



Thinking Ahead  
for the Mediterranean



## WP 9 - Scenarios for regional integration and cooperation with the EU

# The Euro-Mediterranean Partnership and Development Assistance: Past Trends and Future Scenarios

Rym Ayadi and Salim Gadi

MEDPRO Technical Report No. 32 / April 2013

### Abstract

The 2011 uprisings in the southern and eastern Mediterranean have put the region at the forefront of current policy developments, calling into question the future of their domestic political systems and the future of the EU partnership with its Southern Neighbourhood. Against this backdrop, this paper analyses and assesses the EU's development assistance to the region since 1995 and provides insights into the future of the Euro-Mediterranean Partnership. The first section reviews the policy and financing frameworks governing Euro-Mediterranean relations; section two reviews the determinants of official development assistance (ODA), section three analyses the impact of the EU's ODA to the southern and eastern Mediterranean against the objectives set in the different policy frameworks governing Euro-Mediterranean relations; section four assesses the EU's response to the changes in the region and offers four views on the future of Euro-Mediterranean relations.

This paper was produced in the context of the MEDPRO (Mediterranean Prospects) project, a three-year project funded under the Socio-economic Sciences & Humanities Programme of DG Research of the European Commission's Seventh Framework Research Programme. MEDPRO Technical Reports give an indication of work being conducted within MEDPRO thematic Work Packages (WPs) and aim at stimulating reactions from other experts and academics in the field.

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ISBN 978-94-6138-299-3

Available for free downloading from the MEDPRO ([www.medpro-foresight.eu](http://www.medpro-foresight.eu))  
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# The Euro-Mediterranean Partnership and Development Assistance: Past Trends and Future Scenarios

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## 1. Introduction

Since the 1970s, southern and eastern Mediterranean countries (SEMCs)<sup>1</sup> have been the target of EU foreign policy through four successive policy frameworks: the Global Mediterranean Policy (GMP), the Renovated Mediterranean Policy (RMP), the Barcelona Process (BP) and the European Neighbourhood Policy (ENP).

Starting with the 1972s GMP, Europe's southern and eastern Mediterranean neighbours concluded bilateral cooperation agreements based on three pillars of cooperation: economic, social and financial. Under commercial cooperation, Europe and SEMCs agreed on a partial liberalisation of trade in industrial goods, while excluding agricultural products from the agenda. In exchange for tariff waiving, Europe channelled official development assistance (ODA)<sup>2</sup> through financial instruments – the financial protocols – that specified aid volumes committed to SEMCs. Financial and economic cooperation took three forms: grants, European Investment Bank (EIB) loans and the European Commission loans at a 1% interest rate.

The RMP was adopted in 1990, in the aftermath of the EU's enlargement to Greece, Portugal and Spain. The new policy sought to adapt the EU to its new configuration by reinforcing commercial, social and financial cooperation along with providing the partnership with narrower objectives and strategies. While the GMP concluded cooperation agreements that rested on the three chapters of commercial, financial and social cooperation, the RMP went one step further by earmarking funds for the development of small- and medium-sized companies (SMEs); encouraging environmental protection; and emphasizing respect for human rights. Besides these novelties, the RMP backed the implementation of the International Monetary Fund's (IMF) and World Bank's (WB) structural adjustment programmes (SAPs) by granting duty-free access to non-sensitive agricultural products, both measures designed as incentives to implement structural adjustment. The focus on novel areas of cooperation translated into an increase of ODA commitments from €615 to €765 mil (see Annex 1).

However, as its predecessor, the RMP did not survive geopolitical reconfigurations. The Soviet collapse in the early 1990s brought the EU eastern and central European countries closer, while at the same time escalating tensions in Algeria and the Middle East de facto outdated the GMP. The EU institutions were urged to devise a new cooperation framework for Euro-Mediterranean relations. Adaptation to this new context resulted in giving Central and Eastern European countries EU

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<sup>1</sup> Southern and eastern Mediterranean countries (SEMCs) encompass Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria, Tunisia and Turkey.

<sup>2</sup> OECD Development Assistance Committee (DAC) defines ODA as “flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character with a grant element of at least 25% [...]. By convention, ODA flows comprise contributions of donor government agencies, at all levels, to developing countries [...]. ODA receipts comprise disbursements by bilateral donors and multilateral institutions. Lending by export credit agencies – with the pure purpose of export promotion – is excluded.”

membership prospects as an incentive to move towards a market economy and encouraging SEMCs to build joint institutions to secure and deepen relations.

A key shift from previous policies was the move from the provision of aid in exchange for tariff waiving and implementation of SAP reforms to a comprehensive cooperation framework based on the perception in EU institutions that stability in the southern and eastern Mediterranean could only be achieved through economic development. By the mid-1990s, after the Gulf War and the First Intifada, the international context was prone to optimism, which led to the November 1995 Barcelona Ministerial Conference. The Conference gathered Foreign Affairs ministers from both shores and formalised a crucial change in Euro-Mediterranean relations: SEMCs' Foreign Affairs Ministers were engaged in the Conference's final statement, and their countries' status was upgraded from "Mediterranean Third Countries" to "Mediterranean Partners". The newly born Euro-Med Partnership went one step further than previous initiatives and rested on three pillars: i) political cooperation and dialogue with the ultimate goal of achieving a prosperous and stable regional ensemble through the adoption by partner countries of measures encouraging democratic development and good governance; ii) economic cooperation and regional integration with the aim of forming a free trade area (FTA) by 2010 and iii) socio-cultural cooperation by developing people-to-people contacts and a vibrant civil society through targeted initiatives.

Alongside the adoption of this comprehensive cooperation agenda, the Barcelona Process (BP) brought important institutional changes. Previous cooperation agreements evolved into Association Agreements (AAs), which have become the building blocks of Euro-Mediterranean relations. Concluded for an unlimited period of time, AAs cover the Partnership's three pillars and prepare the ground for the creation of the Euro-Mediterranean FTA while providing the legal basis for the provision of ODA, which is allocated to facilitate meeting the objectives set out in the AA (see Annex 2 for a taxonomy of the different AAs). On financial grounds, changes were no less important. Parallel to the upgrade of SEMCs' political status, previous financial protocols were revoked and additional resources were committed. The so-called MEDA programme was enacted, consisting of a bilateral and regional layer, both conceived as complementary tools to meet the objectives set in the Partnership. Parallel to the increase in resources committed to the Euro-Mediterranean Partnership, administrative procedures governing aid allocation were revamped<sup>3</sup> and the European Investment Bank's (EIB) operations in the region were centralised through the creation of the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) in 2002.

After the 2004 and 2007 enlargements and the reconfiguration of external borders, EU institutions needed to revamp their cooperation frameworks with both their eastern and southern neighbours, leading to the creation of the European Neighbourhood Policy (ENP).<sup>4</sup> This new framework is common to both eastern and southern countries and as far as southern neighbours are concerned, is superimposed onto previous initiatives. The ENP seeks to promote a closer political, economic, social and cultural and scientific dialogue while enhancing cross-border cooperation and shared responsibility in the areas of security, prosperity, justice, regional stability, conflict resolution and prevention. Despite being launched with much emphasis as a framework for deeper cooperation, the ENP did not change much for SEMCs: AAs were continued; the new policy only added another layer to the Barcelona Process by creating a series of documents mutually endorsed by the EU and neighbouring countries so as to strengthen cooperation (see Annex 3). The potential for financial support increased, with the creation of a new fund managed by the EIB, the Neighbourhood Investment Facility (NIF).

<sup>3</sup> MEDA I was criticised for significant inefficiencies. In 2000, in parallel with the reorganisation of European Commission services, MEDA II was adopted and cooperation initiatives implemented in two steps. First, mutually adopted Country Strategy Papers summarised the political, economic and social developments in each partner country and detailed the objectives of cooperation. In a second stage, mutually endorsed National Indicative Programmes (NIPs) translated cooperation objectives into specific programmes. NIPs were drafted for the following programming periods: 2002-04, 2005-06 and 2007-09.

<sup>4</sup> The ENP covers the following countries: Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Moldova, Morocco, Palestine, Syria, Tunisia and Ukraine.



Despite the comprehensiveness of the BP and the ENP, the EU's policies towards SEMCs were criticised for relying excessively on European structures and for failing to provide the region with incentives to engage in deeper cooperation (Johansson-Noguès, 2011). Despite the fact that the ENP opened to both Eastern and Southern Mediterranean countries cooperation programmes initially designed for candidate countries such as TAIEX and TWINNING,<sup>5</sup> ODA commitments for SEMCs turned to be in reality lower than for the Eastern Partnership neighbours such as Georgia and Ukraine: while the former were earmarked a total of €18 per capita, the latter were attributed €4.5. The discrepancy fuelled feelings of marginalisation among SEMCs compared to the Eastern countries. This diplomatic unease coincided with France's rotating EU presidency, leading the President Nicolas Sarkozy to call for a redefinition of Euro-Mediterranean relations based on co-ownership, visibility and concrete initiatives that de facto sidelined previous European cooperation frameworks.

Amid much fanfare, in July 2008, Sarkozy launched the Union for the Mediterranean (UfM), an intergovernmental organisation gathering all Mediterranean countries, the 27 EU member states and the European Commission. Its mission differs significantly from the EU's other policies towards the region: unlike European institutions, the UfM is not intended to provide funds to support reforms and socioeconomic development; rather, it posits that the latter can only be achieved through six "concrete initiatives".<sup>6</sup> The creation of this intergovernmental structure, which foresees an increased role of public and private partnerships, actually coexists with the EU's traditional cooperation frameworks, the latter being based on conditioning the provision of aid on economic and political achievements. Taken together, the EU's initiatives, the UfM and member states' own cooperation policies potentially allow SEMCs to benefit from different sources of funding to support socio-economic development.

