COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 22.06.1999
COM(1999) 291 final

REPORT FROM THE COMMISSION

ANNUAL REPORT OF THE MEDA PROGRAMME

1998

Summary

I. MEDA IN 1998 : AN OVERVIEW

I.1. Political and economic context of 1998

Over the year 1998 the Mediterranean region continued to face many challenges. On the political front the Middle East Peace Process continued to experience severe difficulties due to the lack of progress in the implementation of the Oslo Agreements, including the Wye Plantation Agreement of April 1998. EU relations with Turkey are suffering since the Turkish Government, as a reaction to the Luxembourg European Council conclusions which did not satisfy their expectations as far as their place in the enlargement process is concerned, still refuses to have a political dialogue on topics as human rights, the Cyprus question and the Kurdish issue. On a more positive note the Barcelona Process kept its momentum and allowed deepening of discussion and taking of initiatives in the political, economic and cultural spheres.

Furthermore, the last 18 months have seen an increase in economic difficulties for the region. Firstly, the price of petrol has dropped sharply from an average of 19 $ to 10 $ with the consequent heavy impact on the balance of payments of the exporting countries. Secondly, the regional trend is for a slowdown in growth due to an unfavourable global and regional climate as well as continuing domestic structural rigidities.

Straightforward calculations show that halving the income gap between Europe and the Mediterranean will take several decades even under an optimistic scenario of an annual per capita growth performance of 5% in the Mediterranean and a modest 1% in Europe. This shows the magnitude of the challenge facing the partnership. The Mediterranean partners need therefore to achieve greater growth in order to reduce the high level of unemployment which on average is 20-25% and this amongst a very young population where the proportion of under 20 years olds can reach 50%.

At the same time, most Mediterranean Partners send to the European Union between 60% and 75% of their exports, while they procure in the European Union most of their capital goods and basic agricultural commodities. Also 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 regional remain too small to attract increases in foreign investment.

Therefore it is a crucial time in which 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.

I.2. Review of implementation

The MEDA Programme is the main component of the Euro-Mediterranean Partnership's financial cooperation for the period 1995-1999, i.e. € 3.475[1] million out of the € 4.685 million envelope allocated to the 12 Mediterranean partners by the Cannes European summit.

In 1995 and 1996, the MEDA Programme progressively replaced the existing financial instruments, mainly the Financial Protocols, and in 1998 represented about 90 % of the total financial commitments from the EU Budget in the Mediterranean. The MEDA Programme is mainly made up of grants, but also includes risk capital and interest subsidies.

Some 90% of the resources allocated to MEDA are channelled bilaterally to the partners (this relates to Algeria, Egypt, Jordan, Lebanon, Morocco, Syria, Tunisia, Turkey and the Palestinian Authority). The other 10% of the resources are devoted to regional activities: all the partners are eligible to benefit from these activities. MEDA resources are subject to programming: three-year national indicative programmes are drawn up jointly for the bilateral channel, and a regional indicative programme covers the multilateral activities. The programming process was presented at greater length already in the previous Annual Report of 1996/1997.

During 1998 implementation of the MEDA Programme advanced significantly 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. Thus over the course of 1998 a number of financing conventions were signed thus allowing implementation to get underway.

The MEDA Programme, endowed with € 3.475 million in commitment credits for the period 1995-1999, has produced actual commitments of € 2.498 million for the first four years (1995-98) and actual payments of € 648 million.

- Commitments

Commitment credits available on a yearly basis are managed by the European Commission on the basis of the MEDA Regulation and within a programming process conducted jointly with the administration of the beneficiary Partners. Commitment credits were practically fully utilised (99 %-100 % commitment) in 1995, 1996, 1997 and 1998. Thus, in budgetary terms, the Mediterranean partners have clearly demonstrated their absorption capacity since practically 100% of commitment credits available on the MEDA budget line have been consumed.

Over the period 1995-1998, commitments went to four main types of operations :

---

1 Although the euro (€) was not yet in use in 1998, the figures appear in euros, with €1 being 1 ecu.

- support to structural adjustment : 9 % of total commitments ;
- support to economic transition and private sector development : 38 % of total ;
- classical development projects : 42 % of total ;
- regional projects : 11 % of total.

- 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. In fact, some 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 in technical assistance operations over a 3-4 year period, which determines the payment period. 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.

Finally, regional projects financed under the Euro-Mediterranean Partnership often consist in completely novel forms of cooperation, necessitating innovative financial and legal frameworks of a complex nature. It is estimated that payments are spread over a 3-5 year period.

Taking into account the current mix of operations within the MEDA Programme it is estimated that the average implementation (i.e. payment) period for each of the annual tranches of the MEDA Programme is theoretically 4 years. For the period 1995-1997 cumulative payments have reached € 648 million, or 26 % of commitments made over the same period.

I.3. Information Activities

Euromed Internet Forum and Publications

The EUROMED INTERNET FORUM has been set up by the University of Malta's Mediterranean Academy of Diplomatic Studies with the support of the European Commission. This site is 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.

Also, 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. As for 1999, new brochures are expected on the MEDA Programme, SMAP (Environment), Dialogue between Cultures and Civilisations and the Euromed Heritage Programme.

The following documents are also available on the 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-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 country profile, a project or a theme of common interest for the 27 Euro-Mediterranean Partners.

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 Partner countries

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 fields 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.

Malta Seminars : Information and Training for Euro-Mediterranean Diplomats

The Malta Seminars, initiated in October 1996, are one of the Partnership measures approved by the 27 Euro-Mediterranean Partners within the framework of the Political and Security chapter of the Barcelona Process. They involve information and training sessions for diplomats responsible for the Euro-Mediterranean portfolio in their respective capitals and take place twice a year in Malta. They constitute, for the young diplomats who participate, a bi-annual information and discussion forum on the three chapters of the Euro-Mediterranean Partnership.

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. Delegation activities are divided in three main groups: Local Cultural activities, Regional Cultural activities and Information activities, designed to inform the public in the Mediterranean Partner countries about the activities undertaken by 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 1998, 230.000 € were allocated to the Delegations for Information activities. In 1999, 262.000 € have been allocated for these activities.

I.4. The Association Agreements

The Association Agreements are the legal instrument for establishing deeper and wider relations with the Mediterranean Partners. Thus their provisions build upon the old generation of Cooperation Agreements which were adopted in the 1970s. They provide for, in particular, the institutionalisation of political dialogue, the establishment of a free trade area, economic cooperation, social and cultural cooperation and financial cooperation, notably through the MEDA Programme. Thus the Association Agreements can be seen, at the bilateral level, as putting into place the strategic framework for cooperation.

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

Tunisia	June 1995	July 1995	March 1998
Israel	September 1995	November 1995	-
Morocco	November 1995	February 1996	-
PLO for the benefit of the Palestinian Authority	December 1996	February 1997	July 1997
Jordan	April 1997	November 1997	-
Egypt	Negotiations in progress	-	-
Lebanon	Negotiations in progress	-	-
Algeria	Negotiations in progress	-	-
Syria	Negotiations in progress	-	-

Three Mediterranean partners, namely Cyprus, Malta and Turkey, applied for EU membership. All of them have an association agreement with the EU. A customs union agreement between the E.C. and Turkey entered into force on 31 December 1995.

Situation of the MEDA framework conventions

COUNTRY	INITIALLING	SIGNED by the Commission	SIGNED by the EIB
ALGERIA	12 May 1998	29 July 1998	15 September 98
CYPRUS(IA)		n/a	n/a
EGYPT		18 February 98 (English and Arabic versions)	2 July 98
ISRAEL	.	n/a	n/a
JORDAN		2 February 1998	2 July 98
LEBANON		13 May 1998	15 September 98
MALTA (IA)		n/a	n/a
MAROC	16 July 1997	28 August 1997	28 August 97
PALESTINE	12 December 1997	28 March 1998	In accordance with the EIB's wishes, the 95 agreement continues to apply.
SYRIA		15 August 1998	Agreement signed by the EIB at the end of March.
TUNISIA	15 July 1997	20 September 1997	20 September 97.
TURKEY	2 July 1998		

(2)

II. Cooperation with Mediterranean partners

II.1. Bilateral cooperation

ALGERIA

Political and economic context

After three elections (presidential, general and local) and one constitutional referendum between 1995 and 1997, 1998 brought a consolidation of the results of these polls. However, September 1998 saw the surprise resignation of President Zéroual, triggering an early presidential election in April 1999.

Algeria's economic performance remains highly dependent on the developments in world oil markets. This is exemplified by the following facts (1997 figures):

- 30% of GDP is generated in the energy sector;

- government revenues depend for 65% on the energy sector;

- 95% of merchandise exports consist of oil and gas products.

In May 1998 Algeria received the final instalment of $465 million in the framework of the three-year Extended Fund Facility agreed with the IMF in 1995. Economic developments in 1998 were very much influenced by the sharp fall in oil prices (unit price of $ 14.20 per barrel in 1998 compared to $ 20.00 per barrel in 1997), a rebound of agricultural production from the low, dry-weather induced, level of 1997, and also a reported increase in industrial production (plus 5.7%). Although final figures have not been published yet, 1998 growth is estimated to have been around 2.0%, slightly better than in 1997 (1.3%). Since 1997 Algeria's inflation performance has improved considerably due to prudent monetary and budgetary policies. Both for 1997 and 1998, the rate of inflation has been around 5%. The budget deficit for 1998 was affected by the lower oil prices, but despite a shortfall in oil revenues to the Treasury equivalent to almost 7% GDP, the overall budget balance deteriorated by only 4.5% of GDP. Also the current account balance deteriorated sharply as a result of lower energy prices; the 1997 surplus, equivalent to 7.3% of GDP, turned into a deficit of about 1.0% of GDP in 1998.

Unemployment, at about 25% of the labour force, and affecting in particular the young generation, is a key issue. Addressing this issue requires a growth rate outside the energy sector of at least 6%. This underlines the need for continuous structural reforms.

Medium term growth perspectives will continue to be influenced by energy prices, but they will also depend critically on the Government's ability to implement a comprehensive reform programme that will foster private sector initiative in all sectors of the economy.

Bilateral and multilateral dialogue between the EU and the Algerian government continued in 1998. The EU dispatched a first ministerial Troika to Algiers on 19 and 20 January to express its concern at the resumption of massacres since the end of 1997. A European Parliament delegation visited Algiers from 8 to 12 February. The government's agreement to a visit by a UN Panel of Eminent Personalities to Algiers from 22 July to 4 August resulted in support for its planned reform. A second meeting between the Troika and Algerian Foreign Minister Ahmed Attaf took place in Vienna on 21 October; the two parties discussed a number of issues of common interest, including democratisation and respect for human rights.

Despite the Foreign Minister's confirmation that Algeria wanted negotiations for an association agreement to reach a conclusion, they did not resume.

In the first ten months of 1998, 65% of Algeria's imports (€4 525 million out of a total of €6 946 million) came from the EU,. and 63% of its own exports (€5 540 million out of a total of €8 856 million) went to the EU. Both percentages were slightly up on 1997 figures.

