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REPORT FROM THE COMMISSION

**ANNUAL REPORT
OF THE MEDA PROGRAMME 1999**

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COMMISSIONER'S STATEMENT

The Conference of Euro-Mediterranean Foreign Ministers in Barcelona in November 1995 marked the beginning of the Euro-Mediterranean Partnership, which constitutes the most important attempt in modern history to create durable and strong bonds between the Mediterranean shores. To achieve this, the Partnership provides for action in the key areas of political, economic and social affairs.

This is a difficult endeavour but also a necessary ambition: the Partnership is essential to ensure stability and prosperity in the European Union's neighbourhood. It is also important for the Mediterranean partners who expect not only market access, investment and transfers of know-how, but also better understanding in political, social, cultural and human affairs.

The MEDA Programme is the main component of the Euro-Mediterranean Partnership's economic and financial co-operation. MEDA should facilitate one of the Partnership's key objectives: the gradual establishment of a free trade area (FTA) between the European Union and its Mediterranean Partner countries by 2010.

The FTA offers immense opportunities both to the EU and to our Mediterranean Partners. To take advantage of these opportunities, our Partners will need to carry out policy reforms, structural adjustment and modernisation processes. In turn, these reforms will help to mobilise national savings and attract foreign investment. This will strengthen economic growth, reduce unemployment and improve the citizens' well being.

In the Euro-Mediterranean Partnership, the modernisation process is helped through co-operation. The MEDA Programme is running at almost one billion € per year in grants while loans from the European Investment Bank are at a similar level. It aims at easing the economic and social consequences of free trade by providing substantial financial and economic support: promoting economic transition and private sector development, support vocational training, health, education and basic infrastructures such as water and sanitation etc.

This report summarises the way EU financial assistance has been channelled to our Mediterranean partners in the context of bilateral and regional projects and programmes. Its publication this year coincides with the discussions between the Commission and the Member States on a revised financial regulation, MEDA II, to govern EU assistance to the region for the future. MEDA II aims at streamlining procedures to ensure increased efficiency in delivering assistance. The experience gained with our Mediterranean policy to date should serve to make the necessary policy adjustments and further enhance MEDA's impact on the economic and social reform of our Partners.

Chris Patten

EXECUTIVE SUMMARY

- Europe is, by far, the largest donor of non-military aid to the Mediterranean region and is strongly supporting economic reform in the partner countries. In the period 1995-99, the European Union has provided over €4.6 billion in grants to the Mediterranean region (€3.4 billion under the MEDA programme and €1.2 billion under other budgetary lines) while, in addition, the European Investment Bank has granted loans of over €4.6 billion.

- All Mediterranean Partner countries have embarked on programmes of economic reforms, at varying speeds. The main economic thrust of the EU's Mediterranean policy, notably since the decision to establish a Euro-Mediterranean free trade area by 2010, play an important role in the reform process.

- Commitment appropriations in the context of the MEDA Programme were fully utilised in 1995-99. For the same period, payments averaged 26% of commitments. This is due to: (a) the average implementation period for the type of projects financed by the MEDA Programme of about 4 years, (b) delays with several Mediterranean Partners in the signature of the Framework Agreements establishing the legal framework for implementation, and (c) political and other problems in financial cooperation with Turkey, Algeria, Lebanon and Syria. Moreover lack of determination on the side of Mediterranean partners to advance with structural reforms has also borne a significant share of the responsibility for delays in the implementation of the Programme.

- About 86% of MEDA resources were channelled to bilateral cooperation and about 12% to regional cooperation. Bilateral cooperation includes projects supporting economic transition, structural adjustment, the socio-economic balance, environmental protection and rural development. Actions under regional cooperation concern all the Mediterranean Partners and support all chapters of the Barcelona process (political and security partnership, economic and financial partnership, and partnership in social, cultural and human affairs).

- Although it is still too early to quantify the impact of MEDA-financed actions, they do contribute by their dynamic effects to the creation of a favourable economic environment for business and investment and to the transfer of key economic decisions from the state to the market. They also mitigate the social costs of economic adjustment by reinforcing healthcare, education and environmental protection.

- The need to focus assistance under the MEDA programme on reform is compelling. It is therefore necessary to improve strategic programming so as to ensure that MEDA interventions are coherent with national reform strategies, promoting the overall objective of the creation of a Euro-Mediterranean free trade area and strengthening the currently very weak intra-regional economic links.

- The current revision of the MEDA regulation aims at achieving significant time gains in the decision process and reinforcing the strategic planning of aid. Streamlining the regulation and reorganising the Commission services involved in delivering external aid to the Mediterranean should also contribute to a more efficient and rapid delivery of assistance, as well as to its qualitative improvement.

- As it was emphasised in the Fourth Meeting of *Experts on Economic Transition in the Euro-Mediterranean Area* held in Brussels on 2-3 October 2000 (documents in annex) the MEDA funds would be increasingly channelled towards partners that have confirmed absorption capacity as well as a good implementation record of heir association agreement. The commitment of the partners to the implementation of their respective national reform strategies would be decisive in the assessment of their absorption capacity.

I. MEDA 1995-1999: AN OVERVIEW

I.1. REVIEW OF IMPLEMENTATION

The MEDA Programme is the main instrument of the Euro-Mediterranean Partnership's financial cooperation. For the period 1995-1999, it provided € 3.437 million out of the € 4.685 million envelope allocated to the 12 Mediterranean partners for the period 1995-1999 by the Cannes European Council.[1]

In 1995 and 1996, the MEDA Programme progressively replaced the existing financial instruments (mainly the Financial Protocols) and in 1999 represented about 90 % of the total financial commitments from the EU Budget for the Mediterranean. The MEDA Programme is mainly made up of grants (90.4% of total budgetary commitments in 1995-99) managed by the European Commission, but also includes risk capital and interest subsidies for loans (9.6%) managed by the European Investment Bank (EIB).

Some 86% of the resources allocated to MEDA are channelled *bilaterally* to the Partners (this concerns Algeria, Egypt, Jordan, Lebanon, Morocco, Syria, Tunisia, Turkey and the Palestinian Authority). Three countries – Israel, Malta and Cyprus - do not benefit from bilateral cooperation because of their high level of economic development. About 12% of the resources are devoted to *regional* activities from which all twelve Partners are eligible to benefit. MEDA resources are programmed through: three-year *national indicative programmes* and a *regional indicative programme* covering the multilateral activities.

- Commitments

Commitment appropriations available on a yearly basis are managed by the European Commission on the basis of the MEDA Regulation and within a programming process undertaken with the administration of the beneficiary Partners. Commitment appropriations were 99.9% utilised in 1995-1999.

MEDA commitment appropriations 1995-1999

	1995	1996	1997	1998	1999	Total
Commitment appropriations available (€ m)	173	403	981	943	937	3 437

1 The remaining amount of €1.248 million mainly concerns the budget lines of the older Financial Protocols (B7-4050 & 4051), the Peace Process (B7-4200) and the United Nations Relief and Work Agency, UNRWA (B7-4210).

Commitment appropriations used (€ m)	173	403	981	941	937	3 435
Rate of utilisation	100%	100%	100%	99.8%	100%	99.9%

- Payments

As in any international financial cooperation activity, the rate of payments of the MEDA Programme is a direct function of the type of operation for which commitments are made. Some MEDA operations such as support to structural adjustment result in payments over a short time span, generally two years, provided that conditions agreed between the Commission and the beneficiary Government are met.

Economic transition and private sector development operations generally consist of technical assistance operations over a 3-4 year period, which influences the rate of disbursement. Classical development operations (rural development, basic health care, education, drinking water, sewage, etc) require works and services as well as procurement of equipment following tendering procedures. The implementation period is longer, generally 4 to 6 years.

Regional projects financed under the Euro-Mediterranean Partnership often consist of completely novel forms of cooperation, necessitating innovative financial and legal frameworks of a complex nature. On average, payments are spread over a 3-5 year period.

Taking into account the current mix of operations, it is estimated that the average implementation (i.e. payment) period for each of the annual tranches of the MEDA Programme is about 4 years. For the period 1995-1999 cumulative payments have reached €890 million, or 26% of commitments made over the same period.

Rate of payments to commitments (1995-1999)

	1995	**1996**	**1997**	**1998**	**1999**	**Total**
Commitments (€ m)	173	403	981	941	937	3 435
Payments (€ m)	50	155	211	231	243	890
Payments / commitments (%)	29%	38%	21%	24%	26%	26%

The MEDA Programme is still young, its start having been delayed by lengthy negotiations for framework conventions[2] with the beneficiary countries and highly complex implementation procedures. Nevertheless, most of the committed projects will shortly be moving into their operational phase and this will speed up payments significantly.

[2] These conventions establish the legal and administrative framework for the implementation of the EU cooperation activities.

Breakdown of commitments and payments according to countries

The disbursements to commitments rate has varied considerably from country to country.

Breakdown of MEDA commitments and payments by country

MEDA I (1995-1999) - bilateral and regional cooperation			
	Commitments € million	Payments € million	Payments / commitments (%)
ALGERIA	164	30	18.2
MOROCCO	656	127	19.4
TUNISIA	428	168	39.3
EGYPT	686	157	22.9
JORDAN	254	108	42.5
LEBANON	182	1	0.5
SYRIA	99	0	0.0
TURKEY	375	15	4.0
West Bank and Gaza Strip	111	54	48.6
Bilateral cooperation	*2 955*	*660*	*22.3%*
Regional cooperation [3]	*480*	*230* [4]	*48%*
TOTAL	**3 435**	**890**	**26%**

The lower disbursement rates can be explained as follows:

– Algeria: implementation was hampered by the domestic political situation;

– Lebanon: a high number of projects was decided towards the end of the period (1999); difficulties were encountered in the implementation of two in particular (for rehabilitating the Lebanese public administration, and standards and norms);

3 Includes €63 million committed between 1997 and 1999 for technical assistance provided by MEDA teams.

4 Includes around €150 million in payments on horizontal cooperation commitments made before 1996.

- Syria: the framework convention has still to be signed by the Syrian authorities;
- Turkey: restrictions have been imposed by the European Parliament in view of the human rights situation; also, the framework convention was signed only recently (March 1999).

Although the Mediterranean partners have achieved considerable progress in macroeconomic stabilisation in recent years, they have been rather hesitant in implementing key economic reforms. Most countries in the region are still facing today an important reform agenda relating to the creation of favourable conditions for the development of the private sector, further trade liberalisation and privatisation. The slow pace of economic reform had an adverse impact on the implementation of MEDA projects, particularly of those relating to economic transition and structural adjustment.

Breakdown of bilateral activities

Bilateral MEDA operations from 1995 to 1999 can be broken down thematically as follows: structural adjustment, economic cooperation, the social sector, the environment and rural development.

- *Structural adjustment*

Structural adjustment facilities (SAF) allow direct and swift support to be given to reforms undertaken by partners in full respect of agreed conditions. A total of €520 million was committed under the SAFs between 1995 and 1999 - 15% of all MEDA commitments. The SAFs were implemented in five countries (Morocco, Algeria, Tunisia, Jordan and Lebanon).

- *Support for economic transition*

Here the main aim is to foster the creation of a climate favourable to private sector development, particularly by setting up effective financial instruments. Support takes the form of Commission-managed cooperation programmes, or offers of risk capital to be managed by the EIB.

Economic cooperation programmes accounted for almost €900 million. Risk capital operations for a total of over €140 million were carried out in six countries (Morocco, Tunisia, Jordan, Egypt, Turkey and the West Bank and Gaza Strip).

Overall, operations in support of economic transition came to €1 035 million - over 30% of all MEDA commitments.

- *Support for socio-economic balance*

Operations in the social sector in the broader sense (taking in health and education) are designed to support partners' socio-economic balance. They include social funds and specific cooperation programmes, but also, more recently, a sectoral adjustment facility for health under which Tunisia has received support for the reform of its health insurance system. Altogether, operations in the social sphere have accounted for €1 billion, or 29% of all commitments in this period.

- *Environment*

Operations in this field in Morocco and Jordan accounted for a total of €45 million and interest rates on EIB loans were subsidised to the tune of over €190 million, bringing the total for bilateral environmental action to more than €235 million (7% of all commitments in the period).

- *Rural development*

Decisions were taken for rural development programmes in Morocco, Tunisia and Syria for a total of €155.5 million (4.5% of all commitments in the period).

Breakdown of regional activities

Over the period 1995-99, several activities have been decided or carried out in the following areas:

- Political

Senior Foreign Ministry officials have met to discuss political and security matters regularly, at least four times a year. They have agreed on a number of partnership building measures and have made considerable progress on *the Charter on Peace and Stability*. The guidelines for this *Charter* were agreed at the Third Euro-Mediterranean Conference held in Stuttgart (April 1999). Foreign Ministers agreed to have the text ready by the Fourth Euro-Mediterranean Conference which will be held in Marseilles (13-14 November 2000).Formal adoption will take place as soon as political conditions allow.

The following partnership building measures have been agreed:

– establishment of a network of foreign policy institutes (Euro-Mediterranean Study Commission, EuroMeSCo),

– cooperation among civil protection services on natural and man-made disasters,

– creation of a register of bilateral agreements,

– exchange of information on international conventions on human rights, disarmament, humanitarian rights,

– - training seminars for diplomats,

MEDA finances the civil protection project, EuroMeSCo and the training seminars for diplomats (€3 m).

- Economic and Financial

Regional fora have been set up covering the priority sectors agreed by Ministers for regional cooperation: industrial cooperation, environment, water, energy, transport and information society. In each case sectoral experts from the 27 Euro-Med countries meet to agree the guidelines for regional cooperation programmes, subject to endorsement by the Euro-Mediterranean Committee. The emphasis in regional cooperation is on policy dialogue, networking, promoting the interconnection of infrastructure and reforming the legal and administrative framework to encourage pro-competitive regulation.

– *Industrial cooperation*: four main themes have been identified: promotion of investment, innovation and quality, Euromed market instruments and mechanisms, improving the climate for SME development. Cooperation projects have already been developed, notably a network of investment promotion agencies (€4 m), or being developed, such as a programme for the promotion of Euromed market instruments and mechanisms and a Euro-Mediterranean regional programme for innovation and quality in companies, both to be launched in 2000. MEDA has financed the MEDSTAT programme of cooperation among statistical offices (€20 million), a number of economic networks (€ 6 million) between chambers of commerce, commercial fairs, export promotion institutions, SME organisations, industrial federations. and a network of economic institutes (Forum Euro Méditerranéen des instituts des sciences économiques, FEMISE) (€2 million).

– *Environment*: A Short and Medium Term Priority Action Programme (SMAP) has been agreed and a first series of projects launched (€7 million). The second series is to be launched in 2000.

– *Water:* The general lines of an action programme have been agreed and a first series of projects is to be launched in 2000.

– *Energy:* Projects have been launched on legal and administrative framework; dialogue on policy, interconnection and analysis; energy and urban environment; solar energy applications; training network; and joining up electricity grids.

– *Transport:* A first series of maritime transport projects was launched in 1997 (€9 million); an integrated transport project should be launched in 2000.