Despite the evolution of the Euro-Mediterranean policy framework and the amounts of development assistance committed to the region, they stand in contrast with the gloomy socio-economic development prospects that triggered the 2011 uprisings and challenge the future of EU policies towards the region. In light of these developments, the objective of this paper is first to assess the EU's development funding to the southern and eastern Mediterranean; and second to sketch the likely evolution of development assistance to the region. To do so, section 1 reviews the evidence on the determinants of development assistance and its impact on the recipients; section 2 gives an overview of beneficiary countries and sectors of the EU's ODA; section 3 analyses the impact of the EU's aid on economic, social and political characteristics and section 4 analyses the EU's response to the Arab spring and sketches prospective scenarios on the future of Euro-Mediterranean relations.

## 2. Determinants of official development assistance

Donors provide official development assistance (ODA) to their recipients to meet three objectives. First, out of a genuinely altruistic concern, development assistance is intended to support economic growth, alleviate poverty and sustain human development. Second, development finance can be used to cement commercial and financial relations between the donor and the recipient, ensuring opportunities for exporters, suppliers and contractors in donor countries. Third, aid can be politically motivated, used either to reward or induce the recipient's allegiance to the donor's political objectives (Mwega, 2009).

<sup>5</sup> Both TAIEX and Twinning were initially designed to provide candidate countries' administrations with technical assistance and expertise to implement the EU *acquis*. Additional programmes were created under the ENP such as the Cross-Border Cooperation programme (CBC) and the Support for the Improvement in Governance and Management (SIGMA) initiative.

<sup>6</sup> Six initiatives were initially chosen by the UfM: i) De-pollution of the Mediterranean Sea; ii) Establishment of maritime and land highways; iii) Joint civil protection programme on prevention, preparation and response to natural and man-made disasters; iv) Mediterranean Solar Energy Plan exploring the opportunities for developing solar energy in the region; v) Euro-Mediterranean University, inaugurated in June 2008 and based in Slovenia and vi) Mediterranean Business Development Initiative, supporting companies operating in the region through technical assistance and access to finance.



Empirical research on the determinants of foreign assistance supports these three arguments, but a significant number of studies find that donors respond differently to these three concerns. The discrepancies in the outcomes of these studies can be attributed to differences in the countries sampled, the choice of explanatory variables of aid flows and the econometric methods used in empirical estimations – three elements calling for caution when extrapolating general results to individual situations.

Testing the altruistic motivation behind the provision of aid, authors have found that actual patterns of aid provision reacted less to poverty needs of the recipient than to commercial and political drivers. Also, considering that poverty can be reduced in the recipient country by domestic policies, a ‘poverty-efficient’ allocation of development aid should increase with the quality of growth-enhancing policies adopted by the recipient. Yet, empirically, the opposite effect seems to be at work: once recipients adopt growth-enhancing policies, donors phase out aid, while detrimental policies channel in development finance inflows (Collier & Dollar, 2002).

In an attempt to stimulate development, donors have conditioned the provision of development aid on the adoption of growth-enhancing policies, such as macroeconomic stability, trade liberalisation, government accountability and a set of ‘good governance’ standards. However, empirically, conditionality in development finance does not seem to work. Aid allocations were not found to be altered by poor governance standards and detrimental economic policies, which points to the relative superiority of donors’ strategic and commercial interests over altruistic motivations. According to empirical research, the average developing country can nearly double its aid allocation if it has a relatively long colonial history with a donor (e.g. France and the Maghreb countries) and if it aligns on the latter’s votes in the United Nations, a variable used as a proxy of political allegiance. This is not to say that good governance, democratisation and growth-supportive policies do not positively impact allocations, but rather that these elements are found to exert only a marginal positive influence on aid (Alesina & Dollar, 2000)<sup>7</sup> (see Table 1). Interestingly, as an illustration of the relative importance of political and commercial drivers of aid, Egypt and Israel – two key players in the Middle East and US allies – are found to receive more than four times the average allocation compared to countries with similar characteristics (Alesina & Dollar, 2000).

*Table 1. Determinants of ODA and impact on aid allocation*

Former colony	Strong positive impact
Poverty rate	Positive impact
Growth	Negative impact
Good governance	Positive impact the first year, negative impact after
Trade liberalisation	Strong positive impact
Strategic alignment	Strong positive impact

*Sources:* Collier & Dollar (2002) and Alesina & Dollar (2000).

Donors’ tendency to reward less progress towards growth-supportive policies and good governance than alignment on their strategic objectives results in failing to provide meaningful incentives for developing countries to implement costly and resource-mobilising reforms (Höffler & Outram, 2011). At the extreme outset, donors’ self-interest might result in reinforcing undemocratic regimes, plunging their countries into poverty. Theoretical models of aid allocation even show that donors’ conditionality on good governance and poverty reduction can actually lead to the creation of a poverty trap where the recipient has an incentive not to progress towards poverty reduction and democratic standards, but rather to deteriorate even more from the benchmarks on which aid is provided so as to maximise its allocation (Epstein & Gang, 2008). As a result, unless the donor devises a powerful incentive scheme for the recipient under which the benefit of implementing growth-supportive and democratisation

<sup>7</sup> These authors find that democratisation and enhancement of governance standards drive ODA inflows, but only in the first years after their adoption.

policies will be significantly higher than maintaining the status quo, conditionality will remain ineffective (Burnside & Dollar, 2000). The Southern Mediterranean does not seem to be subject to such detrimental effects, since the emphasis on conditionality by development finance donors was simultaneous with an enhancement in indicators of socio-economic development. For example, between 1995 and 2009 the average value of the Human Development Index (HDI)<sup>8</sup> gained 16%, rising from 0.6 to 0.7, and over the same period GDP per capita more than doubled, starting from €1.65 per capita to reach €3.67 in 2009. While no empirical studies have been conducted to assess specifically the influence of conditionality on aid and socio-economic performance in the southern Mediterranean, a brief look at the figures rules out such a bleak view.

Turning to the impact of aid, development finance is expected to spur growth via the savings channel. Inflows of official development assistance (ODA) increase a country's aggregate savings, leading to an increase in investment and hence in capital accumulation. From an empirical perspective, evidence on the growth impact of development aid is mixed. Depending on the sample and the methodology used, in some studies aid appears to stimulate growth whereas it has no impact according to others. Many studies have attempted to resolve a paradox in aid literature: while microeconomic studies on aid effectiveness find a positive impact of ODA on growth, research at the macroeconomic level produced mixed evidence, creating a contradiction that economists have not yet entirely resolved (see Hansen & Tarp, 2001, for a discussion and review).

When measured in the long run, some authors argue that aid has a positive impact on growth, irrespective of whether the recipient implements growth-supporting policies (Dalgaard & Hansen, 2000; Hansen & Tarp, 2000; Miniou & Reddy, 2007). In these studies, inflows of development finance exert a positive influence on investment in recipient countries, yet over time, the positive impact of aid decreases, thereby pointing to the possible existence of diminishing returns to aid. Hence, above a certain threshold of income in recipient countries, additional inflows of ODA have a minor influence on economic performance. When disentangling developmental<sup>9</sup> from total ODA, the former is found to exert a more pronounced impact on growth, pointing to the quality of aid as the main determinant of its effectiveness. In addition, not all donors have the same developmental impact on their recipients: total development finance from Nordic donors (i.e. Germany, Denmark, Finland, Norway and Sweden) is found to have a significantly higher impact on recipients' growth than American, French or British, the latter set of countries being presumably more sensitive to commercial and broader geopolitical motivations due to their commercial and broader geopolitical significance.

In another stream of the literature, ODA has no influence on growth, and could in fact lead to a worsening of the economic development process. For countries highly dependent on development finance, aid inflows lead to an overvaluation of the real exchange rate, raising wages in the countries' export sectors, leading to a loss of competitiveness and eventually a decrease in income (Rajan & Subramanian, 2005a).<sup>10</sup> Here again, such empirical predictions are unlikely to play a role in SEMCs, where the ODA/GDP ratio over the period 1995 and 2009 has been on a downward trend and averaged 0.6%; while in contrast, it remained broadly constant in sub-Saharan Africa (SSA) and averaged 4.8% pointing to an increased likelihood of aid-fuelled 'Dutch disease' in some countries of the region. These controversies notwithstanding, most of the literature on aid effectiveness finds a neutral effect of ODA on growth and interprets the finding as a result of 'fungibility', a concept that refers to the fact that aid, once disbursed by the donor, can be used at the discretion of the recipient government to promote self-interested spending.

<sup>8</sup> The HDI is a composite statistic ranking countries based on their quality of life. It uses life expectancy, literacy rate, years of schooling and gross national income, the higher the index, the better a country's 'human development'. For more information, see website of the UNDP (<http://hdr.undp.org/en/humandev/>).

<sup>9</sup> According to Miniou & Reddy (2007) developmental aid encompasses ODA for healthcare, social services, housing etc. However, due to constraints on data availability, the authors resort to other measures derived from the literature.

<sup>10</sup> Rajan & Subramanian (2005a) point at the importance of prudent macroeconomic management in aid dependent countries as well as on the need for governments to promote productive investment.

In a dynamic context of aid allocations, attempts by a recipient government to divert development finance resources could be offset by the donor's retaliation, which would threaten the recipient government from reducing its allocation so as not to engage in self-interested spending. However, this also seems to be rarely the case. Even in situations where aid has been subject to diversion, donors continued to provide funding to recipient governments. This result points to the prevalence of strategic and commercial interests over altruistic motivations behind aid provision (Nath & Sobhee, 2007), and rules out the influence of the recipient's policies on aid allocations (Rajan & Subramanian, 2005b). An immediate consequence of aid fungibility is that amounts allocated by the donor for the benefit of certain groups in recipient countries will never reach them, and even if aid is made conditional, the recipient will demand higher disbursements from the donor in order to ensure its interests remain unaffected (Hafeker & Carsten, 2005).