The MEDA programme

Financial cooperation was relaunched, paving the way for the preparation and approval by the MED Committee (December 1998) of a programme to support industrial restructuring and privatisation (€38 million) and a programme to support the development of small and medium-sized enterprises (€57 milllion).

The SME programme seeks to improve the competitiveness of private SME. It has three components: improving the firm's operational management from the points of view of training, advice and access to information; support for financial firms specialising in projects, design or activities aimed at improving the response to SMEs' investment needs; improving the business environment by providing support for the ministries and public bodies involved in SME development (in order to create a favourable climate for the establishment and development of SME).

The restructuring/privatisation programme will back the Algerian government's efforts to implement a privatisation programme under difficult conditions. It will pass on to the various Algerian bodies in charge of privatisation the expertise that is lacking locally. The programme will also help to reinforce the institutional and environmental framework for industrial policy, against the background of a market economy.

The first instalment (€65 million) of the Structural Adjustment Facility allocation (total €125 million) has now been disbursed.

MEDA commitments in 1998 (€)

Assistance for industrial restructuring	38.000.000
Support for small and medium-sized entreprises	57.000.000
Total :	95.000.000

Algeria
1996-1998 Indicative Programme

Sector/Programme	€ million	Share
A. Structural adjustment	**30.00**	22,1 %
1. Structural Adjustment Facility I (total €125 million, including €95 million left over from the financial protocols)	30.00	
B. Support for economic transition	**105.75**	77,9 %
2. Interest-rate subsidies for reduction of industrial pollution	10.75	
3. Support for SME	57.00	
4. Support for industrial restructuring and privatisation	38.00	
Total 96-98 NIP	**135.75**	**100.00 %**

EGYPT

Political and economic context

1998 confirmed Egypt's relatively healthy macro-economic situation but there is still an urgent need to improve the business environment. Tourism recovered well from the Luxor massacre but overall revenues from tourism were down. This combined with historically low hydrocarbon prices and falling revenues from the Suez Canal, depressed export earnings; the currency is widely considered to be overvalued and reserves, while healthy, are probably overstated. Despite the considerable progress achieved in the stabilisation of the Egyptian economy by the reformist economic team, economic growth rate of 5% was lower than planned and there is concern at the flow of incoming direct investment. In contrast the rate of privatisation appears to be improving and the dismantling of the public sector (but not yet the overblown bureaucracy) has moved well beyond the rhetorical stage.

1998 trade patterns continued the pattern of previous years: the volume of trade continued to increase and the trade balance continued to be very much in the EU's favour. Hydrocarbon exports still account for some 50% of total Egyptian exports.

The MEDA programme

In 1998 *four Specific Financing Agreements* were signed in the framework of the National Indicative Programme for Egypt, notably the Industrial Modernisation Programme (IMP – EC commitment: € 250 million), the Health Sector Reform Programme (HSRP – EC commitment: € 110 million), the "Social Fund for Development - Phase II" (SFD II – EC commitment: € 155 million), and the "Education Enhancement Programme" (EEP – EC commitment: € 100 million).

- The support to Egypt's *Industrial Modernisation Programme (IMP),* represents the largest amount ever committed by the EU to a single project in the Mediterranean Partnership Area. Conceived within the context of the government's economic liberalisation programme, the IMP aims to promote growth and industrial competitiveness in the private sector and to create a sufficiently strong economic base for Egypt to play a major role in the Euro-Med Free Trade Area scheduled to start in 2010. The IMP is conceived within the framework of the Barcelona Declaration, and will assist Egypt in making the economic transition from a centrally planned to a free market economy. The focus will be on creating appropriate conditions for the development of small and medium enterprises (SMEs), on direct support to enterprises committed to the production of goods and services to international standards, and on the support to business associations and clusters. EU already supports a Business Centre which assists SMEs under the Private Sector Development Programme (PSDP). The IMP builds on that programme's success and complements EU programmes in the social sector already in place (e.g. Support to the Egypt's Social Fund for Development, Education Enhancement Programme). A first tranche of € 45 million was disbursed at the end of 1998 to make the programme immediately operational.

- The objective of the *Health Sector Reform Programme (HSRP)* is to introduce a phased rationalisation of Egypt's health care delivery system (with the provision of universal coverage as the ultimate objective), starting in the Governorates of Alexandria, Menufiyya and Sohag. The programme is build around the principles of access, equity, quality and efficiency and will initially focus on the provision of a 'basic package' of necessary preventive, curative and public health services. It is expected to contribute substantially to more cost effective health care provision and a reduction in urban/rural differentials. EC support to the programme will be implemented in two phases: a twelve-month Preparatory Stage followed by a four-year Support Stage. It will provide for institutional strengthening at central, Governorate and district levels and will support the development and implementation of comprehensive and integrated district and Governorate health plans. These will provide the basis for a financially sustainable basic package of benefits and services.

Thanks to the finalisation and signature of the "MEDA Framework Convention" it has also been possible to sign (April 1998) the Specific Financing Agreements for two other projects, already committed, namely, the "Social Fund for Development - Phase II" (SFD II – EC commitment: € 155 million, and the "Education Enhancement Programme" (EEP – EC commitment: € 100 million).

- In the framework of the *Social Fund for Development (SFD II)* programme, the annual work programme has been elaborated and approved, thus enabling a first disbursement of € 30.2 million in 1998. Recruitment procedures for the required technical assistance were begun.

- As far as the *Education Enhancement Programme (EEP)* programme is concerned, activities undertaken in 1998 focused on the preparation of the technical assistance tender: TORs and other tender documents have been finalised and despite some technical delays the tendering preparation phases have been completed. The tender is expected to be launched in early 1999.

In 1998 three *EIB operations* have been financed or supported through MEDA funding: € 25 million have been committed on a "risk capital" operation (entirely funded by MEDA) targeted at supporting Egyptian SMEs competitiveness upgrading and designed as a complement to the IMP Programme; a further € 4 million have been committed for a "risk capital" operation to support a ceramic factory. Finally, € 7.8 million have been committed as an "interest subsidy" (3%) operation to "assist" an EIB loan of € 50 million in the energy sector (gas pipeline). This project will extend the natural gas grid into South Sinai and will facilitate the changeover from fuel oil to natural gas which is supported on both economic and environmental grounds.

1998 saw the effective "take off" of the MEDA Programme in Egypt. With the signature, in February 1998, of the "MEDA Framework Convention", the Specific Financing Agreements for the major projects committed in 1997 and 1998 were signed, initial disbursements (€ 82.4 million) were made where appropriate and tendering of necessary technical assistance was begun.

With the signature of the four main MEDA programmes and the approval of EIB activities (see above) the implementation of the National Indicative Programme

(NIP) 1997-1999 has been almost completed with 90% of the planned engagements committed.

Of the two major planned actions in the NIP still to be committed, one (Technical Vocational/Management Training Programme) has been further developed; provided that the full commitment of the Egyptian authorities to a full and radical reform of the existing TVT system is assured, it will be committed in 1999.

The second major programme included in the National Indicative Programme but not yet committed (Financial Sector Development Programme) is likely to be postponed to Meda II. It is now considered premature until the existing programme with the Central Bank (funded from the Fourth Financial Protocol) gives more solid results and until the IMP is properly launched.

Despite this proposed change in the programming, budgetary plans will be fully respected due to the growth of EIB operations (some € 36.8 million have been already committed in 1998, and further 31 are expected to be committed in 1999), and to the identification of a new project in the South Sinai (for which an indicative amount of € 15 million is foreseen).

1998 saw the full installation and operational start of the "Delegation" MEDA Team. The contribution of the MEDA Team to the implementation of the MEDA Programme focused on assistance in the preparation of new projects, assistance in the start up of recently approved actions (notably the IMP) and the provision of monitoring data to the Delegation and to the EC in Brussels.

Some delays in the implementation of existing programmes (notably the SFD II and the EEP) and the start up of new actions, resulted from the rationalisation of "Relex" DGs and the establishment of the SCR. However this stage of the process is essentially completed.

Further details on the status of implementation of the MEDA Programme in Egypt are given in the following tables.

Egypt : National Indicative Programme (update 1997-1999)

(Amounts in €)

	EGYPT – Indicative Programme Update 1997-1999			
		Amount (Mio. €)	**Share**	**Notes**
[redacted]				
	Industrial Modernisation Programme (IMP)	**250**	33.11%	**Approved by the 44th MED COM on SEPT 15 1998. SFA Signed in December 1998.**
	Financial Market Development	30	3.97%	**ACTION LIKELY TO BE POSTPONED TO MEDA II.**
	Vocational/Management training	**60**	**7.95%**	**In preparation (1999 MED Committee)**
	Sub-total 1	***340***	***45.03%***	
[redacted]				
	Social Fund for Development (II Phase)	155	20.53%	MED Committee approval on 16/07/97 – SFA signed on 14/04/98
	Basic Education Programme	100	13.25%	MED Committee approval on 26/09/96 – SFA signed on 14/04/98
	Health Reform Support Programme	**110**	**14.57%**	**Approved by the 44th MED COM on SEPT 15 1998 – SFA signed in December 1998**
	Sub-total 2	***365***	***48.34%***	
[redacted]				
	Environment	50	6.62%	EIB Interest subsidy M€ 30.38 committed: - Cairo Wastewater II (7.07 M€) - Gabal El Asfar Water (10 M€) - Pollution ab. Fac. (2.81 M€) - Grey Cement (2.7 M€) - GASCO Gas Project (7.8 M€)
	Sub-total 3	***50***	***6.62%***	
	TOTAL	**755**		

1998 MEDA commitments (€)

Health Sector Reform	110.000.000
Industrial Modernisation	250.000.000
Gasco Gas Project (BEI)	7.800.000
Lecico Ceramics	4.000.000
Upgrading of Enterprises (Risk Capital)	25.000.000
Total	396.800.000

(3)

JORDAN

Political and economic context

Jordan has always been a country which is susceptible to regional shocks, and now faces a particular situation where relations are less positive (in varying degrees) with Syria, Iraq and Saudi Arabia. Moreover, relations with Israel have not succeeded in bringing the expected results and dividends.

This phenomenon combined with a psychological situation, concern over the King's Hussein deteriorating health sparked a significant flight of capital.

The third negative aspect is that the policies of the government are not comprehensive enough to fully meet the needs of the country (addressing high unemployment and poverty). Neither are plans to redress a virtually zero economic growth rate for 1996, and a paltry and as yet unconfirmed 2% for 1997. For 1998, it appears that growth will be negative.

The country has been dependent on external aid for a long time, but amounts have been reduced since the Gulf War of 1991, when Gulf States suspended aid to Jordan and have not resumed since. However, the "Yes" group (Japan, EU, USA) has compensated for this: the European Union aid in 1997 alone amounted to 5% of GDP. This includes the budget managed by the European Commission, loans by the European Investment Bank and EU Member States aid. Jordan is the highest per capita recipient in the region of EU aid. If this aid seemed to be reduced this year, it was because 1998 is considered a transition year as dialogue is strengthened through the various missions which have taken place in 1998. First and foremost, industrial modernisation support, which will undoubtedly have a positive impact on industry in Jordan.

