administrative or political (e.g. Lebanon) reasons. The picture for the third protocol as a whole is influenced by Syria, where the third protocol finally got under way in January 1993.

1.3. The proportion accounted for by Community budget funds has declined slightly over the years, from an initial 48% to 40% for the third protocols, which also saw the replacement of soft loans (at 1% over 40 years, with 10 years' grace) with risk capital designed to support the industrial sector, particularly SMEs, through joint venture projects. The risk capital allocation for the SEM countries as a whole rose from ECU 37 million in the third protocols to ECU 80 million in the fourth.

1.4. The priority sectors for budget funds have been infrastructure (including sewage systems), agriculture and rural development, and vocational training, although there are differences from country to country, dictated by individual national development priorities.

## 2. Country-by-country analysis

### 2.1. ALGERIA

Between 1978 and 1991 Algeria received a total of ECU 504 million under the first three financial protocols, comprising ECU 360 million in EIB funds and ECU 144 million from the Community budget. The relatively small proportion of the total package accounted for by Community funds (28%) is due to Algeria's wealth of natural resources, reflected in a per capita GDP that is higher than that of the other countries of the region.

The budget funds allocated under the first two protocols targeted scientific cooperation projects and vocational training. The third protocol continued the support for scientific cooperation, while also backing several projects directly linked to rural development and SMEs.

The third protocol's ECU 4 million risk capital package was used for a conditional loan (energy sector studies) and to secure a direct EIB holding (on behalf of the Community) in FINALEP, a specialized finance company, which was also granted a credit facility.

The lion's share of the EIB funds (59%) went on basic infrastructure projects (including urban sewage systems), with irrigation projects accounting for 29% and the energy sector for the remaining 12%.

Implementation of the first three protocols has been markedly slower than the SEM average, primarily as a result of administrative shortcomings on both sides.

The ECU 144 million in budget funds has been 89% committed, with 42% disbursed. For the EIB funds (ECU 360 million), the figures are 100% and 48% respectively.

### 2.2. EGYPT

Between 1978 and 1991, Egypt received a total of ECU 895 million, consisting

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of ECU 492 million from the EIB and ECU 403 million (46%) from the Community budget. Egypt alone accounted for a little less than 30% of the total Community contribution.

The **budget fund** allocation was targeted at environmental (particularly sewage) infrastructure projects (33% of the total), and support for agriculture (32%) and industry (25%), notably by means of sectoral programmes and credit facilities.

The ECU 11 million contributed in **risk capital** was mostly used to acquire indirect stakes in Egyptian companies associated with European partners; ECU 8 million was invested in this way in three industrial and agro-industrial ventures and one project in the tourism sector. The balance was used to set up a credit facility at the Export Development Bank of Egypt to finance direct holdings in Egyptian SMEs associated with European partners.

Around 50% of the **EIB loans** went to the energy sector (electricity and gas distribution), with 28% going to industrial development through general loans benefiting SMEs and direct loans for larger projects. The environment and agriculture were the other main sectors to benefit.

Implementation was slow to get started, but picked up considerably once it was under way. Nearly all the ECU 403 million allocation (99.5%) has been committed, with a disbursement rate of 57%. For the ECU 492 million in EIB funds, the figures are 100% and 74% respectively.

### 2.3. ISRAEL

Given its level of development, Israel has received only **EIB loans**, totalling ECU 30 million, 40 million and 63 million respectively for the first three financial protocols.

These loans were allocated in the form of credit facilities for the Industrial Development Bank of Israel to finance SMEs active in the industrial and tourist sectors (around 85% of the total), the balance going to environmental projects.

These funds have been committed in their entirety, with a disbursement rate of 96%.

### 2.4. JORDAN

Under the first three protocols, Jordan received a total of ECU 203 million, comprising ECU 118 million from the EIB and ECU 85 million (42%) from the budget.

The **budget funds** were primarily channelled into agriculture and education (vocational training and technical and scientific back-up at university level, in line with national development priorities).

The **risk capital** input (ECU 2 million) was channelled through the Industrial Development Bank to boost the equity of companies originally from the Gulf countries which had set up in Jordan as a result of the conflict of 1990-91.

The **EIB loans** were distributed among the following sectors: industry (31%), infrastructure/drinking water (36%), energy (22%) and agriculture (agricultural loans, 11%).



Jordan is one of the quickest and most efficient countries in implementing the protocols. The ECU 85 million in budget funds has been wholly committed, with ECU 62 million (73%) disbursed, while the corresponding figures for the EIB funds are 100% and 92%.

#### 2.5. LEBANON

Implementation of the financial protocols concluded with Lebanon has been influenced by the war there.