In the context of the southern and eastern Mediterranean, the rare empirical analyses of development finance inflows broadly confirm the importance of strategic and commercial interests over altruistic determinants of aid provision. In an analysis of the determinants of the IMF's and World Bank's lending to the Middle East and North Africa (MENA) region,<sup>11</sup> research has found that the amounts provided to countries in need were highly correlated with the recipients' alignment on US foreign policy objectives, a finding interpreted as illustrative of American influence on both institutions' governance and voting rules (Harrigan et al., 2006). The region's endowment in fossil and non-fossil energy resources and the presence of important supply routes such as the Suez Canal and the Bosphorus Strait; the geopolitical consequences of Israel's creation in 1948 and of the 9/11 attacks combined with the proximity to European shores and the importance of southern and eastern Mediterranean migration flows to the EU<sup>12</sup> are all factors explaining the increased amount of aid received by the region, its distribution across countries as well as funded initiatives.

### 3. Overview of the EU's ODA to the southern and eastern Mediterranean

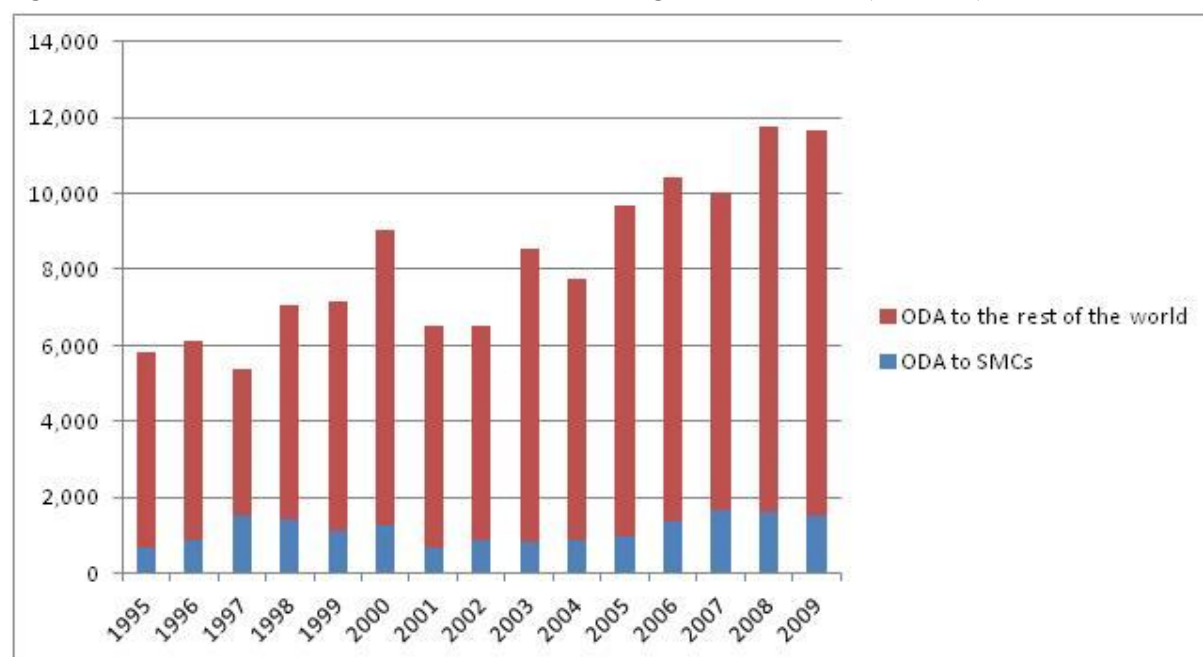
#### 3.1 Evolution and country distribution of aid inflows to the SEMCs

Since the mid-1990s, the EU institutions have increased significantly their total development assistance, with the highest hike witnessed since 2000 and the commitment to reach the objectives set in the Millennium Development Goals (MDGs). This led to a refocusing of EU institutions on sub-Saharan African (SSA) countries, where developmental challenges are more substantial, as well as in important reshufflings across beneficiary countries and initiatives. Yet, illustrating the strong political will to deepen relations with the southern and eastern Mediterranean since 1995, and the enactment of the Barcelona Process, commitments to the region grew more than ten-fold and 8 percentage points higher than EU institution's total development assistance (Figure 1).

<sup>11</sup> MENA is a regional grouping used by the World Bank and other international organisations to refer to the following countries: Algeria, Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates and Yemen.

<sup>12</sup> In 2007, the stock of Southern Mediterranean immigrants to the EU was estimated to 10-15 million people (Eylemer & Semsit, 2007).



*Figure 1. EU institutions' ODA to SEMCs and other regions, 1995-2009 (€ million)*

Source: OECD DAC statistics database.

These important increases notwithstanding, the EU's development aid to the southern and eastern Mediterranean has been remarkably skewed towards Turkey, which between 1995 and 2009 accounted for a total of 25% of ODA commitments to the region. The country – which applied for EU membership in 1987, concluded a customs union with the EU in 1995 and gained candidate status in 1999 – has received since the enactment of the BP €4.3 billion from the EU institutions. Given its candidate status, in what follows, Turkey is excluded from the analysis since the building ground of its relations with the EU differs significantly from the policy frameworks governing relations between the EU and other countries in the region. While other SEMCs receive funding to meet the goals set in the AAs and the ENP programming documents, inflows of European ODA to Turkey are intended to support the country's progress towards legislative and institutional alignment on the 35 chapters of the EU *acquis*.<sup>13</sup>

With a total of €12 and 13 billion committed to the southern and eastern Mediterranean between 1995 and 2009, the EU and France emerge as the region's most important donors after the US, whose assistance has totalled €19 billion over the period. The importance of these three donors in development assistance to the SEMCs contrasts with the region's other main purveyors of development finance, namely Germany, Italy and Spain, which despite growing commitments to the region and higher GDP shares of ODA to the region, provide substantially lower amounts<sup>14</sup> (Table 2). Together with the EU, the member states have provided on average €2.5 billion yearly to the southern and eastern Mediterranean with similar patterns in countries assisted but with important differences across funded initiatives.

<sup>13</sup> For a summary of EU-Turkey negotiations, see Morelli (2011).

<sup>14</sup> As a share of GDP, the EU's ODA to the region is in line with that of the US and represents on average 0.12%, contrasting with 0.62 for France; 0.28 for Germany and 0.22 for Spain.

Table 2. Breakdown of ODA commitments to the southern and eastern Mediterranean, \* 1995-2009 (€ million)

	Total commitments	Yearly average commitment	Per capita commitment	Growth rate in commitments, 1995-2009 (%)
<b>EU</b>	12,758	851	61	72
<b>France</b>	13,803	920	66	78
<b>Germany</b>	7,170	478	34	4
<b>Italy</b>	1,601	107	8	-47
<b>Spain</b>	2,401	160	11	524
<b>EU + member states</b>	37,731	2,515	180	39
<b>US</b>	19,758	1,317	94	26

\* Turkey excluded.

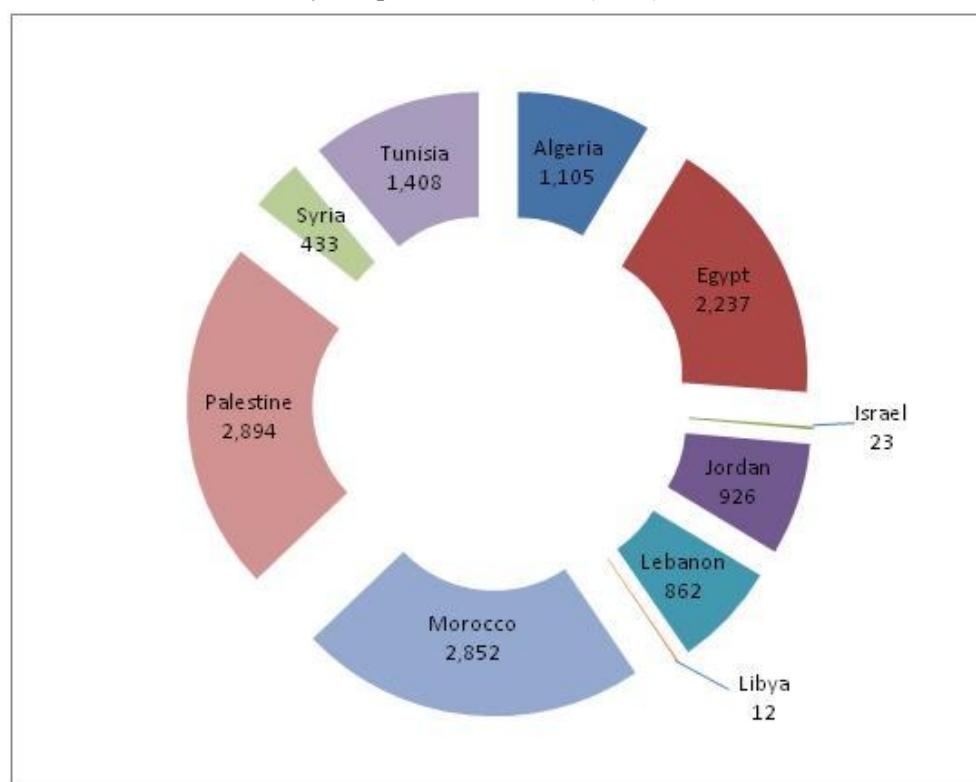
Source: OECD DAC statistics database.