The MEDA programme

i. Since the adoption of the MEDA line in 1996, the MEDA Budget (1996-1998) has given priority to support for the economic reform process in Jordan and the private sector development. An amount of € 125,24 million has been committed of which:

- a package of € 100 million in support of the Structural Adjustment Programme (1996-1997).
- € 7 million allocated to the Private Sector Development Programme.
- € 10 million on Risk Capital resources managed by the EIB in support of SMEs.
- € 8,24 million on EIB interest subsidies for Amman Water Rehabilitation II.

ii. In Jordan, implementation of the MEDA programme was pursued along a number of tracks. Negotiated in the second semester of 1997, the Framework Financing Convention covering the MEDA Programme was signed in February 1998. The implementation of the Private Sector Development Programme started with the setting up of the Business Service Team in Amman on 8 September 1997. The support for Structural Adjustment Programme for Jordan in the MEDA Programme was disbursed in two tranches, the 1st tranche (€ 60 million) disbursed in 1996 and the 2nd tranche (€ 40 million) in 1997.

iii. During 1997, a restricted invitation to tender following prequalification based on an open call for expressions of interest from companies and associations of experts for the MEDA Team attached to the Delegation in Jordan was launched. The offers were duly received and evaluated and the contract was concluded in June 1998 with the consortium ATC/Beten/SCA.

iv. A programming mission took place on 3-4 December 1997 in order to review and update the National Indicative Programme and technical and financial cooperation for 1997-1999. A Memorandum of Understanding was signed allocating future available resources for support industrial modernisation, development of the private sector and environment policy. Also, € 10 million on risk capital resources were made available in December 1997 in support of EIB project "Jordan-Industrial Development Bank (IDB) – Global Loan VI operation". In 1998, the Commission approved to pay interest subsidies for the Amman Water Rehabilitation II (€ 8,24 million) for a 3 percent loan of € 40 million from the EIB.

v. 1998 witnessed the preparatory phase for future EC assistance in supporting private sector development and industrial modernisation. The assessment is based on the consolidation of Jordan's achievements in the fields of Structural Adjustment, the Association Agreement and support for SMEs. To this end an identification mission took place during the last quarter of 1998 to prepare the way for the future EC assistance to the Industrial Modernisation Programme. The Financing Proposal should be presented for consideration to the MED Committee in 1999.

vi. Sectoral distribution of funds

Over the period 1996-1998, funds allocated to Jordan went to three main types of operations (excluding regional projects, i.e.: financing of the MEDA Team as well as the activities under the Regional Indicative Programme):

- support to structural adjustment: 79,8% of total,
- support to economic transition and private sector development: 13.5% of total,
- socio-economic development and environmental projects: 6,7% of total.

It is noteworthy that for the period 1996-1998, cumulative payments have reached € 101,6 million, equivalent to 95% for commitments made over the same period from the EC budget.

Also, other types of operations with Jordan have been financed during 1996-1998 from other budget lines and which are not covered by this draft report, namely the financial protocols with Jordan and the budget line in support of the Middle East Peace Process. The MEDA Democracy programme and other decentralised actions are financed from outside chapter B7-40 of the Community budget.

European Investment Bank

On own resources lending, a total of 4 operations have been signed in on the Jordan desk for a total lending of € 143 million to end 1998 under the EURO-Med mandate, representing some 87% of the initial target of € 165 million.

In 1997, the EIB signed two operations of € 30 million each, one to support investment by small and medium-sized enterprises and one for the development of Aqaba.

In 1998, two operations have been signed with Jordan for a total lending € 83 million for the expansion of the Arab Potash company existing potash production capacity and construction of a new magnesium oxide production plant (€ 43 million) and for restructuring and rehabilitation of the water distribution network in the Greater Amman area (€ 40 million).

Jordan's crucial role in promoting the Middle East Peace Process is also supported by the EIB. In helping the Euro-Med Partnership goals, the EIB is making an appreciable contribution towards fostering the EC development that underpins long-term stability and the peace process in the region. As well as fostering industry, information development, energy management and environmental protection investment in Jordan, EIB is also active in Lebanon, Egypt, Israel and Gaza/WB.

Regarding EC/EIB complementarity, EC support has been given to EIB actions having an environmental impact in the priority water sector (Amman Water Rehabilitation II) in the form of interest rate subsidies and risk capital operations to support the process of economic transition (Industrial Development Bank, Global Loan VI).

For the period 1996-1998, cumulative payments for Jordan have reached € 101,6 million, or 95% of commitments made over the same period from the EU budget.

1998 MEDA commitments (€)

Amman Wastewater (EIB)	8.240.000

JORDAN
Indicative Programme 1996-1998

(1996-1998) MEuro	EC Budget	Risk Capital	Interest Rate Subsidies	*Total*
Support to Structural Adjustment	100	-	-	100
Support to economic transition and private sector development	7	10	-	17
Socio economic development and environmental project	-	-	8,24	8,24
TOTAL	**107**	**10**	**8,24**	**125,24**

EUROPEAN COMMUNITY COOPERATION WITH JORDAN IN 1998

Commission-managed aid to Jordan for 1998 amounts to around € 33 million.

	Approximate figures
ECHO	€ 1.600 million
Meda Democracy	€ 1.500 million
MEDA Team	€ 0.735 million
NGO Cooperation	€ 0.206 million
Food Security Programme	€ 2.000 million
UNRWA Food Aid	€ 12.350 million
Interest Subsidy	€ 8.240 million
Possible: Institute of Diplomacy, Semi-Arid Zones, Tourism and Water	€ 7.200 million

LEBANON

Political and economic context

The signing of the MEDA framework convention with Lebanon in May 1998 brought faster implementation of MEDA programmes approved in previous years. The first convention was signed in August, for the project providing assistance for the rehabilitiation of the Lebanese public service (€38 million), with the invitation to tender for the management unit being launched in September. The convention for the Investment Planning Programme was finalised at the end of the year, and the programme's terms of reference were revised to take account of the priority which the new government had given to privatising infrastructure.

The programming of MEDA aid up to the end of 1999 was carried out in 1998 and is intended to lead to the preparation of projects in three fields for 1999:

1) support for tax reform

2) support for the modernisation of industry

3) support for social development

The MEDA programme

The MEDA framework convention, which was signed on 13 May, has opened the way to actual implementation of cooperation. The 1996-1998 MEDA programme totalled € 96 million, and was translated into action through the following projects:

a. Support for the rehabilitation of the public service: €38 million. This is a technical assistance programme potentially covering the entire public service but it focuses on:

a) ministries
b) public services (electricity, gas, etc.)
c) municipalities

The convention was signed in August with the Ministry for Administrative Reform. The invitation to tender for the Programme Management Unit was launched in September.

b. Investment Planning Project (IPP) : €25 million (€ 21 million from MEDA + €4 million from the Protocols). Following on from the reconstruction assistance using funds from the financial protocols, support for the planning and management of infrastructure will be provided for the ministries in charge of the water, energy, public works, environment and solid waste sectors.

The Commission is about to sign the convention. The terms of reference have been slightly altered to take account of the government's new priority on privatising some forms of infrastructure.

c. Standards : €6 million has been allocated to revive Lebanon's standards institute. The programme will cover updating of standards and certification (with a connection to EU standards) and quality assurance programmes for the private sector.
The draft of a direct agreement with CEN has been finalised, and it is dues to be signed at the same time as the financing convention.

d. The Commission has contributed €30 million in interest-rate subsidies for two EIB loans in the field of reform.

LEBANON

1996-1998 INDICATIVE PROGRAMME

Sector	Share
1. Support for economic transition	
• Assistance with standards and certification (institutional development, equipment)	€6 million
• Investment Planning Project (IPP) (+ €4 million from the protocols)	€21 million
2. Support for achieving a better socio-economic balance	
• Rehabilitation of the public service (central and local government, public services)	€38 million
• Interest-rate subsidy for environment projects (sanitation for Southern Lebanon and Tripoli)	€31 million
TOTAL	***€96 million***

MOROCCO

Political and economic context

On the political front, a major event of 1998 was the appointment on 14 March of Adderrahmane Youssoufi, socialist leader of a "partnership" government.

A cabinet of 23 ministers, 7 ministers-delegate and 9 ministers of state (including two women) was formed; it represents three broad groups: the Koutla, Koutla allies and the centre. In addition to the Secretary-General of the Government, four ministers from the previous government stayed on and now head four of the most important ministries – the Interior, Foreign Affairs and Cooperation, Endowment and Religious Affairs, and Justice.

The second development is the fighting in Western Sahara. The EU Presidency reaffirmed its full backing for the UN Secretary General's efforts to find a fair, equitable and lasting solution to the problem (statement of 29/12/98).

The Moroccan economy continues to be characterised by a low level of income (GDP per capita of $1230) compared to other countries in the region; poor social indicators, which are sometimes similar or even worse than those of some sub-Saharan countries with a lower level of income; extreme variations in year-to-year growth performance, linked to an agricultural sector which is highly dependent on climatic conditions; a public finance situation under stress due to a high public service wage bill, high debt service charges and price subsidies.

Average *growth in recent years* has been only 2% per annum, barely sufficient to keep pace with the population growth (1.8% per annum), and not sufficient to make a start with addressing many pressing needs.

This concerns in the first place the high level of unemployment (close to 20% in urban areas at the end of 1998, which affects mainly people aged below 35 years), but also an inadequate infrastructure, particularly in rural areas, and social needs that are not satisfied and of which in particular rural women are the main victims. A higher growth rate is also necessary to face the challenges resulting from the implementation of the association agreement with the European Union, foreseen from mid-1999 onwards.

Prospects for growth hinge critically on the ability of the Government to implement a comprehensive reform agenda that addresses the issues mentioned briefly before. While Morocco has established a certain reputation as an early reformer, the benefits of these reforms in terms of rapid growth have been too limited so far. One reason for this is the level of investment, which is too low for attaining a minimum required growth rate of 6%. The Government faces therefore the dual task of increasing the level of domestic savings with a view to increase the investment rate to 25 percent of GDP (almost 5 percentage points above the actual level), while at the same time improving the efficiency of capital through the implementation of economic reforms.

The development in relations with Morocco in 1998 which stands out most is the EU's priority undertaking regarding the development of the northern provinces. For the first time, a large delegation made up of the EU Member States' ambassadors, the head of delegation and a group of journalists visited Al Hoceima and the region around it on 27, 28 and 29 October. The visit culminated with the meeting of the steering committee (*Conseil d'Orientation*) of the *Agence du Nord*, which promotes economic and social development in the northern prefectures and provinces. The meeting was chaired by Mr

Youssoufi, and was attended by the other ministers involved. The visit received substantial coverage (TV, radio and press) in the Moroccan media

The Association Agreement was signed on 26 February 1996, but had still not entered into force during 1998 because a single Member State had failed to ratify.