The budget funds allocated under the first two protocols (ECU 26 million) have been committed in their entirety, with a disbursement rate of 54%. Nearly three quarters of these funds have been channelled into the education sector, particularly primary education (construction and rehabilitation)

The EIB, having suspended its activities in Lebanon in 1982, re-established its operational contacts at the beginning of 1992.

The **EIB funds** committed under the first protocol (ECU 20 million) were allocated to the energy sector, while for the second and third protocols the emphasis was on reconstruction, embracing the energy sector, port infrastructure and rehabilitation of the water distribution and sewage systems. ECU 16 million is as yet uncommitted under the third protocol.

#### 2.6. MOROCCO

During the period 1978-91, Morocco received ECU 653 million under the first three financial protocols, comprising ECU 297 million in EIB loans and ECU 356 million (55%) from Community funds, the size of the latter figure being explained by Morocco's low per capita GNP.

The **budget funds** were allocated to social and agricultural water engineering projects, vocational training, technical and scientific cooperation, agricultural loans and insect pest control measures.

Most of the **risk capital** was used to extend an open loan to the Moroccan banking sector as a whole to boost the equity of Moroccan businesses associated with European partners. The EIB also helped set up a specialized finance company.

The **EIB loans** primarily went to agricultural and irrigation projects (47%) and the energy sector (28%), with the balance being distributed among port infrastructure projects, urban sewage systems and the industrial sector.

The first three protocols have been almost wholly committed, with disbursement rates of 80% for budget funds and 76% for EIB loans.

Commitment and implementation has been rapid and - as in Jordan and Tunisia - generally highly efficient.

#### 2.7. SYRIA

Financial and technical cooperation with Syria has been strongly influenced by political problems between the Community and that country. It was not possible to implement the third protocol until January 93.

The **budget funds** were targeted at road infrastructure, agriculture and rural development, scientific cooperation and vocational training.

The **EIB loans** under the first two protocols went entirely to the energy sector (28%) and road and agriculture infrastructure projects (for which budget funds were used to finance studies and technical assistance).

The Syrian authorities have requested that the entire third protocol (not yet programmed) be channelled into the electricity generating sector, where the chronic shortage of capacity is seriously undermining the country's economic development.

The ECU 59 million in budget funds and ECU 98 million in EIB loans allocated under the first two protocols have been wholly committed, with 76% disbursed (70% for the former, 80% for the latter).

As for the third protocol, it has been possible to commit only 22% of the budget funds, out of a total allocation of ECU 36 million in budget funds and ECU 110 million in EIB loans.

Implementation has been fairly slow compared to the SEM average.

## 2.8. TUNISIA

Between 1978 and 1991, Tunisia received a total of ECU 458 million under the first three financial protocols, comprising ECU 208 million in budget funds (45%, similar to Egypt) and ECU 250 million in EIB loans.

The lion's share of the **budget funds** went to help the agriculture and rural development sector (52%), while social infrastructure (including sewage systems) and support for SMEs and trade promotion each accounted for a further 17%. The environment and public health sectors together received just under 11%.

ECU 6 million in **risk capital** was channelled through the Banque de Développement Economique de Tunisie into strengthening the equity base of Tunisian SMEs associated with European partners.

Around 44% of the **EIB funds** allocated went to agricultural development in the form of general loans. The other sectors to benefit were industry and tourism (25% in the form of credit facilities), the environment (17%) and infrastructure (14%).

Implementation has been very fast and efficient. The full ECU 208 million in Community budget funds has been committed, with ECU 176 million (85%) disbursed. The corresponding figures for EIB loans are 100% and 77%.

## III. IMPLEMENTATION OF THE FOURTH FINANCIAL PROTOCOLS CONCLUDED WITH THE SEM COUNTRIES (1992-96)

### 1. General

The fourth generation of financial protocols forms part of the New Mediterranean Policy (NMP), the guidelines for which were adopted by the Council in December 1990. The protocol with Tunisia was the first to enter into force, on 1 February 1992, followed by all the other SEM countries on

1 March 1992, with the exception of Morocco and Syria, Parliament having failed to endorse their protocols in January. This endorsement was finally obtained in October, and Morocco's fourth, and Syria's third, financial protocols entered into force in 1993.

## 2. Features

2.1. Altogether, ECU 2 075 million was allocated to the fourth protocols, an increase of 28% on the previous generation. However, counting the special allocation of ECU 300 million provided by the NMP to support structural adjustment programmes implemented by SEM countries, the total increase was 47%.

2.2. With a view to boosting industrial cooperation by bringing SEM and Community companies together, the risk capital envelope was increased from ECU 37 million to ECU 80 million.