In line with theoretical and empirical predictions on the allocation of development assistance, a closer look at the figures shows that the EU's assistance is focused on Algeria, Egypt, Morocco and Tunisia. Colonial links, commercial relations and strategic importance help explain these patterns of assistance. The three Maghreb countries (Algeria, Morocco and Tunisia) are former French and Spanish colonies with borders close to EU and important diasporas in EU member states.<sup>15</sup> Algeria is an important supplier of hydrocarbons for the EU, and, Egypt not only hosts the Suez Canal, one of the most important trade routes in the world, but together with Jordan has maintained diplomatic relations with Israel, unlike most of the other SEMCs. While Palestine emerges as the most important recipient of aid to the region, the content of the EU's and other countries' assistance are different in nature, since a significant share of funds is provided for humanitarian purposes. Humanitarian and emergency considerations aside, the general picture of the EU's assistance to the region shows that aid is concentrated in important commercial partners. Egypt, Jordan, Morocco and Tunisia are signatories of the Agadir Agreement and are the most commercially integrated with the EU since, over the period considered they have accounted for a total of 36% and 44% of SEMCs' exports and imports. Partly as a result, the four countries have received 60% of the EU's aid flows to the region (Figure 2).

Marginal differences regarding French and Italian support to Lebanon aside, member states' ODA to the region is even more skewed towards Egypt, Jordan, Morocco and Tunisia – countries that have received a total of 70% of EU aid commitments. However, illustrating different objectives behind the provision of development assistance, US assistance to the southern and eastern Mediterranean is intensely focused on the Middle East, where Egypt, Jordan, Israel and Palestine altogether account for 90% of total aid to the region. Compared to the EU and the member states, American assistance to the Middle East is likely to be significantly different for at least two reasons. First, unlike the EU and its member states, the US earmarks important amounts of military aid for Egypt and Israel. Secondly, 21% of US assistance to Jordan can be seen as a 'reward' to the government, which in 2003 strongly opposed American invasion of Iraq, but allowed the coalition's air forces to fly over the country's air space (Harrigan et al., 2006).

<sup>15</sup> In 2008, for example, 5.8% of foreign residents in the EU held Moroccan citizenship, being the third-most important foreign community in the EU after Turkey (7.5%) and Romania (6.8%).

Figure 2. Country distribution of the EU's ODA commitments to the southern and eastern Mediterranean by recipient, 1995-2009 (€ mil)\*



\* Turkey excluded. Rounded figures.

Source: OECD DAC statistics database.

### 3.2 Sectoral distribution

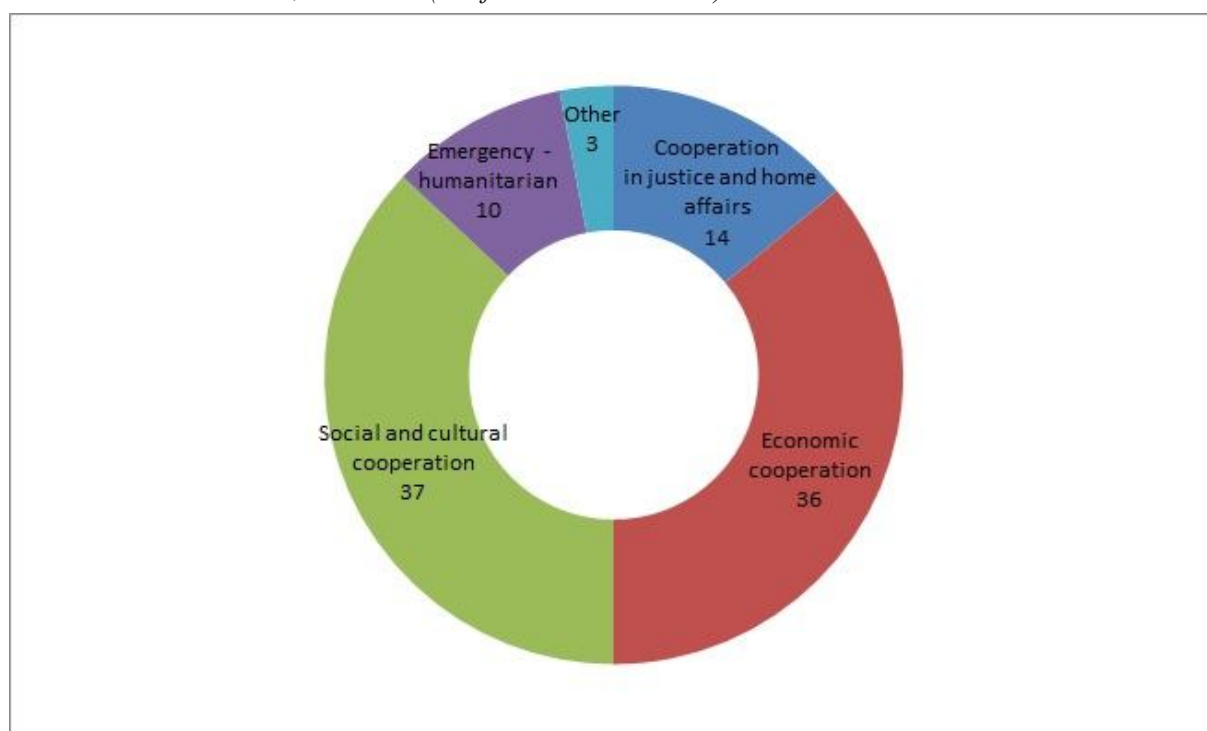
Evidence of the interests of the southern and eastern Mediterranean's main sources of development finance notwithstanding, an assessment of the outcomes of the Euro-Mediterranean Partnership requires an analysis of the sectoral distribution of ODA commitments. Since 1995, Euro-Mediterranean relations are motivated by a new impetus, revolving around three major axes: political and security dialogue, economic cooperation and social-cultural cooperation. AAs between the EU and SEMCs are structured along these axes, and consist of a series of articles specifying the broad objectives of Euro-Mediterranean cooperation while providing the legal basis for channelling assistance to the countries.

To evaluate the outcome in each pillar of Euro-Mediterranean relations, we match the OECD's nomenclature of aid activities with the articles of the Euro-Mediterranean AAs and report the related aid flows for the period 2000-09 (see Annex 4).<sup>16</sup> Despite the fact that AAs are specific to EU institutions, the same exercise was conducted for French, German, Italian, Spanish and US commitments to the region as a matter of comparison and as preliminary evidence of the different donors' and SEMCs' mutual interests (see Annex 5). It is important to note that this exercise is

<sup>16</sup> The OECD CRS (Creditor Reporting System) database gives aid commitments at the project level since 1995. However, discrepancies in data coverage between aggregate ODA amounts retrieved from the DAC database and project-level data for the period 1995-99 do not allow for a thorough analysis. For the period 1995-99, the CRS database covers 75% of aggregate ODA amounts reported by DAC data, whereas for 2000-09, coverage of aid flows amounts to 95%. From 2003 onwards, coverage of CRS data is close to 100%. However, for Spain and Italy, data on the sector distribution of ODA have to be interpreted with caution for programming periods 2000-01 and 2002-03, since CRS data overestimate the total amount of aid of these countries. Hence, in what follows we implicitly assume that measurement errors in the CRS database are homogeneously distributed across donor countries and funded initiatives.

focused exclusively on bilateral development assistance commitments and deliberately excludes Euro-Mediterranean regional cooperation as well as EIB operations not meeting the necessary requirements to qualify for development aid. Nevertheless, snapshots of projects funded under the regional cooperation envelope of the BP and by the EIB are provided in Appendix 6 and 7. A first outlook at the total commitments to the region over the period 2000-09 shows that the EU has devoted important resources to each of the pillars of Euro-Mediterranean relations, with an important focus on economic, social and cultural cooperation (Figure 3).

*Figure 3. Sectoral distribution of EU institutions' ODA commitments to the southern and eastern Mediterranean, 2000-09\* (% of total commitments)*



\* Turkey excluded.

Sources: OECD CRS (Creditor Reporting System) database, authors' classification.

Consistent with the objective of creating a prosperous Mediterranean, economic cooperation has ranked high in the EU's priorities towards the region. This category encompasses commitments for programmes aimed at modernising the region's production structures, upgrading its infrastructure, fostering agricultural development as well as generating funds to support the completion of the Euro-Mediterranean FTA. The latter has represented a marginal share (2%) of total ODA under economic cooperation and sought to support trade negotiations, trade policy reforms as well as trade facilitation measures.<sup>17</sup> The small magnitude of these aid commitments can be interpreted as a reflection of both the EU's and SEMCs' hesitations in concluding the FTA. It is only in the beginning of 2012 that some advances were recorded with a relative softening of export quotas of agricultural products<sup>18</sup> as well as progress towards the adoption of simplified protocols for rules of origin.<sup>19</sup> The magnitude of the EU's

<sup>17</sup> Funds for FTA completion comprise activities classified under the DAC sector of Trade Policies and Regulations.

<sup>18</sup> The EU-Morocco Agreement on the reciprocal liberalisation measures on agricultural products, processed agricultural products, fish and fishery products allows under certain conditions more products originating in Morocco to enter the Single Market. The agreement has been ratified by the European Parliament on 15 February 2012 (for more information, see <http://www.europarl.europa.eu/news/en/pressroom/content/20120216IPR38354/html/Green-light-for-EU-Morocco-trade-deal>).

<sup>19</sup> On 15 April 2012, the Council of the European Union gave his approval for the signature of the Pan-Euro-

commitments aimed at supporting the FTA with the region somewhat contrasts with that of the US, whose aid under the same category represented 6% of its total ODA and was directed to Jordan and Morocco.