The EU is Morocco's largest trading partner (56 % of exports and 53 % of imports), but exports to the EU have dropped somewhat from a level of over 60% in previous years.

The MEDA programme

Financial cooperation with Morocco was brought up to speed in 1998. A total of €218.9 million of projects were committed. During the year, the Med Committee approved the following:

a) Integrated rural development (€28.40 million) to improve the living conditions and income of rural inhabitants of the northern provinces by developing suitable farming activities and exploiting the potential of forestry products, while promoting involvement in order to foster sustainable management of the natural resources and protection of the ecosystems of the Rif. (Med Committee, 26 March).

b) Support for basic healthcare (€20 million) to develop the eastern region's health system management, set up the healthcare programme and treatment arrangements and improve the management of hospitals (Med Committee, 29 April).

c) Backing for youth and sport (€6 million) to develop participation in sport for 20 000 young people in difficult social situations and with no access to sporting. (Med Committee, 27 May).

d) Support for basic education (€40 million) to raise the level of education (including education for girls) in a number of provinces of Morocco, establish a strategy for developing education in deprived urban and suburban areas and develop forms of education suited to the circumstances (Med Committee, 17 September).

e) Quality assurance (€15.50 millions) to increase the quality, and thus the competitiveness, of private-sector output (Med Committee, 17 September).

f) Assistance for privatisation (€5 million) to increase the competitiveness of businesses and improve the infrastructure available to the public, while also boosting the state's finances (Med Committee, 20 November).

g) Establishment of a guarantee fund (€30 million) to help SME by providing efficient and reliable guarantee structures(Med Committee, 3 December).

h) Assistance for the ANRT (€5 million) to provide the necessary environment for what is not a monopolistic telecommunications organisation to make the transition to becoming open to competition and private involvement (3 December)

i) Development (involving the inhabitants) of the wooded areas of Chefchaouen province (€24 million) to achieve a lasting economic and social improvement in the living conditions of the rural inhabitants of the wooded and semi-wooded areas of the province (3 December).

Eight financing conventions were signed in the course of the year: water and sanitation in rural areas (€ 40 million), support for vocational training (€38 million), rural roads and tracks (€30 million), integrated rural development (€28.40 million), support for basic health care (€20 million), support for basic education (€40 million), standardisation and quality assurance (€15.50 million) and backing for youth and sport (€6 million).

The Commission also approved (on 27.3.98) the financing of the EIB's risk capital operation entitled "competitive conversion of Moroccan firms (€45 million).

1998 MEDA commitments (€)

Conversion of businesses to increase competitiveness (EIB)	45.000.000
Integrated rural development/management of resources	28.400.000
Backing for youth and sport	6.000.000
Assistance with management in the health sector	20.000.000
Support for the standards/regulatory agency Telecommunications	5.000.000
Support for privatisation	5.000.000
Establishment of a guarantee fund	30.000.000
Integrated development of wooded areas (Northern Morocco)	24.000.000
Basic education	40.000.000
Standards/quality	15.500.000
Total	218.900.000

Morocco
1996-1998 Indicative Programme

Sector/Programme	million euros	share
A. Structural adjustment	**120.00**	**26.40%**
1 – structural adjustment programme	120.00	
B. Support for economic transition	**138.50**	**30.47%**
2 – Risk capital (EIB)	45.00	
3 – Support for vocational training	38.00	
4 – Guarantee fund	30.00	
5 – Standardisation and quality assurance	15.50	
6 – Assistance for privatisation	5.00	
7 – Assistance for the ANRT	5.00	
C. Improving social inequity	**195.98**	**43,12%**
8 – Water and drainage in rural areas	40.00	
9 – Rural roads and tracks	30.00	
10 – Integrated rural development	28.40	
11 – Support for basic healthcare	20.00	
12 –Support for basic education	40.00	
13 – Backing for youth and sport	6.00	
14 – Integrated development of wooded areas	24.00	
15– EIB loan interest-rate subsidies	7.58	
Total 1996-98 NIP	**454.48**	**100%**

SYRIA

Political and economic context

Syria's domestic political situation has seen no significant change in 1998 from the last thirty years, over which stability has been achieved through an authoritarian system concentrated in the hands of the president. The army and security services have a substantial political role . However, a general election was held in November 1998.

The matter of who is to succeed President Assad, whose health is giving cause for concern, is still a live issue. The president has been grooming his son Bashar for the post; he has already played a role in managing relations with Syria's neighbours, and this could herald a period of reform. Future ministerial reshuffles could clarify Bashar's role in this regard.

As far as foreign policy is concerned, Syria has continued express a desire for closer relations with Europe, but it has tried to keep a number of options open by being on good terms with the Gulf States, Iran and a number of countries in Asia, and by forging closer relations with the former Soviet bloc and even Iraq.

Syria has given clear signs about wanting to consolidate relations with Jordan and has stuck to its position on Lebanon (with which it now has a free trade agreement). It has signalled its readiness to resume negotiations with Israel at the point at which they were broken off in 1996.

An agreement concluded with Turkey in October put an end to a bitter crisis triggered by the support which the PKK and its leader had found in Syria.

Syria's economic situation is worrying. Figures show that 1998 was a second year of stagnation (average GDP 6% from 91 to 95 ; 3,6 % in 1996 ; 1,9% in 1997).

If we take into account high population growth (3.,5%), stagnant crude oil output and the drop in prices for that commodity and bad 1998 harvests, we can see that per capita income has been dropping constantly since 1996. This, coupled with an environment that does not encourage investment, points to high unemployment and a deteriorating economic situation in the next few years.

Faced with falling revenue, it seems that the Syrian government will have to revise expenditure plans, a delicate matter, since the current political and social situation is preventing cuts in social and defence spending.

The effects of the gradual liberalisation begun in the early nineties had allowed a small private sector to develop, but they are felt less and less because no substantial economic reform accompanied them.

The degree to which the Syrian government is actually willing to embark on reform (for example, by encouraging the private sector to play a bigger role and by creating a more favourable legislative and regulatory environment for that sector) needs to be clarified.

The MEDA programme

As provided for in the 1996-1999 Indicative Programme, the guidelines below were used to try and increase the Syrian government's willingness to undertake reform and establish the structures and instruments needed for the economy to develop (to provide a foundation for economic transition and ultimately free trade):

- reform of administrative and economic structures
- backing for the business sector
- development of human resources

The following programmes have been approved since 1996:

- Modernisation of municipal administration (€18 million)
- Support for the forestry sector (€3.5 million)
- Development of cultural tourism (€3 million)
- Support for the telecommunications sector (€10 million)
- Modernisation of the Finance Ministry (€10.5 million)
- Management school (€14 million)

However, delays in concluding the framework financing convention with the Syrian authorities (and thus in signing the individual conventions for the programmes

€11 million of financing for the second phase of the programme of support for the electricity sector (the first phase had been financed from the financial protocols) was also approved in 1998.

In accordance with the programming agreed with the Syrian authorities in March 1996, the following programmes were prepared:

- Business Centre (phase II)
- Support for the banking sector (phase II)
- Institutional and Sectoral Modernisation Facility
- Vocational training programme
- Social programme
- Training and cultural heritage

EIB loans, due to have restarted in March to restore the availability of €225 million of financial protocol loans which had been suspended, were frozen again at the end of the year because of Syria's debts to certain Member States (chiefly Germany).

The framework convention enabling MEDA-financed projects to be implemented was signed on 15.08.1998.

The Syrian government has so far failed to signal its agreement to the individual financing conventions for the MEDA projects, and implementation of the latter will therefore be delayed

Syria is the most recent Mediterranean country to have requested the launching of negotiations for an association agreement. It stated that this was a strategic choice in political and economic terms, made in spite of its fears about the negative effects of partnership on the economy and social sector.

An association agreement would in fact provide Syria with an orderly structure for emerging from its economic isolation and achieving economic transition.

The first negotiating session was held on 14 and 15 May 1998 ; and the second is scheduled for 16 and 17 March 1999. In the meantime, informal negotiations were held in Damascus on 20 and 21 October 1998, and technical meetings on rules of origin and tariff-dismantling have been organised.

SYRIA

1996-1998 INDICATIVE PROGRAMME

Sector/Program	Millions €	%
1. Economic Transition Support		
- Municipal administration modernisation	53	75
- Forestry Sector Support Programme	18	
- Modernisation of the Ministry of Finance	3,5	
- Telecommunications Support	10,5	
- Power Sector Action Plan	10	
	11	
2. Business and Private Sector Support		
Cultural Tourism Development	3	5
3. Socio-economic balance support		
- Business School	14	20
Total 96-98 NIP	70	100

TUNISIA

Political and economic context

Tunisia is in transition towards a democracy and respect for human rights. President Ben Ali's speech on the anniversary of taking office (7 November 1998) announced an amendment to the electoral code which would allow a much greater number of candidates to run in the presidential elections due in November 1999 by opening up the field to leaders of the legal opposition who had occupied their positions for at least five years.

Again beginning with the 1999 elections, a minimum of 20% assembly mandates would be guaranteed to opposition parties. At present, opposition parties have 19 out of the 163 parliamentary seats, and 6 out of 4090 at municipal level. Despite these timid moves towards greater pluralism, the citizens' freedom to make alternative choices and opt for a new government is still largely theoretical

Tunisia's foreign policy seeks to preserve the country's internal and regional stability and foster economic development. Accordingly, President Ben Ali has forged links with partners within the Arab League which are battling Islamism (Algeria and Egypt). In that connection, it has backed Arab-Israeli peace moves. Tunisia has been actively pushing for a settlement of the Lockerbie case and for Libya's reabsorption into the international community.

The Tunisian economy has been performing relatively well over recent years. During the period 1991 to 1997 real GDP growth has averaged 4.6% per annum; for 1998 economic growth is estimated at 5.1%. Inflation has been on a downward trend: 3.5% in 1998 compared to an average of 5.8% in the 1991/95 period. The budget deficit, while remaining a cause of concern, has been reduced to 3.8% of GDP in 1998, compared to almost 6% of GDP in 1996. Financing the current account deficit of about 4% of GDP has not posed a major problem in recent years, as the country has had sufficient access to international savings (concessional finance, international bonds market, foreign direct investment). This has allowed the maintenance of an adequate level of foreign reserves.

As a result of this favourable performance, GDP per capita reached $2,090 in 1997, considerably higher than that of most other countries in the region. Overall the country has therefore been successful in maintaining macro-economic stability, while achieving important progress in key social areas like poverty, education and health.

One of the main objectives of the IXth economic development plan (1997-2001) is to consolidate macro economic achievements, while at the same time structural reforms are accelerated. The latter are deemed necessary in view of the implementation of the association agreement with the European Union. This will progressively expose a growing part of the Tunisian economy to increased competitive pressure. For that reason the industrial upgrading programme is one of the top priorities of the Tunisian Government.