– *Information society*: a project has been launched on the regulatory framework (€3 million) and the major EUMEDIS programme (networking, interconnection and pilot projects on specific applications of information technology) is operational (€45 million).

- Social, Cultural and Human

– *Culture*: priorities for action have been agreed at two meetings of Culture Ministers. The Euro-Med Heritage programme of cooperation on the cultural heritage is operational (€ 17,1 million) and Euro-Med Heritage II is to be launched in 2000.

– *Audio-visual*: the Euro-Med Audio-visual programme on cooperation in the field of radio, television and cinema is operational (€ 20 million).

– *Youth*: the Euro-Med Youth programme for youth exchanges is operational (€6 million).

I.2. REVIEW OF THE MEDA REGULATION (MEDA II)

The legal framework for the implementation of the MEDA Programme is provided by the MEDA Regulation approved in 1996. It is important that the experience gained from its implementation be used to improve and accelerate the delivery of the EU aid to its Mediterranean Partners. An independent evaluation of the MEDA Regulation carried out in 1998-99 showed that the current decision making procedures are cumbersome and rigid. Based on the conclusions of this evaluation, the Commission submitted to the Council in mid-1999 a draft proposal for the revision of the MEDA Regulation. The draft proposal has a three-pronged strategy:

- **Streamlining the decision-making process for more effective programming:** The work of the MED Committee (a management Committee composed by representatives of the EU Member States to assist the Commission in the implementation of the MEDA Regulation) should be refocused onto strategic planning and programming. This can be achieved by having more substantial examination of the three year *National Indicative Programmes* (NIPs)[5] and the *Regional Indicative Programme* (RIP)[6]. To enhance the coherence of its financial proposals with NIPs and the RIP, the Commission proposes to present its financing proposals in *Annual Financing Plans* for each Partner (NFPs) as well as one for the region (RFP).

- **Enhancing capacities for programming and implementation:** The Association Agreements provide for the gradual introduction of free trade between the EU and its Mediterranean partners. The MEDA programme is intended to play a major role in assisting the partners in the reform process required in this context. Therefore, more emphasis should be given to dialogue on MEDA programming over the medium term with the partners, taking account of their respective reform strategies, as well as coordination between the Commission and EU Member States, and coordination between bilateral and regional cooperation.

- **More efficient implementation procedures:** In order to improve the MEDA programme’s impact on economic and social reform in the partners and with a view to making the programme an even more effective instrument for the Euro-Mediterranean Partnership, more rapid implementation procedures need to be introduced. Harmonised procedures concerning technical and financial implementation of cooperation activities have already been developed with the aim, notably, of further rationalisation and streamlining. A wider reform of the Commission’s delivery of external aid is currently underway.

I.3. THE ASSOCIATION AGREEMENTS: STOCK-TAKING

The Association Agreements are bilateral legal instruments for establishing deeper and wider relations with the Mediterranean Partners and as such provide a strategic framework for cooperation. Built upon the old generation of Cooperation Agreements adopted in the 1970s, the Association Agreements provide for the institutionalisation of political and economic dialogue, the establishment of a free trade area, social and cultural cooperation and financial cooperation, notably through the MEDA Programme. Thus the Association Agreements constitute, at bilateral level, the strategic framework for cooperation.

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5 The NIPs reflect the planning of country programmes according to the MEDA Regulation. They include indicative financial amounts for commitments and define the priority sectors for EU support.

6 The RIP reflects the MEDA Programme priorities, which are relevant for the region as a whole. It is complementary to the NIPs.

The tables below summarise the progress of negotiations on Euro-Mediterranean Association Agreements and the status of the framework agreements:

Stock-taking of the Association Agreements

PARTNER	CONCLUSION OF NEGOTIATIONS	SIGNATURE OF AGREEMENT	ENTRY INTO FORCE
Tunisia	June 1995	July 1995	March 1998
Israel	September 1995	November 1995	In the course of 2000
Morocco	November 1995	February 1996	March 2000
PLO for the benefit of the Palestinian Authority	December 1996	February 1997	July 1997
Jordan	April 1997	November 1997	-
Egypt	Negotiations Concluded in June 1999[7]	-	-
Lebanon	Negotiations in progress	-	-
Algeria	Negotiations in progress	-	-
Syria	Negotiations in progress	-	-

No formal negotiation sessions were held with Lebanon and Algeria in 1999. However, there have been informal contacts between the authorities of these two countries and the Commission services. Formal negotiations are expected to resume in the course of 2000.

Financing conventions

The implementation of the MEDA Programme advanced significantly in 1999 as the last remaining framework financing conventions were signed with the authorities of the Mediterranean partners. These conventions establish the legal and administrative framework for implementation of EU cooperation activities (with the exception of structural adjustment operations which are governed by specific arrangements) and their signature is a prerequisite for the launch of individual projects.

[7] The negotiations were effectively concluded by the General Affairs Council of 21 July 1999 which approved the agreement reached by the negotiators. The government of Egypt is expected to decide similarly in the near future.

MEDA framework conventions: state of play

COUNTRY	INITIALLED	SIGNED (COMMISSION)	SIGNED (EIB)
ALGERIA	12 May 1998	29 July 1998	15 September 1998
CYPRUS		n/a	n/a
EGYPT		18 February 1998	2 July 1998
ISRAEL	.	n/a	n/a.
JORDAN		2 February 1998	2 July 1998
LEBANON		13 May 1998	15 September 1998
MALTA		n/a	n/a
MOROCCO	16 July 1997	28 August 1997	28 August 1997
PALESTINE	12 December 1997	28 March 1998	1995 Agreement continues to apply.
SYRIA		15 August 1998	Agreement signed by EIB end of March 1999.
TUNISIA	15 July 1997	20 September 1997	20 September 1997.
TURKEY	2 July 1998	19 March 1999	Agreement signed by EIB end of March 1999.

I.4. MEDA 1995-1999: DRAWING SOME CONCLUSIONS

Creating a Euro-Mediterranean economic area of shared prosperity is an ambitious objective, as illustrated by the fact that the average income per head in Europe is presently about ten times the average income per head in the Mediterranean partners. Achieving higher growth rates, especially in view of unemployment rates typically between 20-25% in many Mediterranean partners, is therefore an important objective.

Creating a free trade area is not only an ambitious objective, but also a necessity for the Mediterranean partners. One reason for this is that the markets of individual partners are simply too small to attract meaningful levels of foreign direct investment. For example, the combined GDP of the three Maghreb[8] countries (combined population of 66 million people) is smaller than that of Portugal, while the GDP of the Mashrak[9] countries (combined population of 86 million) does not exceed the GDP of Finland or of Greece.

Foreign direct investment could play a key role in modernising the economies of the region through the transfer of advanced methods of production and management. So far the countries in the region have not benefited from the world-wide increase in foreign direct investment flows despite their proximity to Europe and despite the favourable access conditions to the European market. To a large extent, this poor performance is policy-induced due to administrative constraints, prohibition to invest in certain sectors, unfavourable taxation etc.

The challenge

The need to accelerate the process of economic transition is evident. Despite often diverging economic performances, our Mediterranean partners show remarkable similarities in terms of future economic challenges. The youthfulness of their population together with expected intensification of woman's activity imply a considerable rise of pressure on the employment market of these countries. According to international estimates, about 45 million new jobs have to be created over the coming twenty years if the unemployment rate is to be kept at the present level. This means that Mediterranean countries should steeply raise their annual growth rates to 6-7% to absorb excess labour supply and catch up with the world economy.

However, the hesitant pace of economic reforms resulted in an inadequate mobilisation of investment - domestic and foreign - and low productivity. Investment levels are currently about 24% of GDP in Mediterranean economies, against an average of 34% in some Asian economies. The share of the Mediterranean area in the flow of foreign direct investment (FDI) towards emerging economies is very low (5%). Productivity is weak mainly due to huge investments in state-owned enterprises still dominating several Mediterranean economies as well as in human skills unsuited to today's global marketplace.

Accelerating economic transition If there is to be acceleration in growth, this will come from a more dynamic private sector. A more favourable regulatory and administrative environment will play a key role in this respect. Reforms remain particularly pressing in such

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8 Morocco, Algeria and Tunisia.
9 Egypt, Jordan, WBGS, Lebanon and Syria.

areas as the financial sector, restructuring of public enterprises and privatisation. Increasing efficiency in the delivery of infrastructure services, including telecommunications, energy and transport will also have a significant impact on competitiveness and on overall living standards.

Modernising and transforming tax systems into equitable, efficient, and administratively practical taxation systems in support of economic growth is a necessity and an essential contribution towards improving the environment for investment and business. At the same time this will provide an opportunity to reduce dependency on imports taxes as a major source of revenue. In some countries this dependency is still high. For example 56.9% of tax revenues in the case of Lebanon are trade taxes, 31.6% in the case of Jordan and 29.8% in the case of Tunisia.

Respect of social cohesion.

Strengthening of social cohesion and environmental integration is an important accompaniment to the process of economic transition, on the basis of a sustainable development approach. In order for structural economic reforms to be successfully applied and accepted there must be a consensus in society about the objectives and the methods of reform. This implies continued determined efforts to improve the standard of living of less favoured groups of society, in particular through well-targeted interventions. Moreover, the ongoing process of demographic transition implies a rapid growth of the labour force in the short and medium term. If the unemployment situation is not to deteriorate any further, and in order to improve the sustainability of the transition process, the social cohesion issue should be taken systematically into account in the design of transition strategies. No economic reform programme is sustainable in the long-term unless it is accepted by the people. Nor is it sustainable if it does not improve the environmental conditions and does not allow the use of existing natural resources by future generations.

The role of the European Union

The projects and programmes financed through grants from the MEDA programme and the investment projects financed through loans by the European Investment Bank make an important contribution to the economic transition of the Mediterranean Partner countries, in parallel to the bilateral programmes run by the EU Member States.

MEDA financed projects in the area of economic transition aim, *inter alia*, at the modernisation of the industrial sector (Algeria, Egypt, Jordan), the acceleration of the privatisation process (Tunisia, Algeria), the restructuring of the financial sector (Egypt, Morocco), the upgrading of public administration (Turkey, Syria), the development of key infrastructure (West Bank and Gaza Strip, Morocco).

MEDA projects further aim at strengthening the socio-economic equilibrium by improving basic education and facilitating the access of girls and women to it (Turkey, Morocco), modernising health services and pension systems (Egypt, Tunisia), strengthening civil society (Algeria, Turkey) and protecting cultural heritage (Jordan, Syria). Most Mediterranean countries have also benefited from interest rate subsidies financed by the MEDA Programme for EIB loans in environmental protection.

Finally regional cooperation under MEDA have supported all chapters of the Barcelona process (political / security, economic / financial and social / cultural / human) while thoroughly maintaining the global and comprehensive nature of the partnership and contributing to social stability.

Conclusions

Although MEDA is the financial instrument for all chapters of the Partnership, its main focus is on the creation of the Euro-Mediterranean area of shared prosperity which is the motor of the process, and where the establishment of a Euro-Mediterranean free trade area is pivotal. In this context the following conclusions can be drawn:

- Almost five years after the conference of Euro-Mediterranean Foreign Ministers in Barcelona in November 1995 significant progress has been achieved. Negotiations for Association Agreements between several Mediterranean partners and the Union have been concluded. While the legal ratification process has delayed the entering into effect of these agreements, this has not prevented most partners from embarking on a process of economic transition.

- MEDA I has been slow in its implementation. Commission's procedures have been cumbersome and rigid. However, the revision of the MEDA Regulation allows for a streamlining of procedures. It also favours a more strategic programming of assistance so as to ensure that MEDA interventions are coherent with national reform strategies. The ongoing reorganisation of the external services of the Commission should also contribute to a more efficient and rapid delivery of aid.

- Lack of determination to implement key reforms has also been responsible for delays in the implementation of the Programme. In an overall challenging budgetary context, MEDA funds will be increasingly channelled towards partners that have confirmed absorption capacity as well as a good implementation record of their association agreement concluded with the EU. The commitment of the partners to the implementation of their respective national reform strategies would be decisive in the assessment of their absorption capacity. The economic dialogue established between the Union and its Mediterranean partners would be a key instrument in this exercise.

II. THE MEDA PROGRAMME IN 1999

II.1. THE POLITICAL AND ECONOMIC CONTEXT OF 1999

Political developments in the Mediterranean region in 1999 were to a large extent marked by the rise to power of new personalities.

In Israel, Ehud Barak was elected in May with 56% of the votes. His election gave fresh hopes for an impetus to the Middle East Peace Process following several months of paralysis. The subsequent flurry of diplomatic activity materialised in the September 1999 Israeli-Palestinian Sharm-el-Sheikh Memorandum. Its implementation is underway albeit with delays. By the end of the year, the new atmosphere also reflected positively on the Syrian track, leading to a resumption of direct Syrian-Israeli negotiations in Washington.

Two key figures in the region died in the course of 1999: King Hussein of Jordan passed away in February and King Hassan of Morocco in July. They were both succeeded to the throne by their sons, King Abdullah and King Mohamed respectively, young leaders who are committed to political and economic reform.

Furthermore, the year was marked by a substantial improvement in EU-Turkey relations. The Helsinki European Council in December accepted Turkey as a candidate for EU membership on the basis of the same criteria as applied to the other candidates.

The Barcelona Process kept its momentum. Enhanced discussions on Regional Cooperation underlined the growing importance of regional initiatives in the political, economic and cultural spheres, and emphasised the urgent need for more South-South cooperation (notably among the Med Partner counties). The Third Euro-Mediterranean Conference held in Stuttgart in April confirmed the goals set in the Barcelona Declaration, i.e. to transform the Mediterranean basin into an area of dialogue, exchange and cooperation through the strengthening of democracy, rule of law, good governance and sustainable balanced economic and social development. Guidelines were approved for a Euro-Mediterranean Charter of Peace and Stability to be elaborated by the time of the next Foreign Ministers meeting (November 2000).

Movements in commodity prices largely influenced economic developments in the region. The increase in oil prices since March 1999 is helping Mediterranean oil producers (Algeria, Egypt, Syria[10]) to improve their external balances and strengthen their growth prospects. Some countries like Egypt and Jordan could also benefit indirectly from higher oil prices since they have large migrant labour forces in the Gulf oil producing countries and significant trade relations with them. Pressure for structural reforms has increased in some countries because of poor growth performance and inadequate employment creation. The full implementation of such reforms would substantially benefit the region's longer-term economic prospects.

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[10] In 1997-98, 18% of total public sector revenue was from oil revenue in Algeria, 8% in Egypt and 39% in Syria (Source: IMF, World Economic Outlook, p. 26).

The EU absorbs between 60-75% of the exports of most of the Mediterranean Partners while the European Union is the principal supplier of capital goods and basic agricultural commodities. Capital inflows and tourists are predominantly of EU origin. Yet intra-regional trade remains at under 5% of regional GDP and the lack of South-South integration means that the economies of the region remain too small to attract foreign investment.