2.3. As regards sectoral programming, in addition to the continuing emphasis on rural development, socio-economic infrastructure and training, the use of budget funds in the fourth protocols focuses more on measures to accompany the economic reform policies implemented by several Mediterranean countries.

2.4. The allocation of ECU 300 million to support economic measures in SEM countries implementing structural reforms is an innovation introduced by this generation of protocols.

A limited amount from the funds allocated under the fourth financial protocols (1992-96) may also be made available for this purpose.

Community aid takes the form of financing for general and sectoral import and technical assistance programmes linked to macro-economic and sectoral support programmes. The counterpart funds generated by the import programmes are used to finance measures to palliate the negative social repercussions of the adjustment process, particularly through job creation schemes targeting the underprivileged.

Funds are distributed on the basis of parameters indicating structural imbalances and long-term development requirements.

2.5. Only Egypt and Jordan opted for interest rate subsidies on EIB loans from budget funds.

2.6. The implementation of the fourth protocols got under way in 1992. By the end of December 1993, 32% of the funds (including EIB loans) had been committed, with 15% disbursed. For the structural adjustment allocation, ECU 195 million of the ECU 300 million (65%) had been committed, with ECU 130 million (67%) disbursed.

## 3. Country-by-country analysis

### 3.1. ALGERIA

Algeria's overall allocation increased by 46% against the previous protocol, the biggest percentage rise. EIB loans increased by 53% from ECU 183 million to ECU 280 million, while the budget fund allocation rose by 25%. Risk capital input designed to encourage the growth of SMEs rose from ECU 4 million to ECU 18 million.

The targets agreed for the **budget funds** (excluding **risk capital**, which is managed by the EIB and has not yet been assessed) are as follows:

- nearly ECU 30 million for a programme to import agricultural inputs;
- ECU 15 million for a structural adjustment programme (social accommodation), to add to the ECU 55 million from the structural adjustment facility;
- the balance will be used to support SMEs and to provide technical assistance.

Algeria is receiving ECU 70 million to support its social accommodation reform programme, with ECU 55 million (ECU 20 million disbursed) from the special allocation of ECU 300 million and ECU 15 million from budget funds allocated under the fourth financial protocol.

The support will take the form of a sectoral programme to import the materials required for the completion of the social accommodation programme, with counterpart funds being used to finance measures to refurbish, rehabilitate and build accommodation.

Around 55% of the **EIB loan** allocation will go to water management, with the balance being distributed between the energy sector and financing for other economic infrastructure projects.

At the end of 1993, 29% of these EIB funds had been committed to the water sector, while a major road project, accounting for 35% of the protocol allocation, was approved in November 1993.

At that stage, 66% of the budget funds were committed (33% disbursed), while the figure for EIB loans was 36%.

### 3.2. EGYPT

Egypt's allocation rose 27% to ECU 568 million, the biggest package of all the SEM countries, with budget funds increasing by 29% to ECU 258 million, and EIB loans 24%.

Egypt opted for a 2% interest rate subsidy from budget funds.

At the programming stage, the following sectors were selected as priority targets for **budget funds**:

- support for economic reform programme;
- support for agriculture.

It was decided to distribute the **EIB loans** as follows:

- 40% for economic infrastructure;
- 40% for energy (particularly electricity)
- 20% for the industrial sector.

A first **risk capital** operation, to be signed at the beginning of 1994, will take the form of a ECU 5 million credit facility at the Commercial International Bank to boost the equity of Egyptian businesses associated with European companies.

At the end of 1993, 24% of the budget funds and 15% of the EIB funds had

been committed, with 75% going to industry and 25% to electricity. Other projects, accounting for 27% of the total available, were approved and are to be signed at the beginning of 1994.

### 3.3. ISRAEL

As with the previous protocols, Israel's EIB allocation will partly be used for a general loan to the Industrial Development Bank of Israel to finance SMEs and small-scale environmental projects. The balance will be channelled into larger-scale environmental projects.

At the end of 1993, 41% of the funds had been committed, with 32% disbursed.

### 3.4. JORDAN

Under the fourth financial protocol, Jordan will receive ECU 126 million, comprising ECU 46 million in budget funds (including ECU 2 million in risk capital) - up 24% on the previous protocol - and ECU 80 million in EIB loans (+27%).

Jordan has opted for a 2% interest rate subsidy on its EIB loans.

As in the past, the budget fund allocation will primarily be used in the water sector, where the situation is precarious, and in education.

ECU 10 million will be added to the adjustment allocation of ECU 40 million to support the economic reform programme Jordan is implementing in close cooperation with the World Bank and the IMF. The counterpart funds will be channelled into health, education, water and roads projects, with particular emphasis on job creation.