On the other hand, the EU's commitments to upgrading the region's infrastructure<sup>20</sup> were comparatively higher, and concentrated a share of 12% of commitments to the region. The EU's assistance has focused on upgrading the region's transport sector, water sanitation systems, energy networks and communications systems for programmes often conducted in cooperation with other donors.

In the areas of social and cultural cooperation, support for education reforms, healthcare and social infrastructures in the southern and eastern Mediterranean have been an important priority for EU's development assistance. 7% of total EU's ODA to the southern and eastern Mediterranean were committed for the education sector, with an important focus on basic and secondary education, while assistance for post-secondary education was substantially lower. Vocational training has been particularly targeted by the EU's assistance, with medium-scale initiatives in all countries of the Euro-Mediterranean Partnership. Healthcare concentrated 5.5% of total commitments, with an important focus on reproductive health and control of infectious diseases. Social infrastructure was by no means a less important focus of the EU's development assistance, with 16% of total commitments directed to a diverse range of initiatives for basic social as well as welfare services over the period considered.

Besides earmarking important amounts for economic, social and cultural cooperation, the EU has been actively engaged in fostering cooperation in the field of justice and home affairs. This area encompasses funds earmarked for government and civil society for projects targeting institutional reform, political parties and elections, legal and judicial development as well as initiatives aimed at fighting against corruption. Commitments in this category have only concentrated 14% of ODA over the period considered, but have witnessed dramatic increases over this same period. In 2000-01, commitments in this area represented 6.5% of aid flows, whereas they amounted to 13.3% for 2007-09.

While the distribution of the EU's aid commitments to the region portray it as a donor motivated by commercial, social and political interests with a growing interest in the latter, member states present two major differences and one similarity with the EU. First, commitments under justice and home affairs cooperation were substantially lower and marginal over the period considered. Second, commitments for economic cooperation are substantially higher than the EU's and represent 45% of their total outflows in development finance to the southern and eastern Mediterranean (Table 3).

*Table 3. Member states' and US ODA to the southern and eastern Mediterranean, \* 2000-09 (%)*

	France	Germany	Italy	Spain	Total MS	United States
<b>Economic cooperation</b>	40	48	53	53	45	48
<b>Social and cultural cooperation</b>	40	30	12	24	34	17
<b>Cooperation in justice and home affairs</b>	1	2	4	4	2	10
<b>Emergency - Humanitarian</b>	1	2	10	8	3	5
<b>Other</b>	17	17	22	12	17	19

\* Turkey excluded. Figures may not add due to rounding.

Sources: OECD CRS database, authors' classification.

Mediterranean Protocol on Rules of Origin (ROO). The new agreement seeks to replace the previous network of more than 60 bilateral protocols of ROO concluded between SEMCs and European member states (for more information, see [http://ec.europa.eu/taxation\\_customs/customs/customs\\_duties/rules\\_origin/preferential/article\\_783\\_en.htm#new](http://ec.europa.eu/taxation_customs/customs/customs_duties/rules_origin/preferential/article_783_en.htm#new) and [http://www.enpi-info.eu/main.php?id=24895&id\\_type=1](http://www.enpi-info.eu/main.php?id=24895&id_type=1)).

<sup>20</sup> Commitments for infrastructure consist of funds earmarked for the following DAC sectors: communications, construction, energy, mineral resources and mining, transport and storage and water supply and sanitation.



A further examination of commitments under the areas of economic as well as social and cultural cooperation shows that similar to the EU, member states have earmarked high amounts for infrastructure and education. Between 2000 and 2009, these two sectors represented 79% of member states' ODA to the region. As an illustration of the importance of colonial links, France emerges as an important donor for education reform in Algeria, Morocco and Tunisia. In these countries, French ODA for education reform has amounted to 81% of total commitments in this sector. In the areas of infrastructure, and particularly in water sanitation and transport, member states devote equal attention to all southern and eastern Mediterranean countries, with their commitments in these sectors amounting to 32% of aid to the region.

An examination of the mechanisms to channel aid in water sanitation and transport shows that member states and the EU further differ in the modalities of ODA delivery. First, member states (and the US) have important recourse to tied aid, i.e. development finance that is made conditional on the recipient's acceptance of buying goods and services from the donor. Tied aid can be a concern for recipient countries, since it can potentially result in paying goods at prices higher than world markets as a consequence of giving the donor monopolistic power (Osei, 2004). Such misallocation of resources can potentially lower the positive impact of aid and exert a negative influence over an operation's outreach. In the area of transport, 82% of commitments are conditional on procurement from the donor. The second difference with the EU lies in the important recourse to loans as a means to channel aid. Indeed, while the EU's assistance comes almost exclusively in the form of grants, member states deliver 41% of aid in the form of loans. In the areas of water sanitation and transport, loans are prevalent, since 85% of assistance come in the form of concessional credit. In turn, US concessional loans to the region are marginal.<sup>21</sup>

This brief outlook shows that SEMCs' donors have different interests in the region. While the US is almost exclusively interested in Egypt and Israel for strategic and political reasons, member states seem mostly driven by commercial motives as witnessed by their recourse to tied aid and concessional loans. In turn, the EU appears to have developed more balanced patterns of cooperation, in terms of countries assisted and funded initiatives, presenting itself as a donor equally driven by commercial, social and political interests, while calling for an evaluation of the impact of its commitments on the recipients.

## 4. The impact of the EU's ODA on SEMCs

### 4.1 Impact on trade and infrastructure

From a macroeconomic standpoint, the impact of total EU ODA to the southern and eastern Mediterranean is likely to be very low: from the recipient economies' perspective, the €7.8 billion provided between 2000 and 2009 represent only a very small fraction of total government spending (0.001% of the region's total gross national expenditure) with a negligible fiscal impact.<sup>22</sup> From the perspective of the EU's assistance to facilitate the creation of the Euro-Mediterranean FTA, the impact of aid seems positive. While the FTA deadline has been postponed several times and remains yet to be concluded, in the area of trade liberalisation, the amounts pledged under the FTA completion reflected an improvement of trade openness as measured by the Heritage Foundation's Index of Trade Freedom (Figure 4).<sup>23</sup> Over the period considered, while ODA commitments from EU institutions in this

<sup>21</sup> If one considers ODA flows and EIB operations in the region, a substantially different picture emerges of the EU's engagement in the southern and eastern Mediterranean, since between 1995 and 2009, the EIB's operations have totalled €18 billion.

<sup>22</sup> Total ODA received by SEMCs can lead to find a positive developmental impact of aid, since net total ODA represents a share between 1% and 10% of total government expenditure in the region.

<sup>23</sup> The Index of trade freedom was first developed in 1995, to measure economies' degree of openness to international trade. It is computed using data trade-weighted average tariff rates as well as quantitative and qualitative inputs to proxy for non-tariff barriers. Yearly average values of the index have been computed and multiplied by 10 to allow for comparisons with amounts committed by the EU for each programming period. For

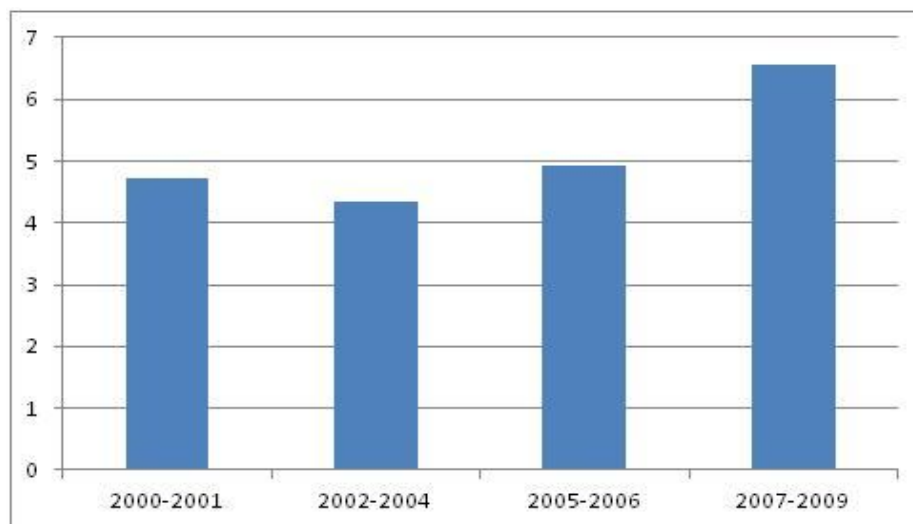


category were low, SMCs improved their performance in the index suggesting a positive impact of EU commitments in this area.

However, as regards trade relations between the EU and SEMCs, the evidence seems more mixed. While between 2000 and 2007, the trade balance of non-oil producing southern and eastern Mediterranean countries has narrowed 33%, to widen again in the aftermath of the economic and financial crisis, the region's terms of trade have remained stable over the period (Figure 5).<sup>24</sup> Stagnation suggests that in the terms of trade SEMCs have failed to produce more value-added goods. In this regard, the EU's strategy towards the region which has consisted of fostering industrial modernisation simultaneous with trade liberalisation does not seem to have yielded results that met the initial expectations. Indeed, research has found that flagship initiatives, such as the industrial modernisation programmes (IMPs) which committed €361 million, underestimated the region's needs, lacked a long-term strategy as well as coordination and suffered from numerous institutional failures. Partly as a result, these programmes resulted in existing companies consolidating their position in their respective markets – the expense of broader outreach (Ben-Naceur et al., 2007).