This is a crucial time to bolster the common resolution of the European Union and the Mediterranean Partners to deepen and widen the economic reform process in order to achieve long term improvements. In this context the MEDA Programme is an essential instrument for catalysing and facilitating reform in the Partners.

MIDDLE EAST PEACE PROCESS, 1999

In spite of all the obstacles in the way, the peace process made substantial progress in 1999, notably during the second half of the year. Indeed, the prolonged electoral period in Israel paralysed most related initiatives and activities during the first semester.

The election of Prime Minister Barak and the coming into power of a centre-left government in Israel led to a flurry of diplomatic contacts which ultimately materialised in the Israeli-Palestinian Sharm Al Sheikh agreement in September. The agreement was basically a re-negotiation of the November 1998 Wye River Memorandum. However, it also set a schedule for Permanent Status Negotiations inclusive of a Framework Agreement, due by mid February 2000[11], leading to a comprehensive Agreement by September 2000. Most of the commitments contemplated have been implemented albeit with slight delays[12].

The European Union actively supported these developments and assisted the parties in the negotiations. Council President Fischer and Commission Vice-President Marín visited the region during the first semester. Council President Halonen visited in the second semester. The EU Special Envoy to the Peace Process Ambassador Moratinos continued to carry out an intensive shuttle diplomacy throughout the region. In addition, EU officials held numerous consultations with the core parties to the peace process and the main international players, primarily the US and Russia and also Japan, Norway and Canada.

In parallel, the EU maintained its large programme of economic assistance to the Palestinian Authority. Following the renewal of the 1993 pledges for a further five-year period[13], the EU hosted and co-chaired a meeting of the Ad Hoc Liaison Committee (AHLC) on Palestine in Frankfurt in early February. Followed by the World Bank Consultative Group, both meetings served to further efforts towards sustained economic development in the West Bank and Gaza strip and enhanced budgetary transparency from the part of the Palestinian Authority. These efforts were continued at the next meeting of the AHLC that took place in October in Tokyo.

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[11] Later postponed to May 2000

[12] Including transfer to Palestinian Authority control of a total of some 40% of the West Bank, release of several batches of prisoners and opening of the Southern route of the Safe Passage.

[13] November 1998, Washington Ministerial Donors Conference

Maghreb and Mashrek: Demographic, Social and Economic Indicators

Indicator	Unit		*Morocco*	*Algeria*	*Tunisia*	*Egypt*	*Jordan*	*Israel*	*WB Gaza*	*Lebanon*	*Syria*	*Turkey*	*Malta*	*Cyprus*	*World*
Area	(1000 Km2)		450	2381	163	1001	89	20,3	6,1	10,4	185	780	0,3	9,5	-
Demography															
Population	Millions	1998	27,8	30	9,4	61,4	4,6	6	2,7	4,2	15,3	63,5	0,38	0,75	5896,6
Ann. Popul.Growth	%	1992-98	1,8	2,2	1,6	1,9	3,3	2,6	n.a	1,8	2,8	1,5	0,7	1,1	1,4
Ann.Lab.force growth	%	1992-98	2,2	4,4	2,9	2,8	4,5	3,8	n.a.	2,8	3,9	2,8	1,2	1,1	1,7
Infant mortality rate	°/°° live births	1992-98	51	32	30	51	29	7	n.a	28	31	40	7	8	55
Socio-cultural indicators															
GNP per capita	(Atlas method, US $, 1998)		1.250	1.550	2.050	1.290	1.520	15.940	n.a.	3.560	1.020	3.160	9.440	n.a.	4.890
H.D.I. (*)		1995	0,582	0,665	0,695	0,616	0,715	0,883	n.a..	0,749	0,663	0,728	0,850	0,850	0,706
Illiteracy rate	% of people 15+	1998	53	35	31	46	11	4		15	27	16	9	4	25
Men	% of males 15+	1998	40	24	21	35	6	2	n.a.	9	13	7	9	n.a.	18
Women	% of females 15+	1998	66	46	42	58	17	6	n.a.	21	42	25	8	n.a.	32
Economy															
GDP Growth rate	%	1998	6,5	5,1	5	5,7	2,2	2	4	3	5,4	2,8	4,1	4,7	1,7
Forec.GDP growth rate	%	1999-03	n.a.	6	6,1	6,1	3,2	n.a.	n.a.	3,5	4,8	5	n.a.	n.a.	3,1
Inflation rate (**)	%	1998	2,7	5	3,1	3,8	4	5,5	n.a.	4,5	-0,4	83,7	2,4	2,2	-
Fiscal surpl/deficit	% of GDP	1998	-3,1	-3,9	-2,4	-0,9	-6,9	-5,8	n.a.	-18,9	-3,9	-8,9	-10,5	1,4	-
Current Acc. Bal.	% of GDP	1998	-0,1	-1,9	-3,4	-2,5	0	-0,7	n.a.	-27,4	0,1	0,3	-4,8	n.a.	-0,1
Total debt	% of GDP	1998	55,8	63,4	51,8	38,2	115,6	n.a.	n.a.	36,8	30,3	51,4	31,1	n.a.	-

(*) The Human Development Index (H.D.I.) is a composite index including, inter alia, life expectancy at birth, adult literacy, real GDP per capita, gross enrolment in first-, second- and third level education (UN Development Programme, Human Development Report 1999 – values for 1997) (London, 1999)

(**) Consumer prices

Source: World Bank, *World Development Indicators 2000* (Washington, 2000)

II.2. COOPERATION WITH THE MEDITERRANEAN PARTNERS

II.2.1. BILATERAL COOPERATION

ALGERIA

EU-Algeria bilateral relations

Negotiations for an association agreement had been launched in March 1997, but were suspended by Algeria that June. Relations with Algeria picked up in the course of 1999, a process helped by the fact that the Algiers Delegation of the Commission had reopened at the end of the previous year.

Pending the conclusion of an association agreement, the political dialogue is conducted through regular ministerial-level meetings. Following the visit to Algeria on 3 November by the Council troika and Mr Patten, it was announced that formal negotiations for the association agreement would resume in the third quarter of 2000.

At the request of the Algerian Government, the Commission organised a workshop on economic transition and free trade in Algiers in June, with the participation of a number of European experts.

Political and economic developments

The start of 1999 was dominated by the April presidential elections. The Algerian authorities lost some of the reserve shown since President Zéroual had announced his resignation the previous August when a new government was appointed in January whose main brief was to prepare for the elections.

All the key political figures participated in the elections, which were won by Abdelaziz Boutéflika with 73.8% of the votes. The six other candidates had withdrawn the day before, objecting to voting conditions in the mobile and special polling stations. The official turnout was 60%.

Boutéflika's first measures as President reflected a programme for restoring civil peace and the country's standing internationally. The civil peace plan involved a new law under which clemency would be granted to members of armed groups giving themselves up before 13 January 2000. The plan received broad support from the population (98.6% of votes cast) in a referendum held on 16 September 1999. Though opposed by those who have suffered personally or lost relatives or friends in terrorist violence, the law is regarded as an important milestone in the process of restoring peace, and is also backed by Algeria's main partners.

It took the whole of 1999 for the President to put together a new government that was in line with his programme. The new team, under Ahmed Benbitour as Prime Minister, was finally appointed on 24 December 1999.

Following steady improvement in the security situation, the year saw fewer reports of human rights violations. President Boutéflika's civil peace policy was a first step towards national reconciliation. Nevertheless, the human rights situation in Algeria undeniably remains a cause for concern and will be monitored closely.

The year began amid gloomy economic prospects. Low petrol prices forced the country to dip into its currency reserves in order to meet its external obligations and 2000 was expected to be yet worse. Petrol prices began to recover and stabilise from the second quarter of 1999, however, which enabled the authorities to face payment deadlines with rather more equanimity.

The drop in petrol prices was even sharper than that experienced in 1986, but the Algerian authorities coped well. The country's macroeconomic performance in 1999 was actually quite good and overall stability was maintained both externally and internally. Economic growth reached 3.6%, inflation continued to fall (from 5% in 1998 to 2.6% in 1999), the budget deficit stayed at 2% of GDP, compared with 3.9% the year before, but at the end of the year Algeria still had foreign currency reserves representing only 4.6 months' imports (1998: 7.5 months). This downturn was due in part to external debt and very high debt servicing costs (over 40% of the value of the country's exports). The prospect of a third rescheduling of external debt receded, however, with a steady recovery in petrol prices.

Despite its good macroeconomic performance, the Algerian economy continues basically to rely on income from oil. Other exports remain marginal, accounting for only 3% of the total. The growth recorded, therefore, has had no noticeable impact on unemployment, which still affects almost 30% of the workforce. Reduced reliance on oil has been set as a priority, and this can come about only through structural reform of the economy and attracting foreign direct investment.

In spite of investment incentives, the privatisation process has ground to a halt. Over a year after the launch of the privatisation programme, no privatisations have been completed successfully. The process has stagnated under a welter of procedures and turf-battles between the different institutions responsible. Foreign trade remains subject to heavy restrictions and relatively high average levels of protection. Nevertheless, the opening of a stock exchange and the arrival of the first private airlines testify to the authorities' determination to redouble their efforts to liberalise the economy.

MEDA financial cooperation

Financial cooperation between the EU and Algeria has habitually been hampered by structural difficulties in the Algerian institutions, exacerbated by the security and political situation. Since the end of 1998, however, things have been easier and it has been possible to prepare a number of important private sector development projects. Two major financing agreements were signed for MEDA projects involving €38 million for industrial restructuring and privatisation and €57 million for helping small and medium-sized enterprises (SMEs). The first of these projects includes technical assistance to revive the process of privatising Algeria's medium and large state enterprises, which are organised under various sectoral holdings. The second aims to make SMEs more competitive as the economy gradually opens up and a free trade area is established with the EU.

A major €23 million project was prepared for modernising the financial sector, which involves technical assistance and training for the financial institutions, the Central Bank and the capital market institutions and includes plans for twinning arrangements between several Algerian banks and insurance companies and their European counterparts.

At the end of the year, €5 million was committed to a project to support civil society. Institutional support will be given to around 50-60 non-governmental organisations (NGOs) and development associations in Algeria, particular those active in the fields of local development, the environment, and women's and youth issues.

Over the 1995-99 period, €164 million was committed in MEDA cooperation in Algeria. Apart from the projects mentioned above, the programme includes a Structural Adjustment Facility (€30 million) and interest subsidies on an EIB loan for projects to reduce industrial pollution (€10.7 million). Preparations got under way in 1999 for a major project to support the social fund with the aim of shoring up social balance and creating jobs.

ALGERIA

MEDA COMMITMENTS APPROVED IN 1999

Description	€ million
1 – Support for financial sector modernisation 2 – Support for NGOs	23.2 5
Total	**28.2**

COMMITMENTS 1995-1999

Sector/Programme	€ million	Share
A. Support for economic transition	**129**	**79%**
1 – EIB: interest subsidies - reducing industrial pollution	10.7	
2 – Support for SMEs/SMIs	57	
3 – Support for industrial restructuring and privatisation	38	
4 – Support for financial sector modernisation	23.2	
B. Structural/Sectoral Adjustment Facilities	**30**	**18%**
5.- Structural Adjustment Facility	30	
C. Socio-economic balance support	**5**	**3%**
6.- Support for NGOs	5	
Total A. + B.+C.	**164**	**100%**

EGYPT

EU-Egypt bilateral relations

Negotiations on a new EU-Egypt Association Agreement reached their final stage after the key outstanding issues (agricultural quotas, readmission of third country nationals, and human rights) were resolved in the first half of 1999. The position reached by the negotiators was endorsed by the General Affairs Council in June 1999 and was subsequently examined by the Egyptian government. Initialling of the text by both parties is expected in the first part 2000 with formal signature to follow soon thereafter.

Pending the signature of a new Association Agreement, the existing bilateral understanding on trade in textiles was renewed in December 1999 to maintain the existing trade regime.

Bilateral trade relations have been generally good but were overshadowed in 1999 by several sensitive disputes, notably on technical barriers to trade and phyto-sanitary related import bans. The two most serious food health related issues, the import restrictions on Egyptian potato and peanut imports because of 'brown rot' and 'aflotoxin' respectively, were resolved in time for the 1999-2000 shipping season. The dioxin-related suspension by Egypt of imports of a wide range of EU food products was still in force, but the Egyptian authorities indicated that the ban would be removed in early 2000 and replaced by a certification system to allow trade to resume.

Vice-President of the Commission, Sir Leon Brittan, visited Egypt in June 1999 to prepare for the WTO Seattle conference and to press the Egyptian authorities to resolve outstanding trade issues.

Recent Political and Economic Developments

The main political events of 1999 were the endorsement by referendum of President Hosni Mubarak's re-nomination for a fourth six year term, and the subsequent change of government. The former Minister for Public Enterprises, Atef Obeid, was appointed Prime Minister in October 1999 with a mandate to accelerate economic and structural reform. Several new figures, including a new Minister for International Cooperation, entered the cabinet for the first time although most main portfolios remained unchanged.

One of the most serious domestic political challenges of recent years has been the activities of extremist terrorist groups. Harsh Government measures to crush the armed fundamentalist opposition led to heavy casualties on both sides and the widespread use of military courts. The massacre of foreign tourists at Luxor (November 1997) shocked most Egyptians and split the fundamentalist Islamic movement. Although the 'Islamic jihad' movement did not formally renounce violence, the main armed opposition declared a cease-fire which held firm in 1999.

Having contained fundamentalist terrorism, the regime has begun to release political detainees but many remain in prison. The State of Emergency (in force since 1981) has been renewed for a further three years, and there are persistent reports of heavy handed policing and poor prison conditions.

There is an extensive and active civil society. The new Non-Governmental Organisations (NGO) Law was widely criticised when it was first adopted in 1999 but the all-important administrative provisions appear less controversial. It is hoped that a compromise can be found on the provisions for monitoring foreign (including EU) financing to allow for the continued EC funding of NGO projects.

In the field of social legislation the Government successfully confronted conservative forces by preparing new legislation to considerably improve the status of women, notably with respect to divorce. However there is a recognition that political and social liberalism lags far behind economic liberalisation and that new measures must follow.

On the international scene, Egypt continued to re-affirm its key regional role as an important player in the Middle East Peace Process; it further improved its relations with neighbouring states (notably with Sudan and Libya) and with sub-Saharan Africa through its association to COMESA[14] and further strengthened its links with Europe.

The Egyptian economy performed solidly in 1999 with a real GDP growth of 5%. This performance was good in relation to the regional average but was below the government target, and growth in employment was insufficient to absorb the rising numbers of un- and under-employed. The level of savings remained far too low and the flow of foreign direct investment was well below expectations.

Declining export revenues (due to very low oil prices in 1998/99) and steeply rising imports led to a deterioration of the external accounts and increased pressure on the overvalued Egyptian pound. Foreign exchange reserves were run down in defence of the currency but they still remained relatively high (equivalent to more than 12 months of imports). Both oil prices and tourism had recovered markedly by end 1999.

MEDA Interventions in Egypt

Most MEDA budgetary commitments to finance the actions included in the 1996-1999 National Indicative Programme (NIP) were already made in 1996-1998. As a consequence, only two new commitments were approved in 1999, both with respect to MEDA interest rate subsidies to EIB loans for environmentally positive actions.