The ECU 80 million EIB package will be distributed as follows:

- 40% for improving water supply systems and waste water treatment;
- 30% for economic infrastructure (electricity and transport);
- 20% for industry;
- 10% for agriculture.

At the end of 1993, 30% of the EIB funds were committed, with 63% going to a road project and 37% to irrigation water supply projects. A fourth operation (a credit facility to finance SMEs accounting for 12% of the protocol total) was approved at the end of the year.

A ECU 2 million risk capital operation to boost the equity base of Jordanian businesses through the IDB was also approved at that time.

As with previous financial protocols, implementation has been rapid: by 31 December 1993, 57% of budget funds and 30% of EIB funds had been committed, with 20% disbursed.

### 3.5. LEBANON

The third and fourth financial protocols were programmed jointly by the Commission and the EIB in October 1992, the third protocol having been postponed on account of the war and the resulting lack of organization and administration.

The allocations were as follows:

3rd protocol: ECU 73 million, comprising ECU 53 million in the form of EIB loans and ECU 20 million in budget funds; 4th protocol: ECU 69 million, comprising ECU 45 million in EIB loans and ECU 24 million in budget funds.

The programming exercise allocated around 35% of the **EIB loans** to transport infrastructure, 25% to the energy sector and 25% to drinking water distribution and sewage systems, with the balance going to economic infrastructure.

At the end of 1993, 82% of the **budget funds** had been committed, with nearly ECU 6 million going to war damage assessment studies covering all the sectors targeted by Lebanon's reconstruction programme, and ECU 30 million to technical assistance to the Lebanese government. The main donors feel that the technical assistance project will guarantee the efficiency of their own aid programmes.

The bulk of operations are aimed at underpinning the process of rehabilitating the country's public services.

At the end of the year, ECU 37 million in EIB funds had been committed under the third protocol.

### 3.6. MOROCCO

The fourth financial protocol failed to receive Parliament's endorsement at its first reading in January 1992, eventually being approved in October that year.

The overall package of ECU 438 million is up 35% on the third protocol total, with the budget fund allocation rising 26% and EIB loans 46%. At ECU 25 million, Morocco also has the largest risk capital envelope of the SEM countries.

In December 1992, a joint Commission/EIB team visited Morocco to draw up the indicative programme.

The **budget fund** allocation administered by the Commission totals ECU 193 million, broken down as follows:

- 68% rural development;
- 17% vocational training and economic reform;
- 15% transfers of know-how and support for economic reforms.

The ECU 25 million **risk capital** envelope will primarily be used to boost the equity of Moroccan businesses, particularly those associated with Community companies. Following on from the work carried out under the third protocol, a loan of ECU 20 million channelled through the Moroccan finance sector was approved in December 1993.

Morocco is also receiving ECU 80 million in Community support for its structural adjustment programme. The ECU 60 million allocation from the special structural adjustment envelope will be supplemented with ECU 20 million from budget funds. Counterpart funds will be used to palliate the negative social impact of the adjustment programme by boosting public spending in the health and education sectors.

The distribution of the ECU 220 million in **EIB loans** agreed with the Moroccan authorities is as follows:

- 45% for agriculture and irrigation projects;
- 40% for economic infrastructure such as electricity and drinking water distribution;
- 15% for industry.

At the end of the year, 50% of the EIB funds had been committed (23% to an agricultural credit facility, 27% to the energy sector), while a drinking water distribution operation accounting for 18% of the protocol was approved in November 1993.

Of the 11% (ECU 25 million) of the budget funds committed, 80% (ECU 20 million) has been disbursed.

### 3.7. SYRIA

The fourth financial protocol has been formally ratified on 24.01.1994.

### 3.8. TUNISIA

Tunisia will receive a total of ECU 284 million under the fourth protocol, consisting of ECU 116 million in budget funds (including ECU 15 million in risk capital) and ECU 168 million in the form of EIB loans. This represents a 27% increase on the third protocol.

Some 75% of the ECU 101 million in **budget funds** administered by the Commission will go to the agricultural sector (mobilization of water resources, water and soil conservation, support for agricultural production and safeguarding rural employment).

The industry and services sectors will receive 20% of these resources, with particular emphasis on vocational training projects. The balance of 5% will be used to finance studies and one-off measures.

Of the ECU 15 million in **risk capital** administered by the EIB, ECU 7 million has been committed and ECU 1 million disbursed via the Banque de Développement Economique de Tunisie to continue the work of the previous protocol by boosting the equity of Tunisian businesses.

During the programming of the fourth protocol, the Tunisian authorities asked the EIB to allocate its loans to rural development and water resource mobilization (45%), industry and tourism (40%) and the environment (15%).

Tunisia was the first country to receive a Community contribution to its structural adjustment programme. The ECU 40 million allocated from the special envelope of ECU 300 million was fully disbursed by 31 December 1993.