Turning to the impact of the EU's ODA on other factors, such as foreign direct investment (FDI) and infrastructure, evidence points at the existence of a limited positive impact. Between 2000 and 2009, a share of aid was directed towards initiatives seeking to improve the region's FDI attractiveness, such as investment networks and programmes to improve the business environment. Over the period, non-oil-producing countries in the region have attracted €191 billion in FDI, representing on average 5% of GDP – a significant improvement compared to the region's past performance. However, FDI increases were unequally distributed across countries, the bulk of inflows being concentrated in Egypt, Jordan and Tunisia (Sekkat, 2012). Also, the EU's and other donors' aid for infrastructure development and support for national plans in the areas of infrastructure development was simultaneous with increases in the length of paved roads; as well as the number of persons with access to potable water (Table 4). These improvements notwithstanding, the performance of donors' assistance in these areas was undermined by insufficient resources committed, as well as a lack of coordination between donors and funded initiatives (Lainé & Marchandise, 2008).

Figure 4. Evolution of trade liberalisation in the southern and eastern Mediterranean\* (2000-09)



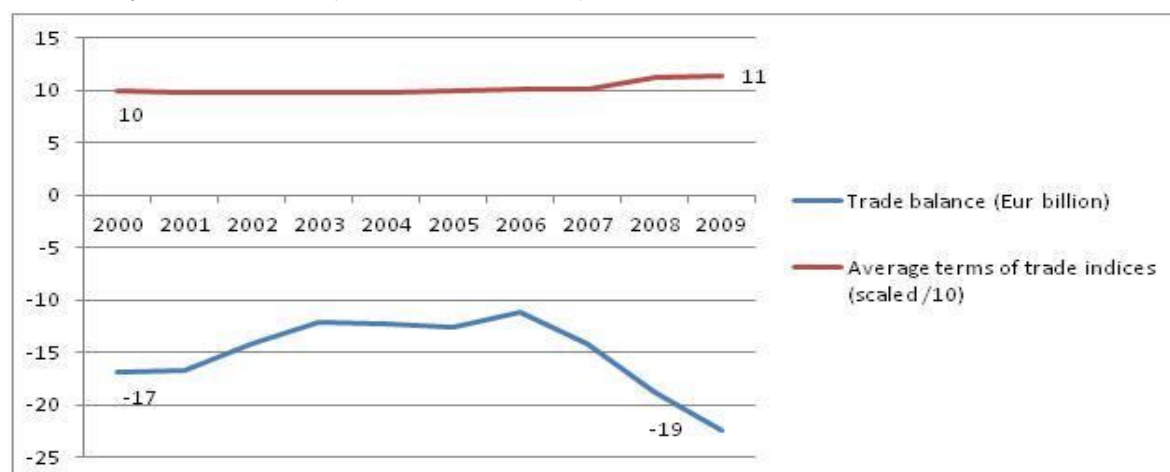
\* Excludes Algeria, Libya and Turkey. Average values of the trade freedom index.

Source: Heritage Foundation index of Trade Freedom.

more information on the index methodology and trade freedom, see Riley & Miller (2010).

<sup>24</sup> The region's average terms of trade, however, mask important cross-country variations. Egypt and Morocco have for example improved their terms of trade by 30 basis points over the period, whereas Jordan, Lebanon, Syria and Tunisia have witnessed declines between 5 and 15 basis points.

Figure 5. Southern and eastern Mediterranean economies' trade balance vis-à-vis the EU and terms of trade indexes\* (1995-2009; € billion)



\* Excludes Algeria, Libya and Turkey. Basis year: 2000.

Source: UNCTAD Online Statistics database.

Table 4. Infrastructure development indicators, 2000-10\*

Indicator	2000	2010
Percentage of population with access to drinkable water		
- Rural	82	87
- Urban	92	95
Paved roads (% of total roads)	71	86
Total road network (km)	287,517	390,039

\* Turkey excluded.

Source: World Bank World Development Indicators database (WDI).

## 4.2 Impact on education and healthcare

As regards social and cultural cooperation, one-third of aid flows funded education initiatives, and the remaining funds were directed towards health support programmes and various social infrastructures.

In the area of education, 30% of aid was directed towards secondary education, 15% towards basic as well as secondary education, and the remaining development finance funded diverse initiatives such as education research programmes and teachers' training, to name a few. Assistance in the area of education was mainly focused on supporting national programmes seeking to increase adult literacy in the population; reform technical and vocational training education (TVET) and secondary education with the ultimate goal to reduce the skills mismatch between labour demand and supply.

Over the period, government efforts supported by EU development assistance focused on quantitative achievements, mostly seeking to build schools and increase enrolment and literacy rates of both genders at all ages, while paying little attention to more qualitative aspects such as curricula quality. This pattern of assistance did not contribute to reaching the objective of decreasing skills mismatch (El Mahdy, forthcoming). This notwithstanding, EU's aid for education reform in the region coincided with important improvements. The gender gap between male and female population has consistently decreased over the period in all countries. For example, data for 2002 and 2006 show that in Algeria, the female youth literacy rate has increased by 3 percentage points from 86 to 89%, and 12 percentage points from 60 to 72% in Morocco between 2004 and 2009. If socio-cultural factors are accountable in explaining why in countries such as Egypt and Syria performance was less marked, on average, the gender gap in adult literacy decreased by 4 percentage points between 2000 and 2009. EU's efforts to support the narrowing of the gender gap in education combined with assistance to programmes for

reproductive health also coincided with improvements in the population's health status, decreases and stabilisation of fertility rates, infant mortality as well as increases in life expectancy from 70 years in 1995 to 74 in 2009 (World Bank, 2008).

The positive evolution notwithstanding, governments in the southern and eastern Mediterranean and the EU's assistance to reform the region's TVET systems did not result bring results up to expectations. At the same time, the skills mismatch was not addressed in the region, which partly explains the 10 to 20% emigration rates of tertiary graduates. Future reforms in the area of education will need to concentrate on enhancing TVET systems and their links with secondary education, improving the quality of teachers' curricula and reducing the number of youth excluded from the education systems, which is sometimes close to 30%. Regarding the health sector, improvements in health status simultaneous with EU institutions' commitments to the region were concomitant with a worsening of quantitative indicators, e.g. a decrease from 1.7 to 1.5 in the number of hospitals per thousand people. When combined with the number of youth excluded from the education system, the figures suggest that Euro-Mediterranean cooperation in the areas of education and human development while beneficial was not inclusive.

### 4.3 Impact on governance

The EU's assistance to foster cooperation in justice and home affairs with the southern and eastern Mediterranean is granted to promote the region's adherence to good governance standards. In this regard, the performance of Euro-Mediterranean cooperation contrasts with the progress accomplished in commercial, economic, and social areas. Despite important increases in commitments to the area of justice and home affairs across policy frameworks, SEMCs' governance standards were worse in the period 2000 to 2009 (Figure 6).

The paradox between increasing levels of assistance and a deterioration of governance standards is explained by the low levels of funding committed for democracy promotion, development of civil society and promotion of government accountability. Instead, the EU's assistance in this area has revolved around security cooperation, including counter-terrorism, tackling illegal migration and neutralising weapons of mass destruction in Libya and Syria. Illustrative of the growing focus on security in political dialogue assistance is the discrepancy between the €800 million committed to finance a project for a border protection system in Melilla and the €10 million committed for the European Instrument for Democracy and Human Rights (EIDHR).<sup>25</sup> While security objectives have always been included in Euro-Mediterranean relations, the 9/11 attacks in the United States, the Casablanca and Madrid bombings in 2003 and 2004 as well as the reinforcement of external borders after the 2004 enlargement have been the driving forces behind the EU's shift from promotion of good governance towards harder security issues (Youngs, 2005).

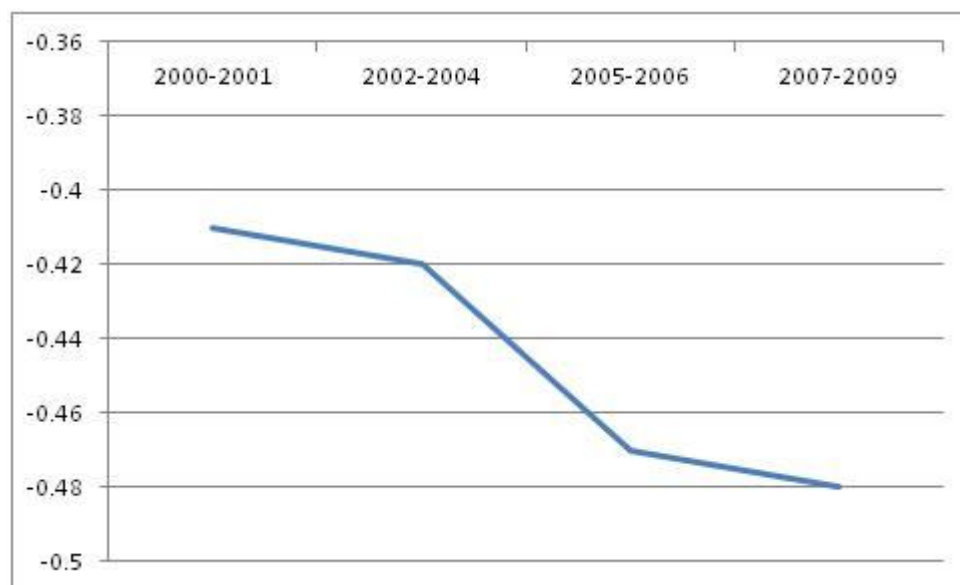
The intricacy between security concerns and cooperation in justice and home affairs has been used by southern and eastern Mediterranean governments to look away from commitments to good governance. As the EU's insistence on counter-terrorism and migration grew, conditionality was de facto left behind, providing SEM governments with increased leverage (Youngs, 2005). Examples of the EU's silence on detrimental governance practices in the region are manifold and contrast with its policy towards its Eastern neighbours. While the Ukrainian 2004 elections were criticised by the EU for their lack of freedom and transparency, in the same year EU institutions remained silent against Moroccan restrictive poll laws, manipulations of Algerian and Tunisian elections as well as Egypt's restrictive legislation on foreign NGOs and opposition parties. Other examples include Jordan, where the regime has blocked the EU's attempts to develop civil society, reform the media and electoral laws while the judiciary reform programme has merely translated into financial support for the government to increase judicial system capacity and streamline processes (Youngs, 2006).