By end 1999, more than 90% of the actions initially foreseen in the NIP 1996-99 for Egypt had been committed. Proposed actions in support of financial sector and technical-vocational training (TEVT) reform were not finalised although discussions with the Egyptian authorities on defining a reform policy framework on TEVT reform continued.

Cooperation activities in 1999 focused on the implementation of the four major MEDA funded programmes approved in 1996-98, notably the:

- Social Fund for Development – Phase II (€155 million, in collaboration with World Bank);
- Education Enhancement Programme (€100 million, in collaboration with World Bank);
- Industrial Modernisation Programme (€250 million);
- Health Sector Reform Programme (€110 million).

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[14] COMESA (Common Market for Eastern and Southern Africa) was established in Lusaka in 1981. Currently twenty-one Subsaharan African countries participate in COMESA.

The EU's extensive support to the Egyptian Social Fund for Development (SFD) constitutes a major contribution to Egypt's programme to mitigate the adverse effects of economic transition. Following the positive evaluation of the first phase of the SFD, additional MEDA financing of €155 million was committed in 1996 (SFD II). Recruitment procedures for the required technical assistance for the SFD II were completed and the contract signed. The TA team will assist the SFD II in the coordination and monitoring of donor inputs.

The EU supports the Government of Egypt Education Enhancement Programme (EEP) to improve the quality of basic education. It emphasises: (1) increasing access to compulsory education, particularly for girls and under-privileged children; (2) improving the quality of education through reducing wastage and ensuring the attainment of basic skills; and (3) improving system efficiency by enhancing resource use, planning and management and accountability of teachers and system managers. Activities undertaken in 1999 in support of EEP focused on the recruitment of the technical assistance required for the project implementation.

In health, the EU supports the Government's comprehensive 10-15 years Health Sector Reform Programme (HSRP) whose ultimate objective is to offer the Egyptian population universal access to high-quality and cost effective services in a fiscally sustainable and efficient health and health insurance system. The HSRP will initially focus on primary care, and will lay the basis for overall health manpower and system reform for which policies will be developed and implemented progressively. Following the finalisation of the tendering procedures, the contract for technical assistance to the Health Sector Reform Programme was signed in November 1999 and the full team of experts was mobilised by the end of the year.

The Industrial Modernisation Programme (IMP) is a shared vision between the Egyptian Government, private sector and the European Union to help Egypt compete successfully in both the domestic and international markets. The objectives of the IMP will work at three levels. First at the policy/enabling environment level, second at the sectoral level, and third at the individual enterprise level. Assistance will be given to the Ministry of Industry to help it continue to facilitate the growth of the private business sector and produce a more business-friendly policy environment. Assistance will also be given to businessmen's associations and to other related organisations to address the needs of the business sector. At the enterprise level, some 5,000 enterprises have been targeted for assistance to improve their competitiveness. The Financing Agreement for the IMP was signed in late 1998. In 1999 the project activities centred on the finalisation of tendering for essential studies foreseen for the initial phase and on the tendering of the complex technical assistance package to provide the director and key managers for the Industrial Modernisation Centre which will manage the implementation of this ambitious project.

With respect to interest subsidy support to EIB operations, two new commitments were made (see above), and considerable progress was made on the disbursements of "interest subsidies" approved in previous years. With respect to "risk capital" operations, the budget for the "Lecico Ceramics" project was fully disbursed and a satisfactory level of disbursement was achieved under the "SME Competitive Upgrading" facility, which is complementary to the IMP. The Egyptian financial institutions that manage this facility reported considerable interest by the Egyptian business community.

EGYPT: 1999 MEDA COMMITMENTS, € million

Name of project/programme	Amount
Alexandria Wastewater (EIB Interest Subsidy)	6.1
Red Sea Hotel Environmental Facility (EIB Interest Subsidy)	4.9
Total	**11**

EGYPT: Commitments 1995-1999

(€ million)

	EGYPT – Indicative Programme Update 1997-1999		
		Amount (€ million)	**Share**
1	***ECONOMIC TRANSITION SUPPORT***		
	Industrial Modernisation Programme (IMP)	250	33.1%
	E.I.B. interest subsidies	41.8	6%
	E.I.B. capital risk	29	4.2%
	Sub-total 1	***320.8***	***46.8%***
2	***SOCIO-ECONOMIC BALANCE SUPPORT***		
	Social Fund for Development (II Phase)	155	20.5%
	Basic Education Enhancement Programme	100	13.2%
	Health Reform Support Programme	110	14.5%
	Sub-total 2	***365***	***53.2%***
3	***STRUCTURAL ADJUSTMENT***		
	---	---	0%
	Sub-total 3	***0***	***0%***
	TOTAL	**685.8**	**100 %**

JORDAN

EU-Jordan bilateral relations

By end of 1999, the Hashemite Kingdom of Jordan as well as six EU Member states had ratified the EU-Jordan Association Agreement, signed in November 1997.

Under the Finish presidency (second semester of 1999), an EU-Troika on ministerial level, accompanied by the Commission, visited Jordan, underlining the country's important role in the Middle East Peace Process.

Recent political and economic developments

King Hussein passed away on 7 February 1999. His son and successor, King Abdullah, has committed himself to political and economic reform. Despite its shortcomings, Jordan's democratisation process is regarded as something of a model in the region.

King Abdullah has been active in promoting the rights of women in his country. He supported the initiative of the Government to cancel the Penal Code article providing for a lenient treatment of men physically attacking women suspected for adultery (so called "honour crimes").

Abroad, King Abdullah and his Government further improved ties with Europe and the US and are working successfully to repair relations with the Arab world, particularly with Syria and the Gulf countries. He has continued his father's mediation efforts in the peace process and managed to mediate between Israelis and Syrians before talks were resumed in December 1999

Moreover, King Abdullah has launched a number of initiatives with a view to modernising the public sector and promoting privatisation.

The difficult economic context prevailing in the country and the region in late 1998 / early 1999 led the General Affairs Council of 22 February 1999 to request the Commission to consider additional financial assistance to Jordan. The unstable regional situation – following the renewed conflict in the Gulf and the deadlocked peace process – adversely influenced Jordan's economic situation. Political uncertainties, together with a very high budget deficit (estimated to have been over 10% in 1999), put the country's foreign exchange reserves under considerable pressure.

In April 1999, Jordan signed a new programme with the International Monetary Fund (IMF) for the period 1999 – 2001 (Extended Fund Facility (EFF) reinforced by a Compensatory and Contingency Financing Facility, together worth US$228 million). In May, the World Bank accorded Jordan a new Economic Reform and Development Loan (ERDL III) of US$120 million. Furthermore, the Paris Club decided in April 1999 to reschedule some US$800 million of Jordanian debt.

Towards the end of 1999, the economic situation improved and foreign exchange reserves rebounded to relatively comfortable levels (equivalent to about 6 months of imports). These positive trends are expected to further strengthen since higher oil prices have improved the economic situation for Jordan's trading partners, especially in the Gulf. Furthermore, the election of Mr Barak in Israel is expected to give a new impulse to the Middle East peace process.

MEDA interventions in Jordan

Jordan has received substantial resources from the MEDA Programme in support of its economic transition programme. Under MEDA I (1995 – 99) Jordan received grants of €254 million within bilateral cooperation while EIB lending operations on own resources amounted to €223 million.

The following four programmes were approved by the Commission in 1999:

- Structural Adjustment Facility (€80 million): The Commission prepared a new Structural Adjustment Facility in favour of Jordan with a view to accelerating the implementation of the country's structural reform programme. Tranche disbursement depends upon the satisfaction of conditions negotiated with the Jordanian authorities. These mainly concern: (a) macroeconomic management, (b) fiscal reform (e.g. introduction of VAT), (c) social investments, (d) public sector reform. The disbursement of the 1st tranche (€40 million) planned for end of 1999 was postponed, because a core condition (presentation of a draft legislation for the introduction of VAT to the Parliament) could not be fulfilled.

- In the context of the implementation of the EU-Jordan Association agreement and Jordan's recent accession to WTO, the €40 million Industrial Modernisation Programme (IMP) aims at improving competitiveness of the country's private industry. The programme's objectives include, *inter alia*: (a) the provision of non-financial services for beneficiary enterprises, particularly SMEs; (b) the diversification of financial instruments for private sector enterprises, especially for medium and long-term financing; (c) the strengthening of vocational training; and (d) the acceleration of institutional reform (reform of the Ministry of Industry and Trade and technical assistance to Jordanian institutions in charge of industrial policy).

- In view of the implementation of the Greater Amman Water Sector Improvement Programme, the Commission approved the financing of its Management Unit (€5 million). The programme consists of a large capital investment of around €200 million coming from various international donors and lenders (e.g. EIB, World Bank, Germany, Italy and US-AID) to restructure and rehabilitate Amman's water network, in order to significantly reduce the current high level of water losses.

- The Protection and Promotion of Cultural Heritage (€3.9 million) aims at enhancing awareness and strengthening protection of Jordan's cultural heritage (e.g. development of two archaeological sites, Um Al-Rasas and Lehun, that offer a good overview of Jordanian civilisation). This project also aims at further developing the tourism sector by providing support to Jordan's Tourism Board.

Finally, it must be noted that the third Euro-Mediterranean Conference of Foreign Ministers held in Stuttgart in April 1999 decided to pay tribute to the legacy of the late King Hussein. To commemorate his contribution to peace in the region, the Conference approved the idea of cultural events in the year 2000, aimed at enhancing harmony and mutual respect among the peoples of the Euro-Mediterranean area.

Jordan: 1999 MEDA commitments, € million

Name of project/programme	**Amount**
Structural Adjustment Facility II	80
Industrial Modernisation Programme	40
Management Unit for the Greater Amman Water Sector Improvement Programme	5
Protection and promotion of cultural heritage	3.9
Total	**128.9**

Jordan: Commitments 1995 – 1999,

€ million

Sector/Programme	**€ million**	**Share**
A. Support to Economic Transition	**57**	**22,4 %**
Private Sector Development Programme (Business Service Team)	7	
Risk Capital Resources (EIB) in support of SMEs	10	
Industrial Modernisation Programme	40	
B. Structural Adjustment Facilities	**180**	**70.8 %**
Structural Adjustment Facility I	100	
Structural Adjustment Facility II	80	
C. Socio-economic balance support	**17.1**	**6.8 %**
EIB interest subsidies for Amman Water Rehabilitation Programme	8.2	
Management Unit for Greater Amman Water Sector Improvement Programme (Rehabilitation)	5	
Tourism development and preservation of cultural heritage	3,9	
Total	**254**	**100%**

LEBANON

EU-Lebanon relations

Progress on negotiations for the Association Agreement with Lebanon has been slow. Negotiations began in November 1995, with the last session in April 1998, after a break of almost two years. At present, there is an agreement on most subjects. Obstacles to resuming negotiations are internal (general elections in August/September 2000), economic (resistance of protectionist private sector), fiscal (high dependence on customs revenues) and external (dominating influence of Syria). New revenue sources from the introduction of VAT foreseen for 2001 would allow for the gradual dismantlement of customs tariffs in preparation for a free trade area. The government has embraced economic liberalisation, transparency and modernisation, and is committed to fiscal reforms in its 1999 and 2000 budgets to tackle the large budget deficit. The Commission is taking the lead in assisting with these reforms in preparation for the future Accord. A call for the resumption of Association Agreement negotiations was made by the Commission in early 2000.

Recent economic and political developments

Since the end of the civil war (1975 to 1991) Lebanon has been governed by a troika composed of a President (Maronite Christian), a Prime Minister (Sunni Muslim) and a Speaker of the Parliament (Shiite Muslim). After the October 1998 elections, General Emile Lahoud replaced Hariri as President with an agenda to combat corruption, open up the political debate, accelerate economic liberalisation and strengthen transparency in public administration. He appointed Selim Hoss as Prime Minister. He has attempted to reshape state institutions along non-sectarian lines, but with limited success so far.

The new government inherited a crippling public deficit (€19 billion in early 1999), which it has sought to reduce through two successive budgets. Liberal economic policies, tax reform and privatisation are seen as the basis for economic recovery. The task of pushing through economic reforms is complicated by the current recession.

The political situation is coloured by the Israeli occupation of the southern border area, prompting a festering conflict between Hizbollah and Israeli and Israeli-backed South Lebanese Army (SLA) forces. Around 4,500 United Nations forces (UNIFIL) monitor the situation. A significant development was the withdrawal of SLA from the city of Jezzine in mid-1999 and its return to Lebanese police control. The south has become increasingly volatile. Reprisal air raids by Israel destroyed two key power stations in June 1999, and added further burdens to an already struggling economy. Lebanon is host to around 300,000 Palestinian refugees confined to several camps, to radical Palestinian resistance groups (opponents of Arafat) and to around 30,000 Syrian troops who ostensibly keep the peace.

The resumption of direct contacts between Syria and Israel in late 1999 and early 2000 has brought closer the prospects for a peace treaty, the return of the Golan, and the withdrawal of Israel from south Lebanon (unilaterally, if necessary, by July 2000, according to PM Barak) in line with UN Security Council resolution 425. At present, the two sides have yet to agree the basic framework for continuing the talks.

Financial Cooperation under MEDA

Lebanon has benefited from grants amounting to €184 million in the context of the MEDA Programme (1995-99). Most of this amount of aid was committed in 1999. In aid per capita terms, Lebanon is among the leading beneficiaries of EU assistance from within the group of MED partners. In addition to grants, the European Investment Bank has accorded loans of over €200 million to Lebanon.

The bulk of this financial support goes to Lebanon's *economic restructuring* and *administrative rehabilitation*. In August 1998 a €38 million Financing Agreement was signed for a programme of rehabilitation of social service ministries, state agencies (electricity, water) and municipalities, following a long and catastrophic civil war. An *investment planning programme* accord (€25 million) was signed in June 1999 to further strengthen the planning and management capabilities of ministries dealing with water, energy, public works, environment and solid waste facilities.

In December 1999 the Commission formally approved a €50 million grant *structural adjustment facility* designed to reinforce fiscal reform, and a €25 million grant for the creation of a *social and economic development fund* to help provide a safety net to lower income groups through micro-credit schemes, community development actions and social services.

A project for *industrial modernisation* (€11 million), approved in November 1999, is due to begin in early 2000. Industry is also to receive support through the strengthening of institutions responsible for the preparation and certification of *standards and norms* (€6 million), scheduled for start in first half 2000.