Key objectives of the IXth economic development plan are an average growth rate of GDP of 6.0% per annum, increasing the investment rate to 27.5%, and reducing the budget deficit and the current account deficit to 2.0% of GDP and 2.2 % of GDP respectively in the year 2001. Prospects for the Tunisian economy are judged to be rather favourable, but realising the IXth plan objectives hinge critically on the Government's ability to implement a reform programme in such key sectors as its own budget, privatisation, financial sector, and the transport sector. Given the relative small size of the Tunisian economy and its high trade dependence (share of export of goods and services in GDP over 40%), developments in the external environment will be equally important.

The most important development in relations with Tunisia in 1998 was the entry into force of the Association Agreement on 1/3/98. The Agreement had been signed in July 1995, and at the time was a trailblazer, being the first such agreement concluded since the start of the Barcelona Process. Political dialogue between the EU and Tunisia continued at ministerial level with the advent of the first Association Council meeting, held in Brussels on 14/7/98; it surveyed political and economic relations between the EU and Tunisia.

Trade relations with Tunisia are very good and the country is closely integrated with the European market (which accounts for 78% of the country's exports and 72% of its imports). As a result, Tunisia planned as far back as 1996 to dismantle tariffs and gradually set up a free trade area with the EU. In 1998, Tunisia also agreed to the gradual establishment of bilateral free trade with other Mediterranean countries - Morocco and Egypt.

The MEDA programme

Financial cooperation with Tunisia under the MEDA budget heading seeks to back the reform needed to phase in a free trade area with the EU and ease the country's transition to a liberalised and efficient market economy. The 1996-99 National Indicative Programme (NIP) therefore has three focuses: backing for economic reform, promotion of the private sector and fostering of a socio-economic balance in the country.

Tunisia is embarking on a programme of large-scale economic reform. The first Structural Adjustment Facility loan (SAF I) of €100 million led to the disbursing of the second instalment of €60 million in 1998. The new Facility (SAF II) totalling €80 million was prepared together with the World Bank, and was approved by the Med Committee in December 1998. It has focused on the continuation of privatisation and the withdrawal of state involvement, improvement of the financial sector and reform of secondary and higher education.

In 1998. Five MEDA projects were under way; these included the programme of reform of vocational training (Manform, €45 million), the *Euro-Tunisie-Entreprise* business centre (€20 million), two lines of risk capital credit (€15 millions each) and an environmental project to clean up the south of the *Lac de Tunis* (€9.25 million in the form of an interest-rate subsidy on a European Investment Bank loan).

In addition, four financing conventions were signed during the year. These included the following:

Integrated rural development and management of natural resources (€50 million)

Technical assistance for privatisation (€10 million)

Increasing the competitiveness of the Tunisian economy (€10 million)

Promotion of outside investment (€4 million).

Other programmes were prepared in 1998. On 17 September, the Commission decided after the Med Committee had approved the project, to provide €9.05 million in interest-rate subsidies for an EIB loan to cover sanitation work in medium-sized towns (building of sewage systems and treatment plants). The loan represents co-financing together with the national programme in the Ninth Development Plan (1997-2001). In November, the Med Committee approved a job-creation project (€9.6 million). This will back the establishment of micro-enterprises and the reabsorption of job seekers through training suited to the needs of enterprises. One of the main concerns of the project is to counter the social consequences of the privatisation and restructuring of enterprises (job losses).

Cooperation with Tunisia has demonstrated the country's good absorption capacity: €18.65 million was committed in 1998, the Commission made a financing decision for €80 million for the second structural adjustment programme, and the total volume of MEDA funds allocated to Tunisia is € 356.9 million, or 99% of the National Indicative Programme for 1996-99.

1998 MEDA commitments (€)

ONAS III (EIB)	9.050.000
Job creation	9.600.000
Total	18.650.000

Tunisia
1996-1998 Indicative Programme

Sector/Programme	€ million	share
A. Structural adjustment	**180.00**	**50.4%**
1 – Support for economic reform (SAF I)	100.00	
2 - Support for economic reform (SAF II)	80.00	
B. Support for economic transition	**99.00**	**27.7%**
3 – Vocational training (MANFORM)	45.00	
4 – Risk capital - restructuring	15.00	
5 - Risk capital - privatisation	15.00	
6 – Support for privatisation	10.00	
7 – Promoting competitiveness of the economy	10.00	
8 - Promotion of outside investment (FIPA)	4.00	
C. Improving social balance	**77.90**	**21.8%**
9 – Integrated rural development (DRI/GRN)	50.00	
10 – Help with job creation	9.60	
11 - Lac Sud cleanup – interest subsidy	9.25	
12 - ONAS III sanitation – interest subsidy	9.05	
1996-98 NIP total	**356.90**	**100 %**

TURKEY

Political and economic context

During 1998, the political situation in Turkey has remained relatively unstable. The minority coalition led by Prime Minister Yilmaz, which came to power in June 1997, relied on the support of parties outside the coalition, due to its lack of a majority in the Turkish Grand National Assembly. This coalition government fell end 1998. Since early 1999 Mr Ecevit has been leading another minority coalition. One of the major political developments in 1998 was the dissolution of the Refah Party (islamist). The first regular report on Turkey's progress towards accession adopted by the Commission on 4.11.1998, has underlined the persistence of major shortcomings in the field of human rights.

Economic growth in 1998 showed a clear downward trend. Nevertheless 1998 GDP growth should be around 4.5%, significantly less than the growth in previous years. The extremely high inflation (around 60% end 1998) has remained a major problem although the trend is decreasing. The budget deficit is still of great concern. As far as trade is concerned, Turkey remained not only the EU's first partner in the Mediterranean region, but also the country with which the EU has the second biggest trade surplus (after Poland). This surplus (10,4 Bio USD end 1997) has increased as expected since the entry into force of the Customs Union agreement on 31.12.95. However, 1998 estimates tend to show a stabilisation in this regard. Turkey's 1998 trade has also suffered from the crisis in Russia. Overall, over the January-November 1998 period, the trade deficit with the EU shrank by over 10% compared to the same period in 1997. Despite 3% drop in Turkey's total trade, the trade with the EU posted a 0.7% increase, mainly due to the increase in Turkey's exports to the EU.

The MEDA Programme

As a result of the programming exercise carried out beginning 1998, it was agreed with the Turkish authorities that over and above actions to strengthen civil society and human rights, vocational training, health and education should be targeted as well as support for the private sector.

In 1998, projects and programmes worth € 132 million were committed, nearly doubling the 1997 commitment level of € 70.2 million, bringing total commitments under MEDA to € 236 million. The bulk of MEDA funding benefits reproductive health care (€ 55 million), vocational training (€ 51 million) and the development of EU-Turkey Business Centres (€ 17.3 million) of relevance for the customs union. In addition, a social housing-project with a cultural dimension in Istanbul has equally been decided upon (€ 7 million).

As far as the geographical spread of projects is concerned, particular emphasis is put for the bigger programmes on the South-East and Eastern provinces of Turkey, which suffer from a developmental gap as compared to other regions.

Compared to 1996 and 1997, the average size of projects and programmes has substantially increased, such as to have a bigger impact. However for civil society and human rights activities the same grassroots approach as in previous years has been followed.

During 1998, the MEDA framework agreement was negotiated with the Turkish authorities and a text initialled in July 1998. The absence of a formal signature during 1998, apparently for legal reasons, made it impossible to implement the projects and programmes adopted so far. As a result, the level of payments on MEDA projects is extremely modest.

It should be noted that the programming and identification of MEDA projects and programmes for Turkey has faced constraints, as compared to other MEDA countries, due to the September 1996 resolution of the European Parliament. This resolution insisted that the Commission would only finance projects in the fields of Human Rights and Civil Society. However, since then, the European Parliament has shown a degree of flexibility in this respect.

1998 MEDA commitments (€)

Business Centres	17.300.000
Mechatronics centre	1.800.000
Framework programme for vocational training	51.020.000
Rehabilitation of the Balat and Fener neighbourhoods	7.000.000
Support for family planning	55.000.000
Supporting women's leadership for community development	200.000
Seminar for the improvement of human rights situation	120.000
Centre for collection & exchange of information on freedom of press[2]	35.000
Total	132.475.000

2 These three last projects were covered by a global allocation.

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 € 50 million in 1998, are the subject of a separate report which will be presented 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 above mentioned framework. The overall 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, production, urban and rural development, education, health, environment, services, foreign trade and institution building. In 1998 the MEDA programme financed an operation entitled "West Bank and Gaza Strip Investment Guarantee (MIGA)" for an amount of € 5 million. This initiative aims to increase European investment in productive sectors by providing political risk insurance.
The five-year programme of financial and technical co-operation set up by Regulation 1734/94 expired by the end of 1998. According to Article 6(2) of that Regulation the Commission has undertaken an evaluation of the main projects. The evaluation report will be officially transferred to the Council and European Parliament in 1999.

1998 MEDA commitments (€)

Investment guarantee(MIGA)	5.000.000

II 2. STRUCTURAL ADJUSTMENT

During the year under review, structural adjustment programmes continued to be implemented in Algeria and Morocco. Agreement on a new programme was reached with Tunisia.

As for Algeria, following full compliance with the first tranche conditions, an amount of € 60 million was disbursed in the course of the year. However, despite various efforts, no agreement could be reached on the second tranche conditions (€ 65 million) which therefore remain to be finalised.

In the case of Morocco the second tranche of € 40 million was paid following a satisfactory compliance with the conditions. At the end of the year, third tranche conditions (€ 50 million) remained still to be finalised.

Both in Algeria and Morocco, delays have been experienced in the implementation of the programmes. In the case of the Algeria a considerable deterioration in the external economic environment as a result of the sharp decrease in the price of oil and gas played an important role in this respect (the energy sector accounts for 30% of GDP, 60% of government revenues and 90% of export earnings). In the case of Morocco, the general policy orientation was evaluated and refined following the installation of a new government in March after the general elections of November 1997.

With Tunisia, a new programme (FAS II) was agreed as a successor to the FAS I programme. The latter was satisfactory completed in 1997. The MED Committee gave in December its unanimous positive opinion on the Commission proposal for a € 80 million FAS II programme. Like under the FAS I programme, this programme will be closely co-ordinated with the World Bank, while it is also envisaged that the African Development Bank will be associated. A key component of the programme is the strengthening of the financial sector through restructuring the balance sheets of public banks, public enterprise reform, and regulatory and supervisory reform.

In view of the importance of the structural adjustment programmes in the overall MEDA context, the instrument was subjected to a separate evaluation which started in 1998. **A brief description of the results is provided in section V.**

The approach in the structural adjustment programmes continues to be the same. Beneficiary governments agree with the Commission, often in close co-ordination with the Bretton Woods Institutions, a programme detailing structural reforms. On the basis of this programme conditions, or performance criteria, are agreed. These criteria constitute a measure against which the implementation of the reform programme is assessed. Complying with these mutually agreed criteria triggers payment, which is often done in the form of budgetary support.