The counterpart funds are being used to finance integrated urban development programmes designed to soften the social impact of the adjustment process, notably through job creation schemes.

At the end of 1993, 53% of the budget funds were committed, with 45% disbursed. The figures for EIB funds at the same date were 71% committed (divided equally between industry/tourism and the water sector) and 19% disbursed.

COOPERATION WITH ALL MEDITERRANEAN NON-MEMBER COUNTRIES<sup>3</sup>I. INTRODUCTION

1. On 18 December 1990 the Council adopted a decision in principle on the Community's New Mediterranean Policy (NMP). Based on proposals put forward by the Commission on 1 June, the policy added new instruments to the Community's cooperation with the Mediterranean non-member countries, which had previously been limited to traditional and bilateral cooperation measures.

2. The relevant regulation, Council Regulation (EEC) No 1763/92, was adopted on 29 June 1992. Article 3 lays down the priority areas for "horizontal cooperation" with all the countries concerned as follows: regional cooperation, environment, demographic matters, encouragement of investment and the cultural dimension of development.

3. This is the main innovation of the NMP, the aim being to support measures benefiting the Mediterranean countries as a group. The importance attached by the Community to this aspect of our cooperation with the Mediterranean countries is underlined by the financial resources allocated to it. For the period 1992-96, the Council has earmarked ECU 230 million in budget funds and a further ECU 1 800 million in EIB funds.<sup>4</sup>

II. IMPLEMENTATION

Despite a slow start, a number of horizontal cooperation projects got off the ground in 1992; the following year some of these projects went into their second phases, and a number of new ones were launched.

The Community has been careful to balance out its input between the different regions and countries.

The principal innovation, at least in the Mediterranean basin, has been the increased emphasis on decentralized cooperation, which will be one of the main priorities targeted over the period ending in 1996.

1. Budget funds

The budget allocation (heading B7-4080) for 1992-93 was ECU 127.5 million in commitment appropriations and ECU 75.7 million in payment appropriations. By the end of 1993, ECU 110.93 million had been committed and ECU 41.76 million disbursed.<sup>5</sup>

The delayed adoption of the implementing regulation on 29 June 1992 explains why only 55% of the payment appropriations envisaged has been disbursed.

1.1. The projects, programmes and other measures financed by **budget funds** (see below for details) break down into the following sectors:

Environment 27%

- 3 i.e. the northern Mediterranean and SEM countries as a group.
- 4 Including ECU 500 million for environmental projects, which will benefit from an interest rate subsidy of 3%.
- 5 The initial allocation was reduced following transfers of funds to the Kurds and the Occupied Territories.



Decentralized cooperation	43%
Demography	9%
Culture/communication	3%
Risk capital (EIB managed)	8%
Microprojects	10%
	<hr/>
	100%

## 1.2. Main projects financed by budget funds:

1.2.1. In the environmental protection sector, the funds were used for interest rate subsidies on EIB loans.

Funding was also provided for the following projects:

- IMPHOS (World Phosphate Rock Institute), research on the removal of cadmium from phosphates;
- training activities with the European Water Institute, with particular emphasis on the management of waste water disposal;
- sewer network for the municipality of Raafa (Gaza).

In addition to these projects, financing was also provided for seminars and feasibility studies.

1.2.2. In the decentralized cooperation sector, Community budget funds were used to finance the following projects:

- MED-CAMPUS, a programme to support cooperation between Mediterranean and Community universities;
- MED-INVEST, a programme to support Mediterranean SMEs in association with Community SMEs and professional bodies;
- MED-URBS, a programme to support cooperation between Mediterranean and Community local authorities;
- MED-MEDIA, a programme to support Mediterranean and Community media organizations;
- MED-AVICENNE, a programme to support Mediterranean and Community research institutes;
- ICAMAS, a programme to support agricultural training and research institutions in the SEM countries.

These decentralized cooperation programmes are designed to set up cooperation networks bringing together those responsible for social and economic development, with a view also to creating and consolidating links between the Community and the Mediterranean countries, and among the Mediterranean countries themselves.

1.2.3. In the field of demography, a programme to create and improve family planning services and to carry out information and public awareness campaigns has been set up; it is being run by the NGO International Planned Parenthood Federation, working through family planning associations in the Mediterranean countries.

1.2.4. On the cultural front, financial support is being given to the EURONEWS station, more specifically for its broadcasts in Arabic.

1.2.5. The EIB allocated ECU 9 million in **risk capital** to finance part of European businesses' participation in joint venture projects. These funds were channelled through the risk capital financial management bodies

specified in the financial protocols.