Lebanon: 1999 MEDA Commitments, € million

Name of project/programme	***Amount***
Industrial modernisation programme	11
Structural Adjustment Facility	50
Fund for social and economic development	25
TOTAL*	**86**
(EIB risk capital and interest subsidies are forecasted for 2000)	

* plus €31 for rehabilitation and humanitarian assistance, outside MEDA

Lebanon: Commitments 1995 – 1999,

€ million

Sector/Programme	*€ million*	*Share*
A. Economic transition	**107**	**58.8%**
Norms	6	
Investment Planning	21	
Industrial modernisation programme	11	
E.I.B. interest rate subsidies (coastal pollution)	10.2	
E.I.B. interest rate subsidies (Tripoli wastewater)	20.8	
Rehabilitation of the public administration	38	
B. Structural adjustment	**50**	**27.4%**
Structural Adjustment Facility	50	
C. Socio-economic support	**25**	**13.8%**
Fund for social and economic development	25	
TOTAL	**182**	**100%**

MOROCCO

EU-Morocco bilateral relations

By October 1999, the EU Member States' national parliaments had all ratified the Association Agreement but its entry into force was subsequently delayed at Morocco's request so that certain changes could be made to Annexes 2 and 6.

The changes were made by means of an exchange of letters and the Agreement, together with the letters, entered into force on 1 March 2000.

The Fisheries Agreement expired at the end of November 1999. Morocco confirmed that it did not want to renew it, but said it was prepared to look at other forms of partnership on fisheries. This was the purpose of Mr Fischler's (the Commissioner for Agriculture, Rural Development and Fisheries) visit to Morocco on 20 and 21 December.

Some tension has arisen in trade relations between Morocco and the EU because of problems posed by the management of the import regime for Moroccan tomatoes. The Commission imposed a system of import licences on 23 December after the relevant EU tariff quotas had been exceeded. Consultations held on 17 January 2000 between the Commission and the Moroccan authorities led to the system being dropped, subject to Morocco's undertaking to place strict limits on its exports.

Political and economic developments

The year was marked by the death of King Hassan II on 23 July and the accession of his son, Mohamed VI. The new king has departed from tradition and taken a number of measures to create a new, more liberal, political landscape. In particular, the return from exile of political opponents was a clear signal of the new regime's will to liberalise and democratise.

The "partnership" Government that had been in power since the start of 1998 remained in office. It was, however, criticised, by the opposition in particular, for inaction.

While macroeconomic indicators are stable - a budget deficit in 1999 of less than 2.3%, a drop in outstanding external debt, greater foreign investment, recovery in the tourism sector and satisfactory foreign assets - the stagnation of growth is somewhat worrying. The farm sector is growing at a rate far below 1%. Agriculture aside, GDP growth tends to be around only 3%. These results are insufficient for genuine economic recovery, particularly given the persistence of social problems such as unemployment and poverty, which has been increasing for ten years.

MEDA operations

1999 marks the end of the stage of the MEDA programme that started in 1995. The financial objectives set at the beginning (€580 million) have been exceeded, with 31 projects financed for a total of around €656 million, of which 55.4% was to support economic balance, 26.4% to support economic transition and 18.2% for the Structural Adjustment Facility. In 1999, the Commission shifted its activities to the northern provinces, which received 77% of the funds. These included the Mediterranean *rocade* (road link) - the second largest project (€80.3 million) after the Structural Adjustment Facility (€120 million). Other projects affecting the northern region are hydro-agricultural improvements around Sahla in the north of Taounate province, slum clearance in Tangiers and support for traditional Mediterranean inshore fishing. Part of the funds for other projects has been specifically earmarked for the north of the country (see box).

The third and last instalment of the Structural Adjustment Facility (€50 million) was disbursed in December 1999.

Support for the development of the northern provinces

The north's difficulties are basically linked to its poor state of development. The region has suffered from isolation and lack of investment in all areas. Today, a third of all Morocco's migrants come from the north and a large proportion of the cultivated area is for growing kif (hashish). The EU supports the fact that development activities prioritise this region. The Commission has really intensified its efforts since 1996 and 27% of MEDA programming between 1996 and 1998 was for the north. In 1999, it received 77% of the funds, in addition to which a number of individual projects were financed under other budget headings.

The Commission's action is designed to augment incomes with productive projects, overcome the lack of investment in the social infrastructure and fight ecological decay.

Projects in the north involve integrated rural development and the management of natural resources, support for health sector management, the integrated development of forested areas in Chefchaouen, hydro-agricultural improvements in Sahla, support for traditional inshore fishing, and slum clearance in Tangiers. Total amounts for projects concerning water and sanitation in the countryside, support for young people and sport, support for basic education and cultural centres include funds earmarked for the north.

As regards improving access to the region, 2000 will see the launch of a major new project: the Mediterranean *rocade* (road link), to which the Community will contribute €80 million. At the same time, a programme of rural tracks and roads in the Rif mountains will connect the most remote *douars* (villages) to the existing road network, making tens of thousands more mobile.

Morocco: Commitments approved in 1999

Project/Programme		**€ million**
Interest subsidies for sanitation in: Meknès Settat Agadir	EIB-managed projects	5.9 2.2 4.7
Support for development NGOs		4.0
Support for professional associations		5.0
Hydro-agricultural improvements (Sahla)		28.6
Support for employment		3.3
Support for the national geological mapping programme		5.0
Mediterranean *rocade* (road link)		80.3
Slum clearance (Tangiers)		7.0
Support for traditional Mediterranean inshore fishing		21.0
Cultural centres		5.0
TOTAL		172

Morocco: Commitments 1995-1999

Projects by sector	€ million	Share (%)
A. Support for economic transition	**173.5**	**26.4%**
Support for upgrading technical training and professional development	38.0	
Support for the quality promotion programme	15.7	
Support for privatisation	5.0	
Support for telecommunications regulation and liberalisation	5.0	
Guarantee fund	30.0	
Euro Maroc Entreprise business centre	30.0	
Support for professional associations	5.0	
Risk capital (EIB)	45.0	
B. Structural Adjustment Facility	**120**	**18.2%**
Structural Adjustment Facility	120.0	
C. Socio-economic balance support	**363.3**	**55.4%**
Interest subsidy for sanitation work (EIB)	20.7	
Water and sanitation in the countryside	40.0	
Slum clearance in Tangiers	7.0	
Support for health sector management	20.0	
Support for basic education	40.0	
Support for employment creation	3.3	
Sport development for young people	6.0	
Network of cultural centres	5.0	
Support for Moroccan development associations	4.0	
Rural roads and tracks in the north of Morocco	30.0	
Mediterranean *rocade* (road link)	80.3	
Support for national geological mapping programme	5.0	
Support for traditional Mediterranean inshore fishing	21.0	
Participative development of forested areas in Chefchaouen province	24	
Hydro-agricultural improvements around Sahla (north Taounate province)	28.6	
Support for integrated rural development	28.4	
Total	**656**	**100%**

SYRIA

Bilateral relations

In the course of 1999, further discussions were held on the MEDA Framework Convention, which was finally signed by the three parties (Commission, EIB and Syrian Government) on 9 November 1999. By the end of 1999, the Convention was still pending ratification on the Syrian side and in the absence of a Framework Convention in force, none of the MEDA I projects was operational.

Negotiations on the Association Agreement continued in 1999. Meetings were held on 16/17 March in Brussels and on 9/10 November in Damascus. Discussions focused on tariff dismantling for industrial and agricultural goods, rules of origin and cooperation in the areas of industry and agriculture. The EU also organised a series of meetings on technical issues, such as rules of origin and possible tariff dismantling schedules. During the fourth round on 9 and 10 November negotiations covered all topics including the human rights clause and the Syrian emergency laws.

Recent developments

The internal political situation did not present major changes in 1999 with President Assad, in power since 1971, re-elected for the fifth time on 10 February.

With respect to foreign affairs, Syria continued strengthening its links with Europe, whilst maintaining good relations with the Gulf States, Iran and several Asian countries. Syria has reinforced its relations with countries of the old Soviet block and, more recently, with Iraq. Relations with both Jordan and Turkey improved significantly in 1999. A breakthrough was achieved in the Middle East peace process with the relaunching of the Syrian-Israeli peace talks in December 1999.

The economy recorded a slight improvement in the course of 1999. The authorities stabilised the exchange rate in the black market and gradually raised the official exchange rate. The inflation rate fell to 1%. Rising oil prices, the announcement of economic reforms and improved business expectations due to the Syrian-Israeli negotiations added to the positive trend and supported the expectations of an economic recovery. The real GDP annual growth rate is expected to have reached about 2% in 1999.

Syrian exports recovered in 1999 and the trade deficit narrowed from 30% to 13% of GDP. The share of public sector production in exports fell to 71% in 1999, compared with 79% in 1997. The Syria-Lebanon Free Trade Agreement, which foresees tariff reductions of 25% annually, led to a significant increase of trade with Lebanon (from US$1.47 million in 1998 to US$3.34 million in 1999). The agreement was seen as a stepping stone to the Association Agreement with the EU. The country's external debt continues to be a pressing issue for the Syrian authorities. Although there are indications that an agreement has been reached with Russia, no progress has been recorded on this issue with Germany.

In his inauguration speech on 10 March 1999, President Assad underlined the need for closer links to the EU and for economic reforms, particularly in the business and banking sectors. President Assad's son, Bashar, is considered as reform-oriented. Recently, the authorities announced the revision of Law No.10 (1991) on investment in order to create a more favourable business environment.

MEDA interventions

The projects defined in the MEDA programme (1995-99) focus on key institutional areas including:

– the reform of the administrative and economic structures

– the support of the business sector

– the development of human resources.

MEDA financed projects and programmes mainly relate to public administration (reform and modernisation of the Ministry of Finance and of local administration), infrastructure (telecommunications and electricity) and private sector support (the Damascus Higher Institute of Business Administration).

In 1999 financial commitments were approved for the Syrian-European Business Centre II (€12 million) and the Institutional and Sector Modernisation Facility (€21 million). Owing to the fact that the MEDA Framework Convention had not been ratified by the end of the reporting period, none of these projects have reached implementation phase.

These programmes are intended to support and encourage the Government's reforms, to create the structures and the instruments necessary for the development of the economy of Syria and to establish a favourable economic and institutional environment. The future Association Agreement with the EU will help the country to adopt structural measures intended to reform its economy to cope with free trade.

Syria

1999 MEDA Commitments, € million

Name of project/programme	Amount (€ million)
Power Sector Action Plan	11
Syrian-European Business Centre II	12
Institutional and Sector Modernisation Facility	21
Archaeological Training Programme (to be financed under MEDA global allocation)	2
TOTAL	**44**

Syria

Commitments 1995-1999, € million

Sector / Programme	€ million	Share
A. Economic Transition Support	**92**	**93.4%**
Modernisation of municipal administration I	6	
Modernisation of municipal administration	12	
Telecom sector support programme	5.5	
Business administration sector	14	
Modernisation of Ministry of Finance	10.5	
Power sector action plan	11	
Business centre (II phase)	12	
Institutional and sector modernisation facility	21	
B. Structural Adjustment Facilities	---	
C. Socio-economic Balance Support	**6.5**	**6.6%**
Development of cultural tourism	3	
Forest sector support programme	3.5	
Archaeological Training Programme (to be financed under MEDA global allocation)	2	
Total	**99**	**100%**

TUNISIA

EU-Tunisia bilateral relations

Tunisia was the first Mediterranean country to sign an Association Agreement with the European Union (on 17 July 1995). The Agreement entered into force on 1 March 1998, the first meeting of the EU-Tunisia Association Council was held on 14 July that year and the Association Committee met in Tunis on 25 June 1999.

The Association Committee agenda covered political dialogue (human rights), the establishing of the free trade area, agriculture (olive oil), social issues and the implementation of financial cooperation.

Political and economic developments

1999 was marked by the presidential and legislative elections on 24 October, which were characterised by the introduction of two changes to electoral law whereby other candidates could participate in the presidential elections for the first time, and a minimum of 20% of the seats from the legislative elections were set aside for the opposition. President Ben Ali was re-elected by a virtually unanimous 99.44% of the votes and the *Parti du Rassemblement Constitutionnel Démocratique* confirmed its dominance.

Though the President claims to be in favour of pluralism and press freedom, in practice he leaves a lot to be desired as regards respect for fundamental freedoms, particularly freedom of association and expression. The main product of his desire to promote reform seems to have been the setting-up of a special office under the Prime Minister which is responsible for human rights, communication and relations with the Chamber of Deputies.

Economic forecasts for 1999 indicate that positive trends have continued. GDP growth should be 6%, with an 11.5% rise in investment (26% of GDP). The government deficit should reach 3% of GDP and inflation 2.8%. According to Tunisian Government estimates, customs receipts lost as a result of the Association Agreement being implemented are likely to come to 400 million dinars (€320 million) a year. In order to compensate, the Government has raised VAT to 18% and abolished a number of tax allowances. The weakness in the country's economic development continues to be unemployment, which is running at 15%.

MEDA operations

The MEDA Programme includes support for economic transition in Tunisia, with particular emphasis on structural reforms, private sector development and socio-economic balance. The Commission committed €428.4 million between 1995 and 1999.

The main operations in 1999 were:

Structural reforms: Following the successful structural adjustment operation (SAF I) in 1998, a new programme of reforms was drawn up and €80 million was committed for a second operation (SAF II) in February 1999, focusing on a number of key areas: the financial sector, the privatisation process and primary and secondary education. Like its predecessor, SAF II was prepared jointly with the World Bank, which for its part granted Tunisia a loan to back financial sector reform. By the end of 1999, the conditions and criteria for disbursing payments had been met and the Commission made an initial payment of €40 million.

Private sector development: This is supported by means of several technical assistance and training programmes, the main aim being to make the economy more competitive. The following projects were implemented in this field in 1999:

– a private sector development programme (support to upgrade SMEs through expertise and services);

– support for reform of the vocational training system;

– technical assistance programme for privatisation;

– programme to promote foreign direct investment;

– programme to support economic competitiveness (particularly in the banking sector).

A new heading for risk capital (€30 million), managed by the European Investment Bank and devoted to the restructuring of Tunisian businesses, brought a doubling of the funds already approved by the Commission to finance this kind of operation.

Socio-economic balance: Tunisia keeps a close eye on the social impact of the reform process and MEDA Programme support is given to operations with a social dimension.

Two projects are being implemented:

– an integrated rural development programme; and

– a programme to support employment creation (approved at the end of 1998).

A further €11.5 million was committed in interest subsidies to help Tunisia repay an EIB loan for an environmental project in the Gabès region.

At the end of 1999, the Commission committed another €40 million to a sectoral facility for health to support a major project to reform Tunisia's health insurance system (see box).

MEDA Sectoral adjustment programme:
health insurance reform in Tunisia, €40 million.

The sectoral adjustment programme in favour of Tunisia's health sector was approved in November 1999 and is the first sector adjustment programme funded under MEDA.

Contrary to a structural adjustment programme that has in general a global objective of restoring / consolidating macroeconomic balances accompanied by the introduction of a series of economic reform measures (legal framework, privatisation, social safety net, tax reform measures etc), sector adjustment programmes have a more limited focus supporting policy and institutional reforms in major sectors.

The Tunisian sectoral programme aims at a comprehensive reform of the health insurance system. The programme also contains certain macro economic conditions to reinforce the sustainability of the reforms.

The programme's *primary objective* is the publication in the official journal of Tunisia (following the adoption by Parliament) of a law reforming the health insurance system. It also supports the adoption and publication of a series of implementation decrees (for example, on the services covered by the basic package, the development of a complementary insurance system or on measures that improve targeting of free services or of services at reduced user fees). These decrees are a *condition sine qua non* for the rapid entry into force of the law once it has been adopted.