Regular co-ordination meetings continued to be held with the Bretton Woods Institutions, while there was also regular co-ordination with Member States, mostly in the context of missions to the countries concerned.

Support for structural adjustment in the MEDA programme.

	Year of approval	Amount (million €)	Status as at end 1998
Morocco	1996	120	1st and 2nd tranche (30 M€ and 40 M€ respectively) disbursed in 1997 and 1998.
Algeria	1996	125 1/	1st tranche disbursed in 1998 (60 M€)
Jordan	1996	100	Programme completed. 1st tranche (60 M€) disbursed in 1996, 2nd tranche (40 M€) in 1997.
Tunisia – SAF I	1996	100	Programme completed. 1st tranche (40 M€) disbursed in 1996, 2nd tranche (60 M€) in 1997.
Tunisia – SAF II	1998	80	Unanimous positive opinion of MED Committee December 1998; financing agreement to be signed first semester 1999

1/. Of which € 95 million from protocol funds.

II 3. REGIONAL COOPERATION

The regional indicative programme, having received the favourable opinion of the Med Committee in December 1997, was adopted by the Commission on 17 March 1998. It was presented to the Euro-Mediterranean Committee for the Barcelona Process and a discussion took place on 25 November 1998. There was general agreement on the programme and that it should be updated at regular intervals.

During the year sustained efforts were made by the Euro-Mediterranean partners and the Commission to develop the principles and procedures for Barcelona Process regional projects which was also approved by the Euro-Mediterranean Committee on 25 November 1998. In particular the respective roles of the Euro-Mediterranean Committee and the Med Committee in elaborating such projects were dealt with. Broadly speaking, the Euro-Mediterranean Committee is responsible for giving political approval to initiatives for regional activities. However, it is for the Commission to take decisions on the financing of any activities under MEDA after consulting the Med Committee as appropriate. In accordance with these procedures the Commission and the Presidency have encouraged the Euro-Mediterranean Committee to engage in a more substantial strategic dialogue concerning regional activities and to ensure their conformity with the priorities laid down by the Ministers.

A number of important regional projects were agreed during the year 1998 of which the most significant are listed below :

- **Euro-Mediterranean Information Society** (EUMEDIS)(€ 45 million) : this programme will provide for (a) setting up and supporting a network of national focal points in the Mediterranean partners and interconnecting them among themselves and with their counterparts in the European Union ; and (b) co-financing a series of pilot projects for the application of information technology in the fields of electronic commerce, industry, education, health, cultural heritage and tourism.

- **Euro-Mediterranean Youth Action Programme** (€ 6 million) : this programme is designed to support Euro-Mediterranean youth exchanges and related activities through the establishment of independent national coordinators in the Mediterranean partners. The programme is based on the model of the « Youth for Europe » programme.

- **Euro-Mediterranean Energy Forum** (€ 9 million) : a group of six projects has been approved in this field related to the legal and institutional framework, enterprise reform, administrative support, solar energy, energy policy training and electricity interconnection.

- **Economic networks** (€ 3.5 million) : this programme finances the establishment and functioning of Euro-Mediterranean networks among the main business-oriented groupings, namely Chambers of Commerce and Industry, International Trade Promotion Organisations, Professional Crafts and SME Organisations and Trade Fairs. **It forms part of the follow up to the Euro-Mediterranean Ministerial Conference on Industry of 3-4.10.98.**

- **Euro-Mediterranean Transport Forum:** the Forum was set up in September 1998. In line with the recommendations in the Communication of the Commission on the Euro-Mediterranean Partnership in the transport sector[3], the Forum should draw up an action plan for transport, including proposals for measures and the means of implementing them, as well as a timetable.

---

[3] Communication from the Commission to the Council and to the European Parliament concerning the Euro-Mediterranean Partnership in the transport sector – COM (1998) 7 final.

MEDA	1995	1996	1997	1998	*1995-98*	
REGIONAL INDICATIVE PROGRAMME	99	33	93	39	*264*	
1. Political and security component				2	*2*	
Disaster management				2	*2*	
2.Economic and financial component	11	20	32	17	*80*	
Statistical cooperation (Medstat) - EUROSTAT		20			*20*	
Maritime transport 1 -DG VII			8,5		*9*	
Transport - DG VII					*0*	
Energy - DG XVII				4,9	*5*	
Industry (Working group activities				0,8	*1*	
+ network of federations) - DG III						
Regional telecoms - DG XIII					*0*	
Networks (economic institutes, chambers of commerce,				3,5	*4*	
ITPB (4),etc...)						
ICAMAS (5) - SCR			6,0		*6*	
GCRAI / ICARDA (6) - SCR			2,5	1,5	*4*	
METAP (7) - SCR, DG XI				1,9	*2*	
FEMISE				2,0	*2*	
Small and medium-sized enterprises - DG XXIII				2,8	*3*	
Fund for prep. of peace-process proj. (REDWG) (8)	11		15,0		*26*	
Information society - DG XIII					*0*	
Environment - DG XI					*0*	
Ecos - ouverture - DG XXVI					*0*	
Consumer policy - DG XXIV					*0*	
3. Cultural and human component	37	0	24	6	*67*	
Euromed cultural heritage			17		*17*	
Population programme			7		*7*	
Decentralised cooperation	37				*37*	(2)
Human sciences programme					*0*	
Book programme					*0*	
Music programme					*0*	
Youth - DG XXII				6,0	*6*	
Audiovisual					*0*	
4. Miscellaneous	51	13	37	14	*115*	
4.1. Specific projects					*0*	
- Microprojects : Barcelona process, Economic					*0*	
Cooperation, Information and culture and					*0*	
Micro-activities	7	11	14	10	*42*	
- Euro-Arab cooperation	2	2	2	2	*8*	
4.2. EIB - interest-rate subsidies	36		6		*42*	
- risk capital	6		10		*16*	
4.3. Project preparation facility			5	2	*7*	
(global authorisation)					*0*	
5. Unallocated reserve					*0*	
MEDA TOTAL	*172,5*	*403,0*	*981,4*	*942,5*	*2.499,4*	
Share of regional	*57%*	*8%*	*10%*	*4%*	*11%*	

(1) The specific activities stemming from the Barcelona Process which appear in headings 1 to 4 were approved by the Barcelona Committee have been allocated an indicative sum; heading 5 establishes a reserve which can be used for purposes including future programmes of activ approved through the Barcelona Process channels and covering fields including political confidence-building, industry, the information soc tourism, the environment, transport, research and development, youth, the audiovisual media, information/culture and cultural heritage (2) su reserve

(3) EIB operations for countries not receiving budget grants under the MEDA programme

(4) International Trade-Promotion Bodies

(5) International Centre for Advanced Mediterranean Agronomic Studies

(6) Groupe Consultatif de Recherce Agricole Internationale / International Center for Agriculture Research in Dry Areas

(7) Mediterranean Environment Technical Assistance Program

(8) Fund for prep. of peace-process projects (Regional Economic Development Working Group)

III. ADMINISTRATION

III.1. The Joint Relex Service (SCR) : reorganisation of external relations Directorates-General

During 1998 the Commission reorganised its external relations Directorates-General following the Commission decision of 15 October 1997[4]. Thus on 1 September 1998 the Joint Relex Service for the Management of Community Aid to Third Countries (Service Commun Relex, SCR) became operational. This was created in response to a number of factors.

EU cooperation with non-member countries has expanded considerably in recent years in terms of the amounts of money being administered and the variety of functions performed.

The overall allocation of EU aid to non-member countries in 1997 exceeded €7 billion (plus another €2 to 3 billion in loans and guarantees). These sums create a requirement for greater efficiency in the management of the aid, particularly in the light of the fact that the Commission proportionally has fewer staff to do this than do most of the Member States. In addition, the outlook for the availability of human resources in the near future is not good.

The range of instruments and methods of operation connected with the management of aid call for coordination and cohesion, though a degree of flexibility has to be preserved to cope with special (humanitarian aid) or changing situations.

Current operational arrangements do not give EU aid the visibility it merits, and this translates into uneven political, geostrategic and economic influence in the world.

For these reasons, a need emerged for a mechanism to handle administrative and technical managment of EU aid which was capable of:

- simplifying and rationalising the management of EU aid
- providing greater cohesion in methods
- providing greater transparency for economic operators
- providing economies of scale
- taking account of the highly political nature of programmes of EU aid for non-member countries (some requiring delicate political handling) and of particular management requirements (including the degree to which they are decentralised to the authorities of the beneficiary countries).

---

[4] PV (1357) of 15.10.97.

III.2. MEDA Teams and their operation

Following the approval of the Med Committee (25 February 1997), the Commission took a decision on 9 April 1997 to commit € 70 million from the MEDA heading (B7-4100) to fund the establishment in Brussels of ten expert MEDA Teams whose members would specialise in various development issues. The numbers involved would be 39 experts, with another nine teams of 54 experts being made available to the delegations in Morocco, Algeria, Tunisia, Egypt, Jordan, West Bank/Gaza Strip, Syria, Turkey and Lebanon.

The MEDA Teams' experts fulfil purely technical roles in the management of the project cycle, and are intentionally excluded from any function connected (or perceived as connected) with decision-making; this remains the job of the Commission departments. The teams can propose solutions to financial problems deriving from their technical functions, but they are bound to avoid any decision, step, activity or impression which might create a misunderstanding over their role and confuse their purely technical responsibilities and the financial , political and decision-making functions of the Commission departments to which they report.

As planned, a mid-term review of the Brussels MEDA Teams was conducted in November. The avowed aim of the review was to provide indications of the efficiency (in terms of operation) and effectiveness (in terms of results) of the Teams. It was also intended to single out factors promoting efficiency and success and factors creating difficulties.

Taking as its basis oral reports, quarterly reports and a sample of the papers produced by the experts, plus interviews, the evaluation deemed the contribution of the MEDA Teams (in terms of volume and technical quality) to be positive. The MEDA Teams' effectiveness and efficiency was thus judged to be high enough.

The report also confirmed that in the light of the mismatch between the (small) number of officials working on MEDA and the (high) political stakes and sums of money involved, the MEDA Teams were vital to preserving the Commission's ability to play its role in the partnership with the Mediterranean countries.. The report also makes recommendations for improvements; the Commission will take these into account.

IV. European Investment Bank (EIB)

IV.1. EIB objectives, priorities and operations

In the **Mediterranean region**, the Bank's 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 own resources lending is complemented by interest subsidies (for loans in the environmental sector) and risk capital from EU budgetary sources, managed by the Bank.

IV.2. Lending activities

In the **Mediterranean region**, the Bank signed 19 loans in 9 countries in 1998 for a total of € 677 million in the framework of the Council Decisions (not including a loan of € 50 million in Cyprus under the Pre-Accession Facility and loans in Egypt, Morocco and Tunisia for a total amount of € 153 million under the Financial Protocols with those countries). Loans for projects in Egypt, Morocco and Tunisia accounted for more than 55% of the overall amount.