## 2. EIB funds

At the end of December 1993, 18% of the total amount had been committed to four projects not covered by the protocols:

- an ECU 80 million loan to a telecommunications project in Morocco designed to develop the capacity of the international and national networks. Amongst other things, this project will help bring about a significant improvement in telecommunications links between Morocco and Europe.
- a loan of ECU 17 million (with a 3% interest rate subsidy) to the Tunisian "Office National d'Assainissement" (waste water disposal authority) to build, rehabilitate and extend treatment plants and sewer systems in three coastal towns. This investment will make a considerable contribution to improving the Mediterranean environment; the project will also channel much of the waste water into irrigation.
- a loan of ECU 200 million for the construction of the Algerian section of the Maghreb-Spain gas pipeline. This investment will finance the first section of a 1 870 km high-capacity natural gas pipeline linking Algeria's Hassi R'Mel gas fields to the distribution network in Spain and then other European countries via Morocco, the Straits of Gibraltar, Córdoba (Andalucía), Teruel (Aragón) and Castellón (Valencia). This project is a key component of the energy objectives pursued by the Community and the Maghreb countries. A further loan of ECU 438 million has been authorized by the EIB Governors to finance the section between Morocco and Spain;
- a loan of ECU 20 million for a telecommunications project in Jordan, to renew and extend international links with neighbouring countries and Europe.

The EIB has also approved an as yet unsigned loan of ECU 40 million for the construction of two effluent treatment plants and associated infrastructure in the Syrian coastal towns of Tartus and Latakia.

**CONCLUSION**

With the introduction of the New Mediterranean Policy and its innovative approach focusing on structural adjustment and cooperation with all the Mediterranean non-member countries as a group, the Community has plugged the cooperation gaps that had become apparent during the implementation of earlier financial protocols.

However, cooperation with the southern and eastern Mediterranean countries is by no means restricted to this type of action. The Community budget is financing a whole host of projects in these countries covering sectors ranging from science and energy to NGOs, while the European Community Investment Partners (ECIP) programme is starting to establish a solid presence in the Mediterranean basin.

Community financial support for the Occupied Territories and for refugees has been stepped up significantly over time, particularly in the wake of the headway made in the Middle East peace process, in which the Community has been playing a bigger role.

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FINANCIAL IMPLEMENTATION OF MEDITERRANEAN PROTOCOLS (NORTHERN MEDITERRANEAN)

(ECU m)

BUDGET 31.12.93 EIB 31.12.93	BUDGET					E.I.B					TOTAL PROTOCOL				
	TOTAL	Commitments		Payments		TOTAL	Commitments		Payments		TOTAL	Commitments		Payments	
		Value	% 1)	Value	% 2)		Value	% 1)	Value	% 2)		Value	% 1)	Value	% 2)
<b>PROTOCOL 1</b>															
TURKEY	178	178	100%	178	100%						178	178	100%	178	100%
CYPRUS	10	10	100%	10	100%	20	20	100%	20	100%	30	30	100%	30	100%
MALTA	10	10	100%	10	100%	18	18	100%	18	100%	28	28	100%	28	100%
<b>TOTAL</b>	<b>198</b>	<b>198</b>	<b>100%</b>	<b>198</b>	<b>100%</b>	<b>38</b>	<b>38</b>	<b>100%</b>	<b>38</b>	<b>100%</b>	<b>231</b>	<b>231</b>	<b>100%</b>	<b>231</b>	<b>100%</b>
<b>PROTOCOL 2</b>															
TURKEY	195	195	100%	195	100%	25	25	100%	25	100%	220	220	100%	220	100%
CYPRUS	18	18	100%	16	84%	28	28	100%	28	100%	44	44	100%	43	98%
MALTA	13,5	13,5	100%	8,0	86%	18	18	100%	18	100%	29,6	29,6	100%	24,9	84%
<b>TOTAL</b>	<b>224,5</b>	<b>224,5</b>	<b>100%</b>	<b>218,9</b>	<b>98%</b>	<b>69</b>	<b>69</b>	<b>100%</b>	<b>69</b>	<b>100%</b>	<b>293,6</b>	<b>293,6</b>	<b>100%</b>	<b>287,9</b>	<b>98%</b>
<b>PROTOCOL 3</b>															
TURKEY	220	220	100%	220	100%	80	80	100%	80	100%	310	310	100%	310	100%
CYPRUS	18	7,7	43%	6,7	87%	44	16	34%	7,2	48%	82	22,7	37%	13,9	61%
MALTA	15	15	100%	3,1	21%	23	23	100%	10	43%	38	38	100%	13,1	34%
<b>TOTAL</b>	<b>253</b>	<b>242,7</b>	<b>98%</b>	<b>229,8</b>	<b>95%</b>	<b>157</b>	<b>128</b>	<b>82%</b>	<b>107,2</b>	<b>84%</b>	<b>410</b>	<b>370,7</b>	<b>90%</b>	<b>337</b>	<b>81%</b>