Why a programme in the form of a sector adjustment operation? Firstly, the initiative to the reforms dates back to 1996. Since then the Government of Tunisia has been working consistently on its preparation, especially in the context of the CNAM (Commission Nationale d'Assurance Maladie) and the seven specialised working groups established by the CNAM. This indicates that there is a strong ownership of the programme. Secondly, the Tunisian authorities have demonstrated that they have the necessary know-how to prepare and implement this programme. Thirdly, in the concrete case of Tunisia, the World Bank is already supporting the health sector through an investment loan of US$50 million. Fourthly, the Commission, together with the World Bank, has a good experience with structural adjustment programmes in Tunisia.

In view of the specialised character of the operation, the Commission will have at its disposal specialised technical expertise to monitor the implementation and evaluate the impact of the reforms.

The programme has been closely co-ordinated with Member States and the World Bank.

Tunisia: MEDA commitments approved in 1999

Name of programme	€ million
1 - Support for economic reform (SAF II)	80
2 - Support programme for health insurance reforms	40
3 - Pollution reduction in Gabès: interest subsidy (EIB)	11.5
4 - Risk capital for private sector support (EIB)	30
Total	**161.5**

Tunisia: Commitments 1995-1999

Sector/Programme	€ million	Share
A. Support for economic transition	**119.0**	**27.8%**
1 – Vocational training (MANFORM)	45.0	
2 – Risk capital - restructuring (EIB)	15.0	
3 – Risk capital - privatisation (EIB)	15.0	
4 – Support for privatisation	10.0	
5 – Promoting competitiveness of the economy	10.0	
6 – Promotion of outside investment (FIPA)	4.0	
7 – *Euro Tunisie Entreprise* business centre	20.0	
B. Structural/Sectoral Adjustment Facilities	**220.0**	**51.4%**
8 – Support for economic reform (SAF I)	100.0	
9 – Support for economic reform (SAF II)	80.0	
10 – Support programme for health insurance reforms	40.0	
C. Socio-economic balance support	**89.4**	**20.8%**
11 – Integrated rural development (DRI/GRN)	50.0	
12 – Support for employment creation	9.6	
13 – Sanitation - Lac Sud: interest subsidy (EIB)	9.25	
14 – Sanitation - ONAS III: interest subsidy (EIB)	9.05	
15 – Pollution reduction in Gabès: interest subsidy (EIB)	11.5	
Total	**428.4**	**100%**

TURKEY

EU-Turkey bilateral relations

In international terms, the key event in EU/Turkey relations in 1999 was the recognition by the Helsinki European Council in December of Turkey's status as a candidate for EU accession. Turkey will be treated in the same way as the other candidate countries; an accession partnership is being prepared.

Political and economic developments

At home, the centre-right/leftist coalition, which enjoys a large majority in Parliament, launched a programme of structural reforms addressing the functioning of political life, the legal system, the protection of human rights, public administration and social security. Economically, the reforms are directed at the banking system and support for agriculture. The stability of the Government coalition augurs well for effective implementation of the reform plans, in particular for controlling inflation.

The earthquake that struck Turkey in August caused 17 000 deaths and significant economic damage. The spontaneous expressions of solidarity that followed served as a catalyst for *rapprochement* between Turkey and Greece.

Turkey was also hit by recession in 1999, with GDP falling by 5.8%. Among the causes cited are trade difficulties and the restrictive policies adopted to combat inflation, which dampened domestic demand. The August earthquake only made things worse.

Turkey failed to achieve its objectives in the struggle against inflation: the rate remained at 68.9%, only just below the 1998 level of 69.7%. The Government deficit rose to 12% of GDP, as against 8.9% in 1998. The Government has set itself the target of getting inflation down to 25% by the end of 2000. The credit stand-by agreement for US$4.3 billion signed with the IMF in December will help bring inflation down.

Trade volumes dropped by around 10% (figures for January to November) as a result of recession at home and in Russia. By the same token, however, the trade deficit fell by almost 30% thanks mainly to fewer imports. Invisibles (e.g. rebates, tourism) kept the balance of payments in the black, despite an overall drop in income from tourism.

The EU remains Turkey's top trading partner with 54% of all trade. Turkey's trade deficit with the EU fell substantially from €8.9 million in 1998 to €5.7 million (January to November). 90% of its imports from the EU are capital goods, raw materials and semi-finished products.

MEDA operations

It was agreed with the Turkish authorities that Community financial assistance in 1999 would focus on a limited number of priorities. The aim was twofold: to be able to allocate sufficient resources to achieve projects' objectives, and to enhance the impact of EU action.

The three main programmes for the year were in the fields of basic education (€100 million), administrative cooperation (€12 million) and civil society (€8 million). The Commission also contributed €1.7 million to help establish effective intellectual property legislation and committed €18.6 million in interest subsidies for EIB loans for environmental projects (waste water networks in Tarsus and Diyarbakir).

The Community's largest contribution in the framework of financial cooperation with Turkey - €100 million - went to a basic education project supporting the extension of primary education for children between the ages of five and eight. Aid will be given to the Ministry of National Education to pay for a qualitative overhaul of initial and vocational training, ensuring a positive spin-off for the country as a whole. In addition, substantial support will be devoted to implementing the reform in twelve of the most disadvantaged provinces to achieve a quantitative and qualitative improvement in education, for girls and women in particular. Finally, support will be given to the opening of local multidisciplinary centres for sections of the population excluded from basic education (children, young people and adults) in cities with a high level of immigration, mainly Istanbul.

The administrative cooperation programme is proving very important in allowing the Turkish authorities to implement the customs union agreement and generally pursue greater integration with the EU across the board. It will be used to finance visits by Turkish officials and experts to meet their EU counterparts, and also to carry out work by specialists to help the Turkish administration and to organise training for Turkish ministries, etc.

The framework programme for the development of civil society is aimed in particular at backing citizens' initiatives and helping to establish more equitable relations between people and government.

As regards geographical distribution, project operations tends to focus on the provinces to the south-east and east whose development is lagging behind that of the rest of the country. Particular attention was given to those provinces affected by the earthquake in August. A special effort was also made to address gender issues.

With €140.3 million committed in 1999, Turkey will have received a total of €376.2 million in the course of the MEDA I Programme (1995-1999). Around fifty projects have been conducted, in the following areas: private sector support (SMEs), public health, basic education and vocational training, environment, and the defence and promotion of human rights and civil society.

Turkey

1999 MEDA commitments, € million

Name of project / programme	*Amount*
Support to basic education	100
Administrative cooperation programme	12
Framework programme for the development of Civil Society	8
Effective enforcement of intellectual property rights	1.7
Interest rate subsidies (E.I.B.) – Tarsus waste water management – Diyarbakir waste water management	 9.5 9.1
Total	**140.3**

TURKEY: Commitments 1995-1999

	€ million	Share
A. Economic transition support	**138**	**37%**
Food inspection	10.1	
Business innovation centers	3.1	
Interest rate subsidy : wastewater for Izmit (E.I.B.)	11.4	
Risk capital (E.I.B.)	12	
Interest rate subsidy: wastewater for Adana (E.I.B.)	10.7	
Industrial zone for SMEs (automotive components)	1.2	
Information network for SMEs (KOBINET)	0.8	
Mechatronics	1.8	
Development EU-Turkey Business centers	17.3	
Strengthening of the Vocational Education and Training system	51	
Interest rate subsidy: Diyarbakir wastewater (E.I.B..)	9.1	
Interest rate subsidy: Tarsus wastewater (E.I.B.)	9.5	
B. Structural Adjustment Facilities	**--**	**0%**
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C. Socio-economic balance support	**237**	**63%**
Jean Monnet Fellowship Programme	5	
Modernisation of education and vocational training (8 sectors)	14	
Mobilisation for economic and social development	0.9	
Sanliurfa drinking water supply	21.3	
Rehabilitation of Balat and Fener districts (Istanbul)	7	
Programme of Reproductive Health	55	
Support to basic education	100	
Administrative cooperation	12	
Civil society development programme	8	
Urban Community Empowerment	1	
State reform programme	0.6	
Forming Consumer Awareness	0.4	
Women cancer pre-diagnosis	1.9	
Women entrepreneurs	1	
Effective enforcement of intellectual property rights	1.7	
Other small projects	7.3	
Total	**375**	**100%**

WEST BANK AND GAZA STRIP

The European Community's cooperation with the West Bank and Gaza Strip is mainly financed through a specific budget line entitled "Support to the Middle East Peace Process" (B7-420). Cooperation activities under this title, which amounted to around €41 million in 1999, are the subject of a separate report which will be prepared by the Commission in compliance with Article 6 (1) of Council Regulation (EC) No 1734/94.

MEDA financing is integrated into the overall cooperation strategy being pursued in the abovementioned framework. The objective is to improve the living conditions of the Palestinian population and to support the peace process in the region by financing investment and operating costs in infrastructure, urban and rural development, education, health, environment, services, foreign trade and institution building.

In 1999 the MEDA programme financed an operation entitled "Cargo Facility for Gaza International Airport" for an amount of €25 million. Following the signature of the Wye Memorandum, Israel agreed that an airport in Gaza could be opened. In view of its strategic economic importance, the Palestinian Authority raised with the Commission the possibility of getting financial assistance for the development of cargo checking facilities. Since one of the objectives of the Euro-Mediterranean Partnership is to promote trade in the region it was decided to make MEDA funding available from the 1999 budget for the construction of the cargo facility as a first step to enable trade operations to begin at the airport. It was also felt that this project would contribute to the EC’s efforts to implement fully the EC-PLO Interim Agreement on Trade and Cooperation.

In addition, the MEDA programme financed a Risk Capital Operation (EIB) for the “Palestinian Banking Corporation” (PBC) for an amount of €8 million. The operation aims to provide long-term funding to assist small and medium sized Palestinian enterprises to start-up or expand in all the business sectors of the economy, through an operation on risk capital which would allow PBC to finance direct or quasi-equity participation in suitable projects.

WBGS: 1999 MEDA commitments (€ million)

Cargo Facility for Gaza International Airport (grant)	25
Palestinian Banking Corporation (risk capital)	8
Total	**33**

WBGS commitments 1995-1999 (€ milion)

Economic transition support	**90.5**	**81.5%**
Economic policy support programme	0.5	
Technical assistance on customs administration	1.2	
Budget stabilisation fund	25	
EIB interest rates subsidy (Gaza water and sanitation)	7.4	
Technical assistance to the Palestinian authority (Coter)	3.6	
EIB interest rate subsidy (industrial estates)	1	
EIB risk capital Investment guarantee fund (MIGA)	5	
Private sector development	3	
EIB, risk capital (Palestinian Banking Corporation)	8	
EIB, interest rate subsidy (West Bank water project)	8.6	
Gaza Airport Cargo Facility	25	
EIB interest rate subsidy	2.3	
Structural Adjustment Facility	**---**	**0%**
Socio-economic balance support	**20.5**	**18.5%**
Recurrent costs of the Education Ministry	20	
Monitoring Israeli colonising activities	0.5	
Total	**111**	**100%**

II.2.2. REGIONAL COOPERATION

The implementation of the regional indicative programme expanded significantly in 1999. The emphasis was mainly on introducing a tighter focus on priorities identified for regional cooperation and ensuring that this is reflected in the critical mass of the projects financed. A high level conference on regional cooperation was held in Valencia on 28-29 January which confirmed the priorities for cooperation, emphasised the need for complementarity between regional and bilateral activities and endorsed the principle allowing for a sub-regional approach (whereby programmes of activities open to all partners could be made up of a series of projects with the participation of a smaller number of participants). The role of civil society was also underlined. The Valencia Conference also confirmed the importance of South-South cooperation particularly concerning harmonisation and compatibility of measures related to the EU Single Market.

The conclusions of the Valencia Conference were endorsed at the Stuttgart Foreign Ministers Conference on 15-16 April, which also called for the Commission to prepare a reflection paper on the methodology for regional cooperation. This paper, outlining the respective roles of the Euro-Mediterranean Committee for the Barcelona Process and the Med Committee in the elaboration of regional cooperation activities, was prepared during the year.

The main developments in specific programmes during the year were as follows:

- **Industrial cooperation**: 1999 was the year of strategic reform for industrial cooperation. In line with the new methodology, four priority themes were defined – investment promotion, innovation and quality, Euromed market instruments and mechanisms and SMEs. €3.95 million was committed for the first theme, investment promotion, to establish a regional network of Investment Promotion Agencies.

- **Environment:** the amount of €6 million was committed for the first series of projects selected in the context of the Short and Medium-Term Priority Environmental Action Programme (SMAP). The Programme aims at identifying and implementing appropriate activities for five priority fields and promotes action plans that offer environmentally sound, technically and economically feasible and socially acceptable solutions for the conservation and rehabilitation of the Mediterranean environment.

- **Information Society:** €45 million was committed for the implementation of the Euro-Mediterranean programme on the Information Society (EUMEDIS) comprising a network of focal points and their interconnection, and a series of pilot projects on applications in the fields of electronic commerce, industry, education, health, cultural heritage and tourism

- **Local Water Management:** a Ministerial Conference was held in Turin on 18-19 October which reached agreement on the general lines of an action plan designed to lead to the launching of a regional cooperation programme in this sector

- **Audio-visual:** €20 million was committed for the first phase of the Euromed Audiovisual programme, which comprises a cluster of 6 regional projects selected after a call for proposals. These projects have a duration of 3 to 4 years and mainly deal with audio-visual archives preservation, support to co-production / distribution, and training in the field of cinema and television.

II.3. INFORMATION ACTIVITIES ABOUT THE EURO-MED PARTNERSHIP

To increase the visibility of the Euro-Med Partnership, the Commission has pursued the following initiatives, initiated in 1998 for the majority of them. Beyond this list of activities, the Commission is currently carrying out a reflection on a more ambitious information and communication strategy.

Euromed Internet Forum and Publications

The EUROMED INTERNET FORUM website has been set up by the University of Malta's Mediterranean Academy of Diplomatic Studies with the support of the European Commission. This site has been operational since the second Euro-Mediterranean Conference of Foreign Affairs Ministers (Malta, April 1997). It is open to all Internet users (http://www.euromed.net) and provides detailed information on the Euro-Mediterranean Partnership. In 1999, this website saw a substantial improvement in terms of quantity and quality.

In addition, a series of brochures and information notes has been compiled, containing basic information on specific activities, programmes or themes related to the Euro-Mediterranean Partnership. Brochures published cover the Barcelona Declaration, the Euro-Mediterranean Partnership, Private Sector Development and Structural Adjustment. During 1999, two new brochures were published on the MEDA Programme and the environmental programme SMAP (Short and Medium-Term Priority Environmental Action Programme).

The following documents are also available on the Euromed Internet Forum:

Euromed Synopsis: weekly news bulletin on the main ongoing and forthcoming projects, programmes and events related to the Euro-Mediterranean Partnership. It announces the most relevant events scheduled within a period of four to five weeks and also contains background information as well as a follow-up of the most recent events.