<sup>25</sup> The EIDHR is the EU's financial instrument for democracy promotion in partner countries. Since it has no geographical mandate, the amounts received by SEMCs are even lower than €10 million. For more information, see <http://www.eidhr.eu/>.



The emphasis on security was not accompanied by assistance to foster a political dialogue that was inclusive of the opposition and Islamist parties in the region, favouring de facto a top-down approach in adherence to good governance. As a consequence, the EU's credibility in supporting democratic reform has been eroded and stakeholders of Euro-Mediterranean relations deplored its lack of genuine engagement in supporting good governance and democratic reform (IEMed, 2010),<sup>26</sup> two challenges future Euro-Mediterranean cooperation strategies will have to address.

Figure 6. Evolution of governance standards in the southern and eastern Mediterranean (2000-09)\*



\* Turkey excluded.

*Note:* Regional averages for World Governance Indicators (WGIs). For information about the WGIs, see Kauffmann et al. (2009). The World Governance Indicators on voice and accountability; political stability and absence of violence; government effectiveness; regulatory quality; rule of law; and control of corruption gather and synthesize information from 30 sources on the quality of governance as perceived by citizens, entrepreneurs, civil society organizations, and experts. The indicators rank the various aspects of governance on a -2.5 to 2.5 scale, the higher the score, the better the governance.

*Source:* World Governance Indicators (WGI), compiled by the World Bank.

## 5. The future of the EU's development assistance to the SEMCs

Overall, fifteen years of Euro-Mediterranean cooperation have produced mixed results. The EU's provision of development aid was simultaneous with improvements in the region's trade regime, infrastructure development, health status, education and gender parity in education. These achievements notwithstanding, the EU's – and possibly other donors' – patterns of assistance have not been inclusive, as shown by the failure of IMPs to reach out to less established companies, the terms of trade stagnation, the share of youth out of the education system, the declining state of the health infrastructure as well as the sidelining of civil society actors and political opposition forces. The Arab Spring uprisings calling for political reform and better socio-economic conditions, their corollary regime changes and reforms have de facto challenged the existing cooperation frameworks. At the same time, the high likelihood of multifaceted political, economic and social consequences due to the still unclear transition paths urges the EU – and other donors – to adapt their cooperation strategies towards the region (Tocci & Cassarino, 2011).

<sup>26</sup> The European Institute for the Mediterranean (IEMed) conducts a yearly survey to assess the perceptions of academics, members of the business community, government officials, members of civil society organisations (CSOs) and members from both the EU and SEMCs of the Euro-Mediterranean partnership. The survey aims to evaluate the progress, achievements and shortcomings in Euro-Mediterranean relations.

## 5.1 Impact of the Arab spring

In response to the Arab Spring, the High Representative for Foreign Affairs and Security Policy and the European Commission issued two joint communications: “A Partnership for Democracy and Shared Prosperity” (8 March 2011) and “A New Response to a Changing Neighbourhood” (in the form of the regular review of the ENP, 25 May 2011). The documents, released three months apart, outline the EU’s strategy to cope with the developments in the SEMCs. They build on the bilateral dimension of the ENP, leaving behind regional cooperation and revolve around five elements.

First, the EU’s renewed approach vows to resort more to conditionality and differentiation, meaning that countries introducing democratic reforms will receive more funding (‘more for more’), and conversely, countries backtracking from reforms will see development aid taken away (‘less for less’). With its new emphasis on differentiation, the EU seeks to create a demonstration effect among recipient countries in order to induce them to adopt reforms so as to maximise allocations. The provision of incentives for regimes to implement reforms has been a constant of the EU’s ENP, through its offer of “a stake in the internal market”. Yet, as far as the past is a predictor of the future, unless the EU provides stronger incentives to SEMCs, the latter will be unlikely to adhere to the EU institutions’ recommendations.

Second, the EU proposes to provide the region with trade concessions over the short term and conclude “Deep and Comprehensive FTAs” (DCFTAs) over the medium term. Short-term concessions have started to materialise, as witnessed by the adoption of the Euro-Med protocol of rules of origin and the partial liberalisation of EU-Morocco agricultural trade. Medium-term DCFTAs are set to go beyond existing dispositions embedded in the AAs. Besides progressively eliminating duties on nearly all trade in goods, DCFTAs are intended to address non-tariff barriers to trade, many of which are identified as particular obstacles. They also include provisions on issues ranging from services (including financial services and telecoms) and investment protection, competition (both anti-trust and state aids), public procurement, intellectual property rights (including patents and geographical indications), transparency in regulation, to sustainable development. To ensure enforceability of commitments, the DCFTAs are expected to include strong clauses setting up mediation and dispute settlement mechanisms. The agreements also establish various bodies to monitor implementation, such as the EU-ENP country FTA Trade Committee, a Customs Committee and several working groups. Thus, as far as trade is concerned, the EU applies the core logic of the ENP that of granting SMCs “a stake in the internal market”, with more requirements in terms of reforms. The offer seems to present only minor gains for SMCs, for which regulatory convergence would entail substantial costs with little benefits, since they are much more interested in a genuine liberalization of trade in agriculture and services (Tocci, 2012).

Third, contrary to previous rounds of Euro-Mediterranean relations, the EU commits to support civil society through the creation of two new instruments: the Civil Society Facility for the neighbourhood, and the European Endowment for Democracy (EED). Both are intended to support the advocacy capacities of local CSOs, their monitoring abilities, as well as their participation in the policy dialogue; but the latter is also expected to provide support to political parties. Their mandates as well as the implementation guidelines will need to be clarified, since they add to the existing EIDHR and pose the risk of overlapping mandates, lack of visibility and clear objectives. In addition, efforts will have to be made to enhance the new instruments’ effectiveness amid a difficult context for local civil society actors<sup>27</sup> and a traditional reluctance to push for democratisation reforms (Kheeka et al., 2008).

Fourth, the European Commission reaffirms its support for economic development and increased the EIB’s lending mandate while allowing it to reinvest unutilised funds from previous operations.

<sup>27</sup> Between December 2011 and January 2012, Egyptian authorities have severely restricted the activities of foreign non-governmental organisations in the country. Their offices were raided by security forces, and several members put on trial for alleged un-authorised foreign funding and non-registration with Egyptian authorities. The Egyptian government accused foreign-funded NGOs of instilling “chaos in the country”. For more information, see <http://www.guardian.co.uk/world/2011/dec/29/us-egyptian-forces-raid-cairo> and <http://english.alarabiya.net/articles/2012/02/20/195910.html>



Initially, the Council rejected the proposal, but after recommendations from the European Parliament, it was finally adopted in June 2012.<sup>28</sup> Furthermore, the statutes of the European Bank for Reconstruction and Development (EBRD) have been amended, allowing the institution to undertake operations in the region funded by the bank's donors<sup>29</sup> as well as in cooperation with the EIB, the European Investment Fund (EIF) and the European Commission.

Fifth, over the longer term, EU institutions are willing to conclude mobility partnerships with the southern and eastern neighbourhood, under the twin conditions of concluding readmission agreements and strengthening border controls.<sup>30</sup> The methodology follows that applied in the EU's enlargement context, where readmission agreements form the necessary complement to agreements prescribing the terms for a gradual process of visa liberalisation with partner countries. Association agreements (AAs) with Algeria, Egypt and Lebanon already contain readmission provisions, and it is likely that once other SEMCs are able to comply with EU requirements, their socio-economic development level will have reached a point where incentives for emigration will be low (Tocci, 2012). In addition, as previous experience has shown, the emphasis on security and the securitisation of migration led to a worsening of governance standards, casting doubts on the validity of such approaches.

The EU's renewed Neighbourhood Policy hence seems to provide few novelties and remains trapped in an enlargement-based logic that is not new for SEMCs. The lack of novelty notwithstanding, the EU has nevertheless stepped up its support to the region. By September 2011, it enacted the Support for Partnership Reforms and Inclusive Growth (SPRING) Programme. Endowed with a total of €350 million to be disbursed in the form of grants, the new initiative is set to fund activities supporting human rights, the public sector and employment policy. €65 million have already been committed in 2011 and another €285 are expected to be channelled to the region in 2012.<sup>31</sup> Still, there is not much clarity on the programmes to be financed and their coordination with the 2011-13 €2 billion envelope already committed to the region before the uprisings.

The Arab Spring has also prompted other donors to step up their support using different instruments to channel aid and readapt their policies towards the region. The US granted Tunisia €24 million for support to civil society and humanitarian assistance, in addition to a cash transfer of €76 million and commitments to provide the country with a "several hundred million" sovereign bond guarantee programme.<sup>32</sup> Qatar, which emerged as a very active foreign policy actor in the Arab uprisings, has provided a 5-year €385 million loan to the Tunisian Central Bank to support the government, after controversial discussions over the interest rate, finally set at 2.5% per annum.<sup>33</sup> Another example of renewed engagement in the region is Saudi Arabia, which proposed that Jordan and Morocco should become members of the Gulf Cooperation Council.<sup>34</sup> Against this backdrop, it remains to be seen how

<sup>28</sup> For further information, see <http://www.ecfr.eu/scorecard/2012/mena/54> and <http://www.europarl.europa.eu/sides/getDoc.do?type=REPORT&reference=A7-2011-0327&language=EN#title4> and <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2012:188E:0095:0113:EN:PDF>

<sup>29</sup> In December 2011, the EBRD financed for the first time an operation in Egypt. By this date, bank donors Australia, Italy, Finland, France, Germany, the Netherlands, Norway, Sweden and EIB's NIF have provided a total of 19 Eur. mn for operations in SMCs. For more information, see <http://www.ebrd.com/pages/news/press/2011/111213.shtml>

<sup>30</sup> For an analysis of the EU's approach to migration in the aftermath of the Arab Spring, see Carrera et al. (2012).