## FINANCIAL IMPLEMENTATION OF MEDITERRANEAN PROTOCOLS 1-3 (SEM)

ANNEX 2

BUDGET: 31/12/93 EIB: 31/12/93	BUDGET					EIB					TOTAL PROTOCOL				
	TOTAL	Commitments		Payments		TOTAL	Commitments		Payments		TOTAL	Commitments		Payments	
		Value	% 1)	Value	% 2)		Value	% 1)	Value	% 2)		Value	% 1)	Value	% 2)
<b>PROTOCOL 1/1978-1981</b>															
MOROCCO	74	74	100%	74	100%	56	56	100%	56	100%	130	130	100%	130	100%
ALGERIA	44	38	86%	27	71%	70	70	100%	70	100%	114	108	95%	87	80%
TUNISIA	54	54	100%	53	98%	41	41	100%	41	100%	95	95	100%	94	99%
MAGHREB	172	166	97%	154	93%	167	167	100%	167	100%	339	333	98%	321	96%
EGYPT	77	77	100%	64	83%	93	93	100%	93	100%	170	170	100%	157	92%
LEBANON	10	10	100%	6	60%	20	20	100%	20	100%	30	30	100%	26	87%
JORDAN	22	22	100%	22	100%	18	18	100%	18	100%	40	40	100%	40	100%
SYRIA	26	26	100%	26	100%	34	34	100%	34	100%	60	60	100%	60	100%
MASHREQ	135	135	100%	118	87%	165	165	100%	165	100%	300	300	100%	283	94%
ISRAEL						30	30	100%	30	100%	30	30	100%	30	100%
<b>TOTAL</b>	<b>307</b>	<b>301</b>	<b>98%</b>	<b>272</b>	<b>90%</b>	<b>362</b>	<b>362</b>	<b>100%</b>	<b>362</b>	<b>100%</b>	<b>669</b>	<b>663</b>	<b>99%</b>	<b>634</b>	<b>96%</b>
<b>PROTOCOL 2/1981-1988</b>															
MOROCCO	109	108	99%	100	93%	90	90	100%	90	100%	199	198	99%	190	96%
ALGERIA	44	34	77%	18	47%	107	107	100%	76	71%	161	141	83%	82	65%
TUNISIA	61	61	100%	59	97%	78	78	100%	71	91%	139	139	100%	130	94%
MAGHREB	214	203	96%	175	86%	275	275	100%	237	86%	469	478	98%	412	80%
EGYPT	126	124	98%	94	76%	150	150	100%	150	100%	276	274	99%	244	89%
LEBANON	16	16	100%	8	50%	34	34	100%	9	28%	60	50	100%	17	34%
JORDAN	28	26	100%	22	85%	37	37	100%	37	100%	83	83	100%	59	94%
SYRIA	33	33	100%	15	45%	64	64	100%	44	69%	97	97	100%	59	61%
MASHREQ	201	199	99%	139	70%	286	286	100%	240	84%	486	484	100%	379	78%
ISRAEL						40	40	100%	40	100%	40	40	100%	40	100%
<b>TOTAL</b>	<b>416</b>	<b>402</b>	<b>97%</b>	<b>314</b>	<b>78%</b>	<b>600</b>	<b>600</b>	<b>100%</b>	<b>517</b>	<b>86%</b>	<b>1015</b>	<b>1002</b>	<b>99%</b>	<b>831</b>	<b>83%</b>
<b>PROTOCOL 3/1988-1991</b>															
MOROCCO	173	172	99%	111	65%	151	151	100%	80	53%	324	323	100%	191	59%
ALGERIA	56	56	100%	11	20%	183	183	100%	28	15%	239	239	100%	39	16%
TUNISIA	93	93	100%	64	69%	131	131	100%	81	62%	224	224	100%	145	65%
MAGHREB	322	321	100%	186	58%	465	465	100%	189	41%	787	786	100%	376	48%
EGYPT	200	200	100%	72	36%	249	249	100%	123	49%	448	448	100%	195	43%
LEBANON	20	19	95%	5	26%	53	37	70%	-	-	73	56	77%	5	9%
JORDAN	37	37	100%	18	49%	63	63	100%	54	86%	100	100	100%	72	72%
SYRIA	36	8	22%			110					148	8	5%		
MASHREQ	293	264	90%	95	38%	475	349	73%	177	51%	768	613	80%	272	44%
ISRAEL						63	63	100%	57	90%	63	63	100%	57	90%
<b>TOTAL</b>	<b>616</b>	<b>586</b>	<b>96%</b>	<b>281</b>	<b>48%</b>	<b>1003</b>	<b>877</b>	<b>87%</b>	<b>423</b>	<b>48%</b>	<b>1618</b>	<b>1462</b>	<b>90%</b>	<b>704</b>	<b>48%</b>

1) Commitments/Total. 2) Payments/Commitments. Includes current commitments.