Euromed Special Feature: monthly publication that addresses in depth one specific issue within the framework of the Barcelona Process such as a regional programme, a Mediterranean Partner profile, a project or a theme of common interest for the 27 Euro-Mediterranean partners.

Euromed Report: irregular publication for quick dissemination of conclusions of major meetings and of summaries of reports concerning the Euro-Mediterranean Partnership.

Monthly Calendar: published every month, it brings to the attention of the general public important information on events related to the Euro-Mediterranean Partnership. It is divided into three sections: calendar of priority actions of the Barcelona process; information sheets on future meetings; and conclusions of previous meetings.

Information visits for specific groups from the Mediterranean Partners

The main objective of these information visits is to allow representatives of media and civil society from the Mediterranean Partners to come to Brussels to visit the European institutions and meet EU officials, and acquire information about the Euro-Mediterranean Partnership, mainly with respect to their specific field of activity. These visits were in the past addressed only to journalists, but they have now been extended to other groups from the civil society and from the private sector. Three visits of this kind took place in 1999.

Information and culture activities of Delegations

Since 1995, within the MEDA Programme, the Delegations of the European Commission in the 12 Mediterranean Partners receive annual funding for their culture and information activities programme. These activities are divided in three main categories: local cultural activities, regional cultural activities and information activities, the latter being designed to inform the public in the Mediterranean Partners about the activities undertaken in the framework of the Euro-Mediterranean Partnership (information seminars, visits to MEDA funded projects, contacts with local media, leaflets and brochures). All activities are identified by the Delegations and proposed to Headquarters on a yearly basis. In 1999, €262 000 have been allocated for these activities (compared to €230 000 in 1998).

III. EUROPEAN INVESTMENT BANK OPERATIONS IN THE MEDITERRANEAN REGION

In the **Mediterranean region**, the European Investment Bank's (EIB) lending takes place mainly within the framework of the Euro-Mediterranean Partnership, in support of the economic development of the countries concerned. EIB lending supports individual investment projects and, through the global loan mechanism, smaller projects and SMEs, while at the same time strengthening the financial sector in the various countries. Under the terms of the Euro-Mediterranean Partnership, EIB's lending is complemented by interest subsidies (for loans in the environmental sector) and risk capital from EU budgetary sources, managed by the Bank.

Lending activities

In the **Mediterranean region**, the Bank signed 21 loans in 7 countries in 1999 for a total of €745 million (not including 2 loans totalling €200 million in Cyprus under the Pre-Accession Facility). Loans for projects in Egypt and Morocco accounted for 60% of the overall amount.

- 16% of total financing (€122 million) was allocated to the **Water Management and Miscellaneous** sector, underlining the importance of water as a scarce resource in this part of the world. Projects financed include the rehabilitation and extension of wastewater networks sewerage networks and treatment plants in Morocco, Egypt and Turkey.

- In the **Energy** sector, which accounted for 4% of total financing (€28 million), a gas pipeline in Egypt was supported.

- Egypt, Jordan, Morocco and Tunisia benefited from loans to the **Industry and Services** sector for 44% of total financing (€330 million). The loans supported an industrial gases plant and a hydrocracking unit in Egypt, two chemical plants in Morocco, fertiliser plants in Tunisia and Jordan, and a phosphate mine in Jordan.

- A railway project in Tunisia and a road project in Morocco were financed under the heading of **Communications** and accounted for 23% of total financing in the region (€170 million).

- **Global** loans in Egypt, Lebanon and Turkey accounted for almost 13% of overall financing (€95 million).

- As regards MEDA Budgetary Funds, several Risk Capital operations were mounted during 1999 :

  - €2 million equity participation in Morocco

  - €34 million for building up equity of private companies and a global loan to local development banks in Tunisia

  - €12 million for participation in investment funds in Turkey

  - €8 million for SMEs in Gaza-West Bank

In the **Mediterranean region**, the Bank's activities are conducted within the framework of EU policy and form part of a concerted approach that is being pursued in close cooperation with the Commission and, as appropriate, with other international financial institutions, including through co-financing operations.

The aforementioned projects represent a good cross-section of operations, which are designed to underpin the sustainable economic development of the Mediterranean partners concerned. Falling within the Financial Cooperation *volet* of the Barcelona Declaration, these actions are compatible with the development strategies of the beneficiary countries and coherent with the activities of other Donors and Financing Agencies in the Middle East and North Africa region.

IV. EVALUATIONS OF THE MEDA PROGRAMME

The MEDA Regulation provides for regular evaluations of both the overall programme as well as of aspects of it in order to increase transparency and assess the efficiency of the EU action in the Mediterranean region. In this connection, the following evaluations were launched and carried out by independent experts in 1998 and 1999[15]:

1. Evaluation of the MEDA Regulation,
2. Evaluation of Structural Adjustment Facilities,
3. Evaluation of the MEDA Democracy Programme, and
4. Evaluation of cooperation with West Bank and Gaza Strip ;

The main conclusions of the three evaluations are the following:

MEDA Regulation

The evaluation concludes that the coherence between EU financed projects and programmes and the overall MEDA objectives has been strengthened in the context of the indicative programming. Significant improvements have been achieved in the designing of the EU projects for the Mediterranean countries. The need for an ongoing political dialogue between the Commission and the authorities of the Partner countries is emphasised to better adjust EU programming to country-specific priorities.

To make the indicative programming system effective, the evaluation suggests the setting of strategic plans. Their function would be: (a) to help define and measure, by quantified indicators, the overall goals and MEDA programme objectives in the context of the needs, and the institutional and absorptive capacity of the Mediterranean partners, and (b) develop monitoring systems, in the absence of which it would be impossible to access “outcome-to-purpose” impacts. At present, “such strategic planning and monitoring is unsatisfactory”.

It is further underlined that the performance-based programming exercise has been seriously constrained by MEDA I procedures. Particular reference is made to the requirement to seek approval for each significant financing decision from the MED Committee (in which Member States are represented). It is noted that the MED Committee is already involved at an earlier stage, that of the National Indicative Plans. The evaluators conclude that this MED Committee involvement in the Commission’s commitment system at the level of single programme/project increases the administrative workload of the Commission.

It is also stressed that the negotiating process and the establishment of rules and procedures for financial and technical co-operation under MEDA I (except in the case of Structural Adjustment Facilities) became a time-consuming undertaking and led to serious delays for the implementation process. In particular, the late conclusion of the Financing Framework Conventions hampered efficiency in terms of implementation, since they provide the necessary legal and administrative framework for procedures to be laid down before Financing Agreements could be signed.

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15 For more information see http://europa.eu.int/comm/scr/evaluation.

The overall recommendations of the evaluation report includes, inter alia, the streamlining of the programming process, the simplification of the implementation rules and procedures and the strengthening of the Commission's capacities for programming and implementation. The evaluation proposes the revision of the MEDA Regulation for further enhancing the impact of the EU Mediterranean policy.

Structural adjustment

A separate evaluation has been carried out on the support for structural adjustment implemented through the instrument of the Structural Adjustment Facility (SAF). SAFs make up a substantial share of the overall MEDA programme (15% in 1995-99), providing direct budgetary support conditioned to the effective implementation of a reform programme agreed with the partner country.

The evaluation study, finalised during the first semester of 1999, concluded that SAFs had a beneficial impact on the Mediterranean economies since they have clearly contributed to an improvement of the macro economic situation. In the context of the preparatory work, an intensive economic dialogue was held between the authorities of the Partner countries and the Commission services. Furthermore, the operations were well co-ordinated with the IMF and the World Bank.

However, difficulties in the implementation of the conditionality have led to delays in the implementation of the adjustment operations The study recommends a better linkage of SAF conditionalities to the preparation of the free trade area with the European Union and the strengthening of the socio-economic balance in the countries concerned.

MEDA Democracy

The evaluation examines the impact of the MEDA Democracy Programme (MDP) launched in 1996 following the 1995 Barcelona Declaration and now an integral part of *the European Initiative for Democracy and Human Rights*. Under the MDP subsidies are granted to non-profit-making associations, universities, research centres and various public bodies. At the time of reporting, 148 operations had been funded at a cost of €22.85 million.

The main findings of the evaluation indicate that the MDP had correctly addressed the issues most relevant to human rights and democracy. Projects were mostly well designed, linked well with other programmes and were efficient and relevant to need. Training and education projects targeted a limited number of beneficiaries but had high impact on them, whereas human rights and democracy awareness programmes targeted larger numbers but yielded lower beneficiary impact. The programme should improve its strategy in addressing human rights problems in Tunisia and Syria. The study recommends that a new and more comprehensive programme guide to local civil societies should be prepared for each Mediterranean partner and made available on the Europa Internet site.

West Bank and Gaza Strip Assistance

This evaluation examined the EU programme of assistance to the Palestinian Authority in support of local economic and social development in the WBGS.

The main findings show that the programme had provided considerable help in the area of private sector development. The strengthening of the financial credit sector has brought about significant improvements in job creation and credit recovery levels. However the average duration of credits remained too short to support many investments. In the education area, the

EU programme contributed to the implementation of a number of key internal reforms, particularly with respect to the drafting of a new Law on Higher Education.

ANNEX I

Euro-Mediterranean Partnership

FOURTH MEETING OF EXPERTS ON

ECONOMIC TRANSITION IN THE EURO-MEDITERRANEAN AREA

BRUSSELS, 2-3 OCTOBER 2000

WORKING DOCUMENT

1. This year's Meeting of Experts on Economic Transition in the Euro-Mediterranean Area will be held shortly before the fourth Euro-Mediterranean Conference of Ministers of Foreign Affairs in Marseilles. It is therefore an appropriate forum to take stock of economic progress achieved by Mediterranean partners and review future prospects. Both the present framework document of the Commission as well as FEMISE's *Second Report on The Euro-Mediterranean Partnership* are inputs to the Meeting's discussions.

STABILISATION HAS ADVANCED, BUT GROWTH REMAINS WEAK

2. Following the implementation of successive adjustment programmes over the last twenty years, Mediterranean partners have achieved considerable macroeconomic stabilisation. This is an achievement which, however, cannot be taken for granted. Indeed, some countries in the region are still facing today an important stabilisation agenda, while in others macro-economic consolidation is fragile.

3. Mediterranean partners have also made notable progress in demographic transition and a relative stabilisation of their population is projected within the coming 20 years. However, the population of these countries is predominantly young due to past demographic trends. A higher level of new entrants together with the expected intensification of women's activity imply a significant rise of pressure on their labour market in coming years.

4. According to international estimates, Mediterranean economies need to achieve real GDP growth rates of the order of 6-7% to absorb the excess labour supply. However, the growth performance of Mediterranean partners has been weak in recent years, despite their considerable progress in macroeconomic stabilisation and the improved international environment This seems to be due in great part to the hesitant progress in structural reform which has resulted in an inadequate mobilisation of investment –domestic and foreign – and low productivity.

5. To generate the necessary economic growth and close the gap between their present and needed growth rates, Mediterranean partners could adopt a double strategy based on accelerating structural reform and preparing themselves to take advantage of new forms of economic growth. The implementation of this strategy would also consolidate progress in stabilisation and shape the conditions for sustainable growth.

ASPECTS OF THE REFORM AGENDA

6. What could be the elements of such a strategy? The reform of the state is one of its cornerstones. The public sector in the Mediterranean economies remains large. It often dominates the financial

sector through public commercial banks, thus harming the quality of financial inter-mediation, affecting adversely small- and medium-sized enterprises, as well as the development of a dynamic capital market. The accelerated privatisation of public industrial and financial enterprises would liberate new forces in the economy.

7. The state's institutional capability should also be strengthened since it improves the capacity of governments to implement change effectively. Weak institutions and weak organisations impede policy reforms. International experience shows how the failure to improve governance, in both the public and corporate sectors, is at the heart of weak investment, the failure of enterprises to restructure and capital flight.

8. Whilst the "first generation" of reforms focused on stabilisation and growth, a "second generation" focusing on the regulatory functions of the state needs now to be implemented. They would address the incentives and actions that are required for private sector development and for developing the institutional capacity for reforms. A greater flexibility in the labour market and the modernisation of the financial sector would also contribute to channelling private investment into efficient activities and attracting a return of flight capital. Competition policy backed by modern competition law and efficient competition agencies would help establish a level playing field for business activity and control the possible abuse of power in the market place.

9. The room for further progress with respect to foreign direct investment remains considerable. Although it is true that most countries have developed a more welcoming attitude towards it, certain sectors remain the exclusive domain of public enterprises and domestic investors. This concerns in particular the services sector. Moreover, it should be recognised that foreign investors are particularly sensitive regarding the process of obtaining approval for their investment (speed and efficiency of the registration and approval process), investment conditions (investment in land is often not permitted) as well as the regulatory framework that directly affects their operational performance (conditions of work for non-nationals, labour code, tax laws, social security provisions, environmental legislation).

10. Accelerating reforms is also needed in view of tariff dismantling vis-à-vis the EU. The counterpart of lower domestic prices resulting from this is a revenue loss for the Government. This can be considerable in countries that have a high dependency on trade taxes. Fiscal reform could focus on modernising the tax system (introducing VAT in countries that do not yet have it), creating more equitable and efficient tax systems, broadening the tax base particularly by simplifying procedures and limiting exemptions in indirect and direct taxation, as well as upgrading the system of tax administration. Projects and programmes in the area of fiscal reform would play a central role in financing plans under the revised MEDA Regulation.

11. The importance of agriculture for the Mediterranean partners is understandable. The sector still plays an important role in the economies of the Mediterranean partners and is crucial for the welfare of their rural populations. The association agreements foresee a resumption of negotiations with a view to deepening the exchange of concessions on a reciprocal basis. In this respect it can be expected that the reform of the CAP, as well as the resumption of negotiations under the auspices of the WTO as part of the Uruguay Round agreement on agriculture can give a welcome impetus to these negotiations.

12. Because of the small size of most Mediterranean economies, trade could become an essential source of demand. Further diminishing the degree of protection of the local markets particularly with respect to tariff barriers and taking favourable measures for exporters would encourage trade. However, trade should also be encouraged in the south-south context. Accelerated south-south integration would certainly offer enhanced growth potentialities for the Mediterranean economies and attract additional foreign direct investment.

13. New technologies are rapidly changing the face of the global economy. The Mediterranean countries have to develop bolder strategies allowing them to better adapt to the new conditions of economic growth. They will soon have to tackle issues relating to the telecoms regulatory framework as well as to the legal framework for electronic commerce. The access to Internet, currently

particularly expensive in the Mediterranean partners, should be facilitated. The shift to a knowledge-based economy, prompted by new goods and services, would be a powerful engine for growth and jobs.

14. However, to underpin reform, a broad base of social support is needed. Growth should be not only sustainable but also equitable. The strengthening of the social safety net to support restructuring and growth contribute to the shaping of consensus in society on the reform agenda. Investment in education helps the new generation cope with the market economy. Job schemes facilitate the reintegration of those who have been affected by the stabilisation programmes, particularly women.