- 28% of total financing (€ 192 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 construction of dams in Algeria and Tunisia, rehabilitation of water-supply systems in Jordan and Gaza-West Bank, and extension of sewerage systems in Tunisia and Turkey.

- In the **Energy** sector, which accounted for 38% of total financing (€ 255 million), electricity transmission systems in Cyprus, Morocco, Gaza-West Bank and Tunisia were supported, together with gas pipelines in Egypt and solar energy installations in Morocco.

- Egypt, Jordan and Gaza-West Bank benefited from loans to the **Industry and Services** sector for more than 19% of total financing (€ 130 Mio). The loans supported a steel mill in Egypt, a potash plant in Jordan and a hotel in Gaza-West Bank (GWB).

- A road project in Gaza-West Bank was financed under the heading of **Communications** and accounted for 3% of total financing in the region (€ 20 million).

- **Global loans** in favour of SMEs in Lebanon and Tunisia accounted for almost 12% of overall financing (€ 80 million).

- As regards MEDA Budgetary Funds, several operations on Risk Capital were mounted during 1998 :

⇒ € 25 million Competitive Upgrading of Enterprises (SMEs) in Egypt to provide equity-type finance to new / expanding Egyptian SMEs.
⇒ € 5 million Contribution into a Guarantee Trust Fund for GWB (managed by MIGA) to provide political risk insurance to European investors in GWB.
⇒ € 45 million Competitive upgrading of enterprises in Morocco.
It is to be noted that within the "Support to economic transition and private sector development" (Jordan), a contract to cover risk capital operations amounting to € 1.4 million has been signed ; similarly two contracts amounting respectively to 5.7 and € 4 million within the Restructuring (€ 15 million) and Privatisation (€ 15 million) programmes for Tunisia were signed.

These operations should bolster the efforts of the respective Authorities in preparing their enterprises for the challenges which lie ahead as the Euro-Med Free Trade Zone develops with the E.U.

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 cofinancing operations.

In general, it can be stated that the afore-mentioned projects represent a good cross-selection of operations which will underpin the sustainable economic development in the MED countries concerned. Falling within the Financial Cooperation volet of the political mandate given by the Barcelona Declaration and, in that context, fitting well within the development strategies agreed with the said MED countries ; they are coherent with what other Donors and Financing Agencies are doing, notably, in the Middle East region. Indeed, a number of the operations concerned were co-financed with Community and /or E.U. Member States bilateral aid (e.g. GWB and Jordan).

As regards any problem encountered, mention should be made of the political difficulties involving Israel and the Palestinian Territories which continues to render implementation of projects on the ground difficult.

V. Evaluation

The MEDA Regulation imposes evaluation obligations designed to increase the transparency of the EU's activities and moreover to assess their efficiency and lay the groundwork for renewing and/or redirecting these legal bases. In that connection, the following sectoral and programming evaluation activities were carried out or launched in 1998 in the Mediterranean:

1. Evaluation of the MEDA Regulation[5] ;
2. Evaluation of the structural adjustment activities[6] ;
3. Evaluation of cooperation with the West Bank and Gaza Strip[7] ;

The evaluations referred to under 1 and 3 have been finalised and presented to the appropriate Council body (Maghreb/Mashreq Working Party) and Parliament bodies; the conclusions were as follows:

MEDA Regulation

The evaluation report concludes that the indicative programming has shown a gradual improvement of coherence between projects and programmes and the MEDA objectives. Further modifications of operational conditions for decision-making and monitoring are required, however, in order to improve the impact of indicative programming. The evaluation also states that the programming of MEDA operations requires an ongoing political dialogue and a gradual process of adjustment between EU interests and country-specific priorities. There has been progress in that policy priorities have been put into a hierarchy, the quality of projects has improved through better preparation and the political dialogue has intensified.

On the operational level there has been a high rate of financial commitment in the evaluation period (1996-98), but still a sub-optional disbursement rate, which is seen to be a problem for the Commission and the MED partners. The reason for this is the time it took, following the adoption of the MEDA Regulation, to establish the legal and organisational prerequisites for MEDA implementation, which corresponded negatively to the time-management requirements for efficient programming exercises. This did not directly affect programming efficiency, which explains the high commitment rate. However, the belated conclusion of the Financing Framework Conventions with Mediterranean partners reduced efficiency in terms of concrete implementation (project implementation often started later than initially planned), which in turn explains the low disbursement rate. The evaluators are of the view that, although this certainly is a serious problem, the quality of the project preparation should be considered as an equally important issue, and project preparation quality has not been affected by the above difficulties.

---

5 Euronet, February 1999

6 CEPT II (under way)

7 CEPT II, January 1999

Structural adjustment

On a specific aspect of MEDA assistance, i.e. support for structural adjustment a separate evaluation has been carried out in the context of the global MEDA evaluation. Such a separate evaluation was considered to be justified in view of the fact that programmes in support for structural adjustment make up a significant part of the MEDA programme. Programmes in support of structural adjustment provide direct budgetary support conditioned to the effective implementation of a reform programme agreed with the partner country. The financial breakdown of structural adjustment operations financed by MEDA is given under section II.2.

The evaluation study, finalised during the first semester of 1999, concludes that programmes in support of structural adjustment have been in general beneficial. They have contributed to an improvement of the macro economic situation, which in turn has facilitated the implementation of reform programmes. Also the quality of the dialogue has improved with those countries that implement structural adjustment programmes. Co-ordination with the Bretton Woods Institutions has been satisfactory. However, the adjustment operations move at different pace according to the specific conditions negotiated with the individual partner country. In a number of cases this has resulted in certain delays in the implementation of the programmes. The study recommends that support for structural adjustment programmes could be linked more explicitly to the objective of improving socio-economic balance in the countries concerned and the creation of a free trade area with the European Union.

West Bank and Gaza Strip[8]

Despite uneven results (effectiveness of aid for the private sector and education, mismatching of construction projects, weaknesses in the implementation of institutional improvements), the projects financed by the EU are considered broadly appropriate to the development needs of the Palestinian economy and society. It is recommended that financing should continue.

These three evaluation reports show that overall, MEDA finance and co-operation activities are well geared to the partners' development priorities and that MEDA-funded operations, such as in the case of SAFs, make a valid and tangible contribution to economic transition in the region. Given the preliminary stage of implementation of the majority of MEDA projects, with the exception of structural adjustment, it has not yet been possible to conduct mid-term or ex-post evaluations of individual projects.

[8] This evaluation was carried out under Council Regulation (EC) No 1734/94, not under the MEDA Regulation. However, since MEDA is financing a portion of the cooperation with the West Bank and Gaza Strip, its main conclusions are relayed here.

VI. FINANCIAL BREAKDOWN AND OPERATIONAL PERFORMANCE

VI.1. State of financial implementation at the end of 1998

It should be recalled that although MEDA, the main financial instrument of the Euro-Mediterranean Partnership, was initially foreseen for the period 1995-99, a period of 5 years, in reality it started in September 1996 as the necessary legal base was adopted only in July of that year. Thus the duration of MEDA up till now is of less than 3 years.

At the end of 1998 the global volume of financial commitments undertaken since the beginning of the programme amount to € 2, 500 million. In each of the years 100% of available credits have been committed. It should also be pointed out that the credit allocation for 1999 has increased so that the actual envelope of MEDA for the period 1995-1999 has risen from € 3, 425 million to € 3, 474 million.

Concerning payments, the annual implementation rate has risen from approximately 50% to more than 80% in 1998. Therefore the financial execution of the MEDA Programme is globally satisfactory, taking into account its strategic objectives and complex nature, and represents a significant improvement on the previous financial protocol system

In order to fully appreciate these results it is important to understand the nature of the interventions financed by MEDA. Thus the first two years of MEDA have been essentially used to ensure the identification of projects and the negotiation of the different framework conventions and contracts as well as to develop sectoral framework programmes "eg SMAP for the environment). **It is to be noted that the preparation of regional projects is very time-consuming because of the consultations needed among different partners and actors.** The average size of MEDA projects is greater than € 20 million and the implementation period varies between a 4 year average to a 7 to 8 year maximum. Therefore, the cumulative total of payments disbursed since the beginning of the programme is around € 650 million for a total committed of € 2, 500 million. Starting from the year 1999 we shall be entering into a more active implementation phase and the disbursement rate should increase significantly, notably for those interventions which are not of the structural adjustment type.

In most cases, the first step in implementation is to select a management unit for the project or programme, a process which takes 6-8 months (enough time for the invitation to tender to be published, the deadline to elapse and the selection to be completed). It is only then that actual implementation on the ground can begin. As a result, it is not unusual for payments for a particular project to be about 5% of the total allocation during the project's first year. If we compare this situation to that of the Structural Funds, where a decision regarding an operational project is usually accompanied by a payment of 40 to 50% of the first annual instalment, we can see how the pace of implementation is considerably slower for MEDA in the initial years.

Although an omnibus transfer increased commitment appropriations by €144.7 million late in 1997 and somewhat disturbed the smooth administration of that financial year, 1998 was stable and produced an implementation rate of close 100%for commitment appropriations 81.08% for payment appropriations, a substantial increase on 1997 figures.

The table below gives a summary of 1997 and 1998 financial implementation for MEDA:

Million euros

	1997		1998				
	Budget(1)	**Implement**	**Budget initial**		**Budget actual (1)**	**Implementation %**	
Commitments	981,4	100%	942,5		942,5	99,83	
Payments	314,7	67,2%	315	(2)	285	81,08	

(1) Including SABs and transfers

(2) reserve of € 30 million

Therefore we can say that the results are generally satisfactory and represent an improvement compared to the old financial protocols. But there is certainly no room for complacency. The experience gained over the last 2-3 years should be fully exploited in order to achieve improvements.

In order to improve further the MEDA disbursement rate, it will be important that efforts are increased on both fronts:

- that the Commission's project management procedures are made more efficient while maintaining high accounting standards

- but, also, that the absorption capacity of partners be maximised, notably in developing appropriate modus operandi.

In this perspective, as far as the EU is concerned a number of measures have already been taken. Thus the creation of the Common External Relations Service (SCR) is intended, in particular, to boost the implementation rate of projects and this applies equally to Mediterranean projects. Also, arrangements are being examined which will emphasise the attainment of objectives and the verification of results because perhaps in the past overburdensome decision-making procedures have been used which went into too much detail regarding implementation matters.

At the same time there is room to improve the strategic planning of our financial cooperation by including in the national indicative programmes negotiated with partners a section which focuses on medium and long term macro-economic objectives and shows how individual projects and programmes can fit into that strategy. **Similar efforts need to be made in view of ensuring integration of the environmental dimension in each national and regioanl indicative programme.** In this way we shall be able to build on the experience we have acquired so far and ensure that we achieve the strategy which we set out for ourselves at Barcelona.