Dec. 1993

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FINANCIAL IMPLEMENTATION OF FOURTH MEDITERRANEAN PROTOCOLS (SEM)

1. BILATERAL COMPONENT

(1991 - 1998)

BUDGET: 31/12/93 EIB: 31/12/93	BUDGET					EIB					TOTAL PROTOCOL				
	TOTAL	Commitments		Payments		TOTAL	Commitments		Payments		TOTAL	Commitments		Payments	
		Value	% 1)	Value	% 2)		Value	% 1)	Value	% 2)		Value	% 1)	Value	% 2)
MOROCCO	218	25	11%	20	80%	220	110	50%	6	5%	438	135	31%	28	19%
ALGERIA	70	46	66%	15	33%	280	100	36%			350	148	42%	16	10%
TUNISIA	116	62	53%	28	45%	188	120	71%	23	19%	284	182	64%	51	28%
MAGHREB	404	133	33%	63	47%	688	330	49%	20	9%	1072	483	43%	92	20%
EGYPT	258	63	24%			310	47	15%			568	110	19%		
LEBANON	24	17	71%			45					89	17	26%		
JORDAN	48	28	57%	10	38%	80	24	30%			126	60	40%	10	20%
SYRIA	43					115					158				
MASHREQ	371	106	29%	10	9%	560	71	13%			921	177	19%	10	6%
ISRAEL						82	34	41%	11	32%	82	34	41%		
TOTAL	776	239	31%	73	31%	1300	436	33%	40	9%	2076	674	32%	102	15%

1.1 Risk capital (included in bilateral component)

BUDGET: 31/12/93 EIB: 30/09/93	TOTAL	Commitments		Payments	
		Value	% 1)	Value	% 2)
MOROCCO	25				
ALGERIA	18				
TUNISIA	16	7	47%	1	14%
MAGHREB	58	7	12%		
EGYPT	16				
LEBANON	2				
JORDAN	2				
SYRIA	2				
MASHREQ	22				
TOTAL	80	7	9%	1	

2. STRUCTURAL ADJUSTMENT

BUDGET: 31/12/93	TOTAL	Commitments		Payments	
		Value	% 1)	Value	% 2)
MOROCCO	60	60	100%	30	50%
ALGERIA	55	55	100%	20	36%
TUNISIA	40	40	100%	40	100%
MAGHREB	155	155	100%	90	58%
EGYPT					
LEBANON					
JORDAN	40	40	100%	40	100%
SYRIA					
MASHREQ	40	40	100%	40	100%
Reserve	105				
TOTAL	300	195	65%	130	67%

1) Commitments/Total 2) Payments/Commitments. Includes current commitments.

Sources: Pics and EIB (ECU million)

COOPERATION COVERING ALL MEDITERRANEAN NON-MEMBER COUNTRIES
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Implementation as at 31 December 1993  
(Budget funds)

<u>SECTOR OF ACTIVITY</u>	<u>COMMITMENTS (ECU million)</u>
<u>1. Environment</u>	
1.1. Interest rate subsidies (EIB loans)	13.59
1.2. IMPHOS - cadmium removal (phosphate)	1.10
1.3. ETW training	0.53
1.4. Gaza - sanitation project	15.00
<u>Total 1</u>	<u>30.22 (27%)</u>
<u>2. Decentralized cooperation</u>	
2.1. CIHEAM	3.00
2.2. MED-URBS	13.42
2.3. MED-CAMPUS	14.40
2.4. MED-INVEST	10.00
2.5. MED-MEDIA	4.94
2.6. MED AVICENNA	1.43
<u>Total 2</u>	<u>47.19 (43%)</u>
<u>3. Regional cooperation</u>	
3.1. Framework contract	0.50
3.2. Population	10.50
3.3. EURONEWS	3.00
3.4. Risk capital	9.00
3.5. Micro projects (*)	10.52
<u>Total 3</u>	<u>33.52 (30%)</u>
 <u>GRAND TOTAL</u>	 <u>110.93 (100%)</u>

(\*) MICRO PROJECTS

<u>SECTOR OF ACTIVITY</u>	<u>COMMITMENTS (ECU million)</u>	<u>%</u>
Technical assistance	2.28	21.7
Studies	3.56	33.8
Trade promotion	0.16	01.5
Training, seminars	4.52	43.0