THE ROLE OF THE EU

15. The main economic thrust of the EU’s Mediterranean policy, notably since the decision to establish a Euro-Mediterranean free trade area by 2010, provides an appropriate and indispensable framework for the partners’ reform process. To alleviate the economic and social costs of reform and particularly of the establishment of the FTA, the EU has steadily increased its financial aid to Mediterranean partners. In the period 1995-99, the EU has provided over € 4.6 billion in grants to the Mediterranean region (€ 3.4 billion under the MEDA programme and 1.2 billion under other budget lines) while in addition the EIB has granted loans of over € 4.6 billion. Furthermore, Member States have provided considerable aid to Mediterranean partners in the context of bilateral co-operation programmes.

16. Through the MEDA Programme, the main instrument of financial co-operation in the Euro-Mediterranean Partnership, the Union is financing projects in the area of economic transition in Mediterranean Partners, such as the modernisation of the industrial sector, the acceleration of the privatisation process, the restructuring of the financial sector, the upgrading of the public administration, the development of key infrastructure. MEDA projects further aim at strengthening the socio-economic equilibrium by improving basic education and facilitating the access of girls and women to it, modernising health services and pension systems, strengthening civil society and protecting cultural heritage. Regional projects focus inter alia on the promotion of industrial co-operation, environmental protection and the development of the information society.

17. Although commitment appropriations in the context of the MEDA Programme were fully utilised in 1995-1999, payments averaged only 26% of commitments. One of the reasons for the delays in the implementation of the Programme has been its cumbersome and rigid decision-making procedures. The revision of the MEDA Regulation, currently under negotiation at the Council, aims at achieving significant time gains in the decision process. In addition it favours a more strategic programming of aid so as to ensure that MEDA interventions are coherent with national reform strategies. Moreover, the ongoing reorganisation of the Commission services involved in delivering external aid to the Mediterranean should also contribute to a more efficient and rapid delivery of assistance, as well as to its qualitative improvement.

18. However, lack of determination on the side of the Mediterranean partners to implement key structural reforms has also borne a significant share of responsibility for delays in the implementation of the Programme. In an overall challenging budgetary context, MEDA funds will be increasingly channelled towards partners that have confirmed absorption capacity as well as a good implementation record of their association agreement concluded with the European Union. The commitment of the partners to the implementation of their respective national reform strategies would be decisive in the assessment of their absorption capacity. The economic dialogue between the Union and its Mediterranean partners would be a key instrument in this exercise.

GDP growth (annual percentage)

Countries	1995	1996	1997	1998	1999
Algeria	3.8	3.8	1.1	5.1	3.5
Cyprus	6.1	1.9	2.5	4.5	4.5
Egypt	4.7	5.0	5.5	5.6	5.9
Israel	7.1	4.6	2.9	2.2	2.0
Jordan	3.9	1.0	1.3	2.2	1.2
Lebanon	6.5	4.0	4.0	5.0	..
Malta	6.2	3.9	4.8	4.1	..
Morocco	-6.6	12.2	-2.3	6.5	0.2
Syria	6.7	2.2	4.0	5.0	5.3
Tunisia	2.3	7.1	5.4	5.0	6.2
Turkey	7.3	6.8	7.7	2.8	0.4
West Bank and Gaza	-1.4	-1.0	-0.7	4.0	3.8
European Union (15)	2.4	1.6	2.5	2.7	2.3
World	2.7	3.7	3.6	1.7	2.8

Source: *World Development Indicators* database

GDP deflator (annual %)

Countries	1995	1996	1997	1998	1999
Algeria	28.5	25.7	6.5	-4.2	8.7
Cyprus	3.0	1.7	2.3	2.3	1.0
Egypt	11.4	7.1	5.9	3.6	5.6
Israel	9.8	11.4	8.8	6.7	6.9
Jordan	3.4	2.3	3.7	3.7	1.8
Lebanon	10.6	8.9	8.5	8.0	..
Malta	4.9	0.9	2.3	0.5	..
Morocco	8.0	1.0	2.0	0.7	1.0
Syria	5.4	12.6	8.5	7.0	5.8
Tunisia	5.2	4.7	4.0	3.5	3.6
Turkey	87.0	78.3	81.2	74.2	52.2
West Bank and Gaza	10.1	11.0	15.4	5.6	5.8
European Union (15)	3.0	2.5	1.9	2.0	1.6
World	..	..	..	..	..

Source: *World Development Indicators* database

Current Account Balance (% of GDP)

Countries	1995	1996	1997	1998	1999
Algeria	..	..	..	..	..
Cyprus	-1.8	-5.1	-3.7	-6.2	..
Egypt	0.6	-0.3	0.2	-3.3	-2.7
Israel	-5.9	-5.6	-3.5	-0.7	-2.6
Jordan	-3.9	-3.3	0.4	0.1	0.8
Lebanon	-28.2	-25.7	-23.3	-22.6	..
Malta	-10.9	-10.6	-6.0	-5.8	..
Morocco	-3.6	0.1	-0.3	-0.4	-1.3
Syria	2.2	0.5	2.9	0.3	..
Tunisia	-4.3	-2.4	-3.1	-3.4	-3.7
Turkey	-1.4	-1.3	-1.4	0.9	..
West Bank and Gaza	..	..	..	..	..
European Union	0.6	1.0	1.5	0.9	0.2
World	..	..	..	..	..

Source: *World Development Indicators* database

Table / Foreign Direct Investment Flows into the Mediterranean region (mln $)

	1987-1992 annual average	1993	1994	1995	1996	1997	1998
Algeria	-	-59	22	-24	447	630	500
Cyprus	83	83	75	119	259	175	200
Egypt	806	493	1.256	598	636	891	1.076
Israel	187	429	355	1.306	1.389	1.455	1.839
Jordan	21	-34	3	13	16	361	223
Lebanon	2	7	23	22	64	150	230
Malta	46	56	152	183	325	128	130
Morocco	203	491	551	332	354	1.079	258
Syria	67	176	251	100	89	80	100
Tunisia	160	562	432	264	238	339	650
Turkey	578	636	608	885	722	805	807
Source : UNCTAD		2.840	3.728	3.798	4.539	6.093	6.013

Table : Foreign Direct Investment Flows into the Mediterranean region (% of gross capital formation)

	1987-1992 annual average	1993	1994	1995	1996	1997
Algeria	-	-0,5	0,2	-0,2	3,6	5,1
Cyprus	6,5	5,6	4,9	7,0	15,0	10,6
Egypt	4,4	5,3	11,9	5,3	5,1	6,1
Israel	1,8	2,9	2,1	6,4	6,2	6,9
Jordan	1,8	-1,8	0,1	0,7	0,8	20,3
Lebanon	0,5	0,4	1,8	1,5	4,3	10,8
Malta	7,4	7,8	19,1	17,8	34,0	15,0
Morocco	3,8	8,1	8,8	4,7	5,0	15,6
Syria	1,4	1,8	1,9	0,7	0,6	0,6
Tunisia	5,8	13,7	10,2	6,1	5,3	7,3
Turkey	2,0	1,3	1,9	2,2	1,6	1,6

Source : UNCTAD

Trade flows of Mediterranean Partner Countries (MPC) *(millions current dollars)*														
	Partners	EXPORTS			IMPORTS			Partners	EXPORTS			IMPORTS		
		1981	1992	1998	1981	1992	1998		1981	1992	1998	1981	1992	1998
Algeria	WORLD	13.296	11.830	11.646	11.301	7.017	8.380	MPC (intra-regional trade)	67	187	704	173	208	570
Cyprus		557	501	426	1.101	3.142	3.686		92	67	69	100	77	209
Egypt		3.034	4.970	3.195	8.244	7.948	16.479		594	211	360	259	277	633
Israel		5.662	13.082	23.304	7.860	18.814	27.469		160	150	471	67	159	578
Jordan		510	697	452	3.140	2.514	2.852		59	32	51	232	179	206
Lebanon		741	495	452	3.548	2.914	4.904		208	79	62	154	180	224
Malta		386	1.361	1.711	958	2.459	2.667		2	5	45	53	87	41
Morocco		2.320	5.668	6.919	4.351	6.686	8.433		73	205	112	71	295	166
Syria		2.102	2.502	2.238	5.039	2.830	3.658		101	136	366	286	306	365
Tunisia		2.502	4.040	5.738	3.765	6.432	8.347		95	225	159	105	344	388
Turkey		3.385	14.715	26.881	5.785	22.871	45.908		249	1.136	2.465	202	322	1.485
MPC		34.495	59.861	82.962	55.092	83.627	132.783		1.700	2.433	4.864	1.702	2.434	4.865
Algeria	E.U.	6.989	9.112	7.523	7.567	5.253	5.811	REST of the WORLD	6.240	2.532	3.041	3.611	1.556	2.048
Cyprus		169	309	215	605	1.773	2.018		296	126	143	446	1.291	1.509
Egypt		1.451	3.224	1.197	4.075	4.707	5.978		988	1.568	1.638	4.051	5.743	9.917
Israel		2.167	4.658	7.181	2.960	9.831	13.335		3.336	8.274	15.652	4.884	8.874	13.607
Jordan		8	78	175	1.167	1.015	1.222		442	587	227	1.791	1.320	1.425
Lebanon		60	111	177	1.975	1.715	3.104		473	305	214	1.469	1.069	1.578
Malta		350	1.150	925	804	2.000	1.847		34	205	741	151	422	778
Morocco		1.363	4.160	5.649	2.180	4.919	6.489		883	1.232	1.158	2.150	1.523	1.778
Syria		1.370	1.985	1.658	1.835	1.409	1.681		631	381	215	2.928	1.163	1.611
Tunisia		1.517	3.164	4.601	2.460	4.709	6.265		890	650	978	1.250	1.378	1.778
Turkey		2.122	7.933	13.446	3.121	10.655	24.077		1.013	5.646	10.969	2.512	11.894	20.347
MPC		17.566	35.884	42.747	28.749	47.986	71.827		15.226	21.506	34.976	25.243	36.233	56.376

MPC: Mediterranean Partner Countries

Source: FEMISE Network, *The Euro-Mediterranean Partnership in the Year 2000* , July 2000, p. 18. Some of the Mediterranean Partner Countries are not “reporter” in the WTO COMTRADE database. For Syria, Jordan and Lebanon trade data have been reconstructed using declarations of the trading partners. It is also the case for Algeria and Malta before 1994, Morocco in 1992 and Egypt in 1992 and 1993.

ANNEX II

FOURTH MEETING OF EXPERTS ON ECONOMIC TRANSITION IN THE EURO-MEDITERRANEAN AREA

1.1. Brussels, 2 and 3 October 2000

1.2. Chairman's conclusions

1. During a meeting held in Brussels on 2 and 3 October 2000, government experts of the 27 members of the Euro-Mediterranean partnership discussed under the chairmanship of the European Commission the progress in economic transition in the Mediterranean region. The discussions were held at the time the Commission had just been making proposals with a view to reinvigorating the Barcelona Process. In this context there was general agreement that the financial and economic partnership should be further strengthened in particular through introducing a greater focus on key issues.

2. It was highlighted that most partners have achieved considerable progress in macro-economic stabilisation. Yet, this achievement must be characterised as fragile for a number of partners. Moreover, despite a more favourable international environment in recent years and good prospects for the European economy almost all countries are confronted with a growth deficit. This has prevented a deepening of the macro economic stabilisation effort.

3. Participants agreed on the pivotal role of sound public finances as a key conditioning factor of the transition process. While progress has been made, it was also highlighted that countries face often 'contingent liabilities' that are related to the public enterprise sector and social security systems. In that light, participants agreed that deepening the public finance aspect of the partnership should be pursued vigorously.

4. Reaching a higher steady level of economic growth is also essential in the context of the employment challenge. The level of unemployment is too high today in most countries. Moreover, the changing demographic profile of the countries in the region, together with a higher participation rate of women, will accentuate labour market pressures in the future. A higher level of growth is therefore needed.

5. The meeting discussed possible explanations of the growth deficit. One factor is without doubt the low level of investment in relation to GDP. Regarding foreign direct investment it is true that most countries have developed a more welcoming attitude towards it, yet certain sectors remain the exclusive domain of domestic investors. This concerns in particular the services sector.

6. The meeting also identified a number of governance issues. In this connection, it was stressed that weak institutions impede policy and institutional reforms. An important feature of modern market economies and democratic societies is an elaborate system of institutions that exercise key supervisory functions on the basis of a legal mandate and independent from the Government. These institutions, such as Central Banks, competition agencies, supervisors of the capital market and the insurance sector, are essential for a good functioning market economy. However, in many Mediterranean countries these functions are still under-developed and/or predominantly exercised by the central Government.

7. The room for further trade liberalisation remains considerable. Apart from a reduction of tariff and non-tariff barriers, there is a need to harmonise rules and practices in areas relevant to the establishment of a single market among the Mediterranean partners. This will act as a catalyst for South-South integration, attracting foreign investment and fuelling economic growth.

8. Participants also stressed the importance of identifying constraints at the micro economic level that inhibit growth. In this respect financial sector reform can play an important role in improving financial intermediation.

9. The meeting underlined that the region has a comparatively favourable poverty alleviation record, although exclusion and pockets of poverty exist. Both economic growth and efficient re-distribution policies are needed to address this issue, and it was highlighted that the transition process will only be sustainable if the benefits of reforms are shared equitably.

10. The meeting had a very stimulating exchange on new technologies as a factor of economic growth. The meeting discussed the recent experience of a partner country in telecommunication liberalisation. This demonstrated the considerable gains that can be realised from openness and a transparent regulatory framework. The benefits from the 'new economy' will be determined by the success of the region in eliminating illiteracy and practising openness and allowing the free flow of information.

11. The meeting also reviewed the transition process in accession countries. It was noted that the process of adhesion is characterised by a high degree of ownership of partner countries. At the same time the key issues in the accession process have a close resemblance with the issues of the financial and economic partnership. The meeting recognised that the experience resulting from the process of accession is highly relevant in the Euro-Mediterranean context. For that reason it was agreed that the relevant enlargement services of the Commission should be associated with the work of the group of experts in the future.

12. Several participants highlighted in the course of the discussions the need for a better understanding of the nature and the impact of the transition process. The dialogue between partners in the context of the financial and economic partnership should be enhanced, both at the multilateral and bilateral level so as to create synergies. It was suggested to have a more systematic exchange on country experiences (macro-economic consolidation, fiscal transition, industrial upgrading) as well as on horizontal issues of common concern (developments in the Common Agricultural Policy, enlargement of the Union, European regulatory practices). The importance of impact studies was equally mentioned. At the bilateral level, the economic dialogue between the Union and the Mediterranean partners should play a key role.

13. The experts welcomed the revision of the MEDA Regulation, which will provide for a streamlining of procedures thereby contributing to an acceleration of assistance delivery. In addition it favours a more strategic programming of financial support so as to ensure that MEDA interventions are coherent with national reform strategies. It was mentioned that in an overall challenging budgetary context, MEDA funds would be increasingly channelled towards partners that have confirmed absorption capacity as well as a good implementation record of their association agreements.