VI.2. Breakdown of activities implemented

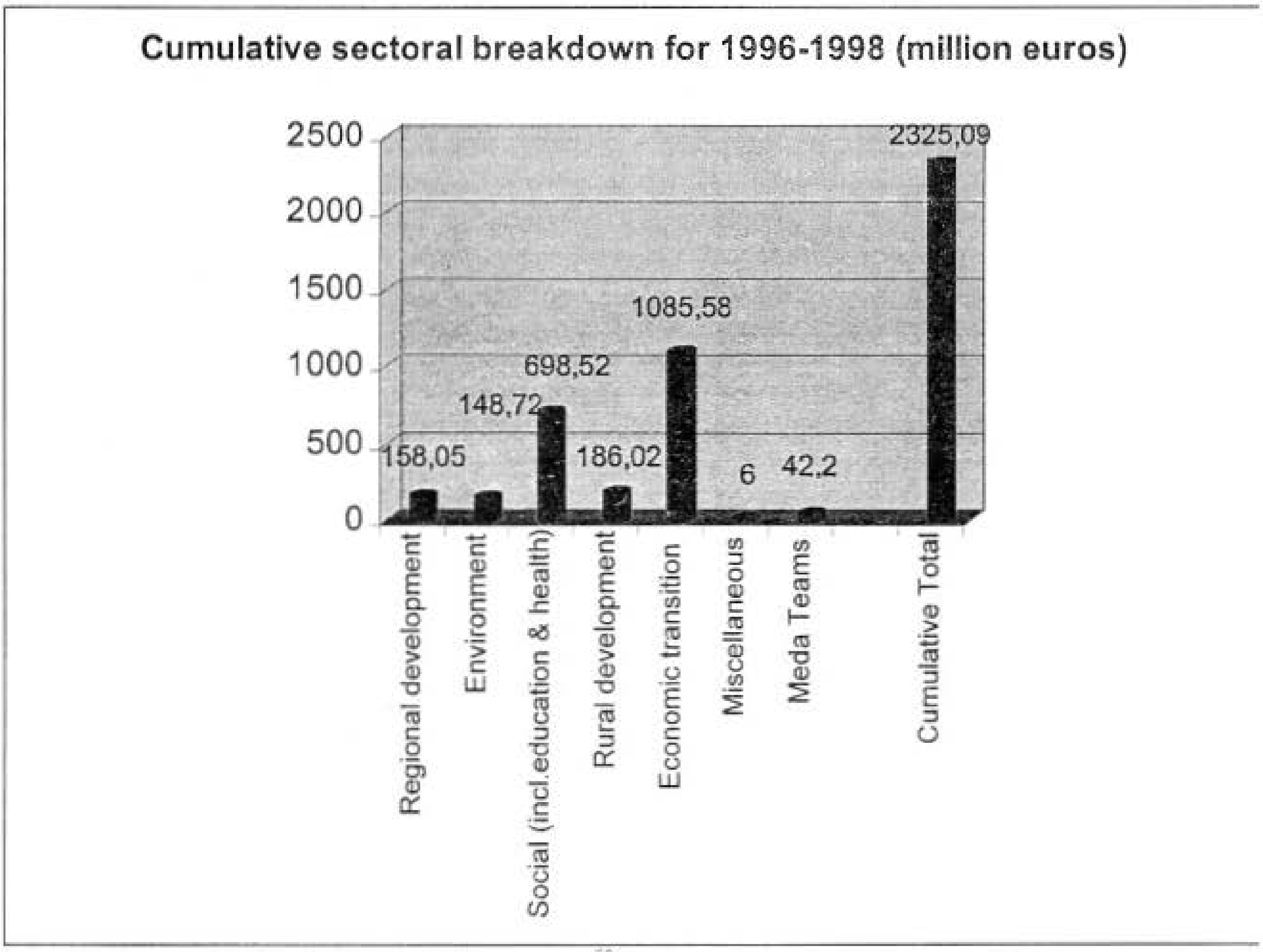
Once the National Indicative Programme guidelines had been set up, appropriations covered financial and technical measures to back up the reform of economic and social structures in the context of the Euro-Mediterranean Partnership, including:

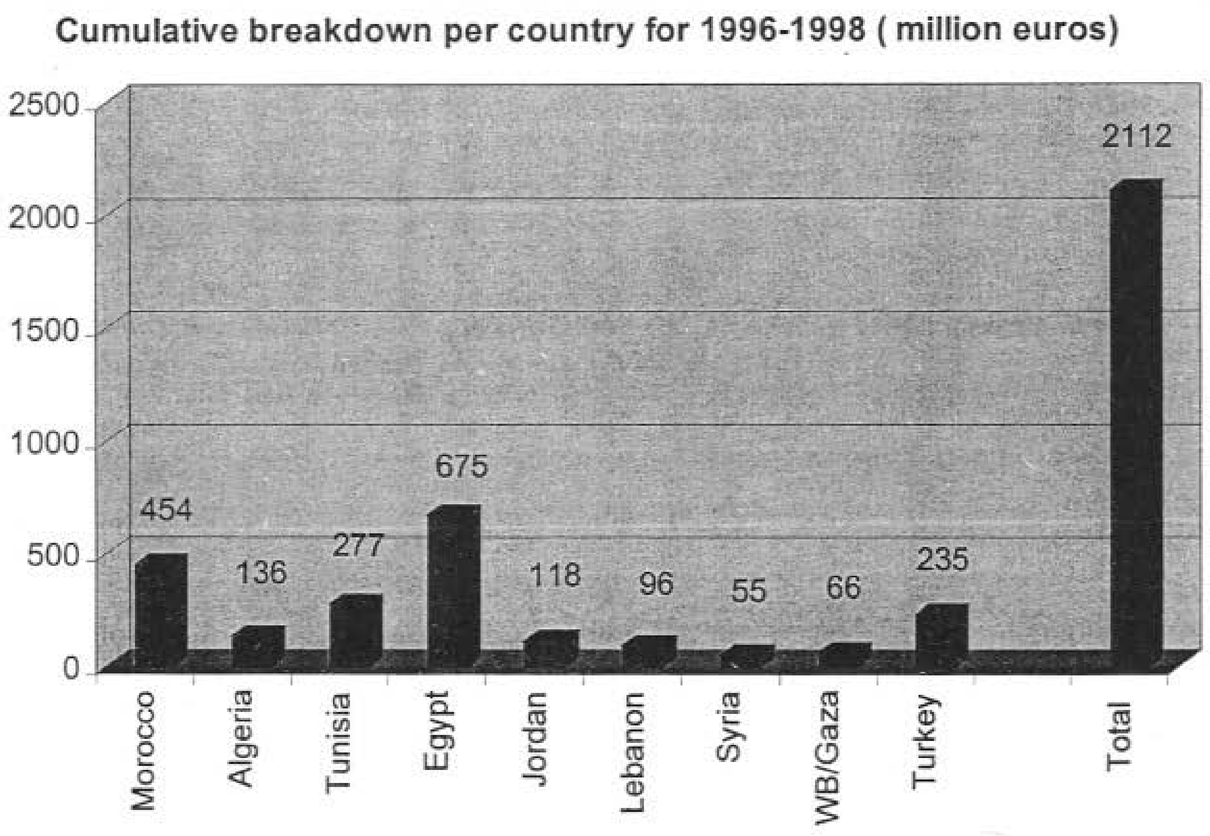
- support for economic transition (modernisation, economic restructuring, phasing-in of a free-trade area, promotion of direct investment in the region, etc.),

- assistance for achieving a better socio-economic balance (improvement of social services, development of the rural environment, education, culture, etc.)

- support for regional integration (promotion of regional cooperation, cross-border cooperation, etc., including cooperation on environmental matters).

As regards the environment, the table below representing cumulative sectoral breakdown shows the proportion of MEDA funds being used directly on environmental activities. These include, in particular, interest subsidies and water projects. However, it should be noted that certain projects coming within the categories "regional development" and "rural development" also have a significant environmental dimension.




Cumulative breakdown per country for 1996-1998 (million euros)
2500
2000
1500
1000
500
0
454
136
277
675
118
96
55
66
235
2112
Morocco
Algeria
Tunisia
Egypt
Jordan
Lebanon
Syria
WB/Gaza
Turkey
Total

VI.3. Budget information

Details of budget implementation, charts analysing budgetary programming, programming by country and the implementation of payment appropriations are now available on the internet, as are MEDA contract forecasts. The computer modules for advertising tender notices and awards of contract on the internet have been in operation since January[9].

[9] http://europa.eu.int/en/comm/dg1b/budget/index.html
http://europa.eu.int/en/comm/dg1b/contract.htm

VII. ASSESSMENT OF OVERALL RESULTS

It has been observed that, during the first period of the MEDA Programme in 1996, the National Indicative Programmes did not always show a high degree of coherence, either internally (coherence between projects in the NIP) or externally (coherence with the strategic objective of supporting economic and social reform). To a certain extent this phenomenon was a continuation of the practice of the previous system of "financial protocols" where funds tended to be dispersed amongst competing requests.

However over the period 1997/1998 there has been a tendency to more clearly align the programming of cooperation with the goal of economic and social reform and in particular the objective of creating a free trade area. Thus, for example, the two major projects decided in 1998 for Egypt, namely the "Social Fund for Development Programme" and the "Industrial Modernisation Programme" can be seen as complementary to each other and consistent with the goal of achieving economic transition whilst strengthening social cohesion. This tendency for more coherent programming is derived from progress in the operational dialogue with the Mediterranean Partners. In particular this has led to the increasing assimilation of the strategic objectives adopted at the Barcelona Conference of 1995 by the administration of the partners at all levels.

The implementation of MEDA remains characterised by lengthy and burdensome procedures (this impressions is confirmed by an independent evaluation discussed in part V of this report). Therefore during 1998 the Commission studied and prepared proposals having the overall objective of simplifying the implementation of MEDA. The complexity of the implementation of Mediterranean policy is due to certain provisions of the MEDA Regulation in force as well as to certain internal provisions of the Commission.

With regard to the provisions of the MEDA Regulation, there is an opportunity to streamline the decision making procedure thus allowing more time for discussions of the substance of the interventions. More emphasis should be placed on the objectives and results of cooperation, rather than on procedures and implementation details. With regard to the procedures specific to the Commission, this simplification will be accompanied by a greater study of the NIPs and of the RIP. In addition, the setting up of the Joint Relex Service for the Management of Community Aid to Third Countries (Service Commun Relex, SCR) will have to result in significant efficiency gains. Beyond this, the experience gained both in the TACIS programme and in the implementation of the Structural Funds shows that there is no genuine lightening of the procedures and therefore of corresponding efficiency gains without accompanied real decentralisation by clear delegation of powers. Such decentralisation involves on the other hand the setting up of simple and effective follow-up instruments.

However, to be effective the follow-up has to rest on projects and programmes of significant size. Thus, the average size of the projects is bound to increase significantly, in order to allow decentralisation and effective monitoring. The Commission will endeavour thus to contribute to the necessary simplification. In their sphere, the Mediterranean partners will also play their part by ensuring consistent programming and continued close cooperation in implementation.