<sup>31</sup> European Commission: Action Fiche for the Southern Neighborhood Region Support for Partnership and Inclusive Growth Programme. For more information, see [http://ec.europa.eu/europeaid/documents/aap/2011/af\\_aap-spe\\_2011\\_enpi-s.pdf](http://ec.europa.eu/europeaid/documents/aap/2011/af_aap-spe_2011_enpi-s.pdf)

<sup>32</sup> <http://www.reuters.com/article/2012/04/20/us-usa-tunisia-loans-idUSBRE83J1HM20120420>

<sup>33</sup> [http://ansamed.ansa.it/ansamed/en/news/nations/tunisia/2012/04/19/Tunisia-500-mn-dollar-loan-Qatar\\_6743275.html](http://ansamed.ansa.it/ansamed/en/news/nations/tunisia/2012/04/19/Tunisia-500-mn-dollar-loan-Qatar_6743275.html)

<sup>34</sup> <http://gulfnnews.com/news/gulf/saudi-arabia/gcc-studies-jordan-morocco-membership-bids-1.806159> The Gulf Cooperation Council is a regional grouping consisting of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

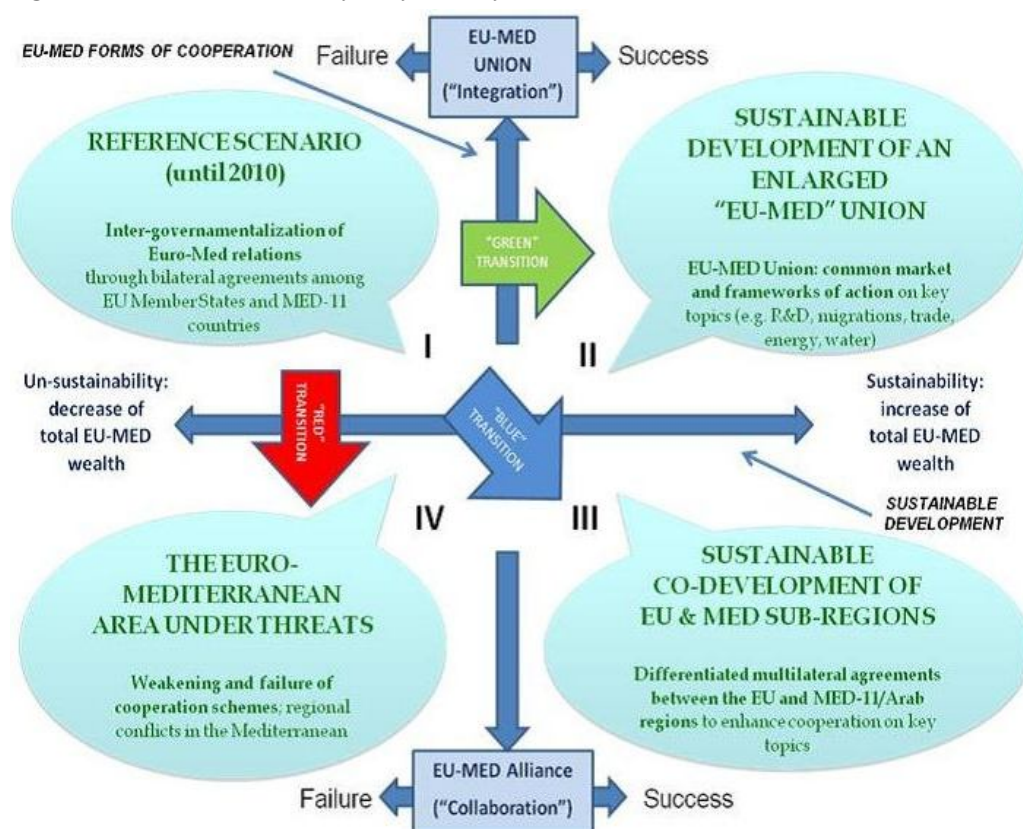


the EU's and other donors' initiatives will translate on the ground; how SEMCs will manage their respective political transitions and economic reforms; and whether they will be willing to engage in deeper cooperation with the EU or if on the contrary they will disregard Euro-Mediterranean cooperation frameworks and turn instead to develop relations with other foreign actors.

## 5.2 Scenarios for the future of the Euro-Mediterranean partnership

Based on the view in which future of the Euro-Mediterranean partnership will be influenced both by the willingness of the two regions to cooperate and by the progress achieved towards reaching sustainable models of development, four scenarios for the future of the Euro-Mediterranean partnership can be devised (Figure 7) (Ayadi & Sessa, 2011). Each scenario conveys both a vision of Euro-Mediterranean relations and translates into different priorities of the EU-MED partnership and subsequent funding.

Figure 7. Alternative views of the future of Euro-Mediterranean Relations



*Note:* After the Arab uprisings, one can no longer envisage the reference scenario. As regards the future of Euro-Mediterranean cooperation, a scenario of fragmented cooperation might emerge characterized by ODA being mainly channelled from EU member states to SEMCs at the detriment of wider European frameworks (see below).

*Source:* Ayadi & Sessa (2011).

Starting with the most disastrous scenario, the "Euro-Mediterranean area under threat", one could envisage extended conflicts that would spread in the region leading to deeper political uncertainties and mounting economic and social difficulties. These uncertainties and tensions would raise new security challenges and would lead to waves of illegal emigration.

This trend is exacerbated by a continued inertia of the EU, which contributes to widen the gap with the southern and eastern Mediterranean region. Under this stress scenario, EU member states may favour protectionist stances and opt for inward-oriented policies. Regional cooperation would be halted and no joint strategy in the fields of trade, energy, environment and education would emerge. EBRD and

EIB operations would be suspended. Concomitant to widening divergences between the EU and SEMCs, Euro-Mediterranean institutions – Association Councils, UfM – would fall into abeyance. EU institutions' financial assistance would be reallocated to containing illegal migration and emergency and humanitarian assistance. The SEMCs would become a field of conflicts, tension and poverty that could be taken over by terrorist organisations and radical movements that are already active in the region. This would sharpen the prospect of confrontation.

Under a third and most optimistic vision of the EU-Mediterranean partnership's evolution, by 2030, both the EU and SEMCs might develop into a "EU-Mediterranean Union". Such scenario rests on the twin conditions of a reinforcement of EU common policies and the adoption by SEMCs of EU integration as a model of development. Under the EU-Med Union scenario, the ENP would be upgraded to convey a clear strategy towards SEMCs that would ultimately seek to achieve deeper integration by 2030. This form of integration would emphasise tackling the non-tariff barriers and progressively achieve comprehensive regulatory harmonisation in areas such as technical barriers to trade (TBT), sanitary and phytosanitary measures (SPS), competition, industrial policies, research cooperation, company law, public procurement and other areas. Emboldened by the clear prospect to form an EU-Mediterranean Union, SEMCs would progressively establish a customs union with the EU and implement the EU *acquis* while strengthening economic, political, scientific and cultural ties amongst them. Under this scenario, the ENP would be reinforced to provide long-term support to SEMC endeavours: commitments under bilateral cooperation would rise. Funds would be earmarked to support reform programmes, national and regional infrastructure projects, after a screening process involving both EU and SEMC civil society actors. Concomitant with reinforced bilateral relations, the ENP's regional framework would also be strengthened and coordinated with the UfM's mandate. The institution would have taken several concrete initiatives and become a forum where both shores' countries define cooperation policies for other regions. Central to the development of the EU-Mediterranean region would be the implication of the EIB and the EBRD which the 2011 memorandum of understanding would translate into rapidly funding projects identified by the UfM.

Finally, under a fourth alternative view of the future, the scenario of an "EU-Mediterranean Alliance" might characterise future relations between both shores by 2030. While the previous construct builds on the EU's willingness to engage in a comprehensive development of relations with the Mediterranean, under this view, the Arab Mediterranean countries would unite and establish the relevant institutions to represent their common interests. They would then develop relations with the EU only in the areas where both regions have a mutual interest. Relations would be centred on trade, energy, transport, etc. The need for EU and Arab Mediterranean companies to have access to new markets or secure access to cheaper labour and cheaper energy sources would drive the conclusion of a free trade area including agricultural products. In line with the conclusion of the World Trade Organisation's (WTO) negotiations, the EU and SEMCs would partially open their markets, with a gradual lifting of EU protectionist measures.

Under this vision, and contrary to the second scenario, the Free Trade Area would not include free movement of persons, and trade in services would not be homogeneously liberalised between the EU and southern and eastern Mediterranean countries. On the latter's side, interests in trade liberalisation and energy relations would determine their willingness to engage in cooperation with the EU. However, the demographic and employment pressures to which they are subject would push them to develop closer partnerships with other actors, such as GCC countries and China, the latter two set to become the region's key investors, financial support providers and destinations of Arab Mediterranean labour force. Under this scenario, EU cooperation instruments would be centred on the areas of energy and transport and could be structured along the lines of the Energy Community Treaty (currently applied to a host of Eastern Partnership countries), open to the Arab Mediterranean countries willing to harmonise their laws with the energy *acquis* and EU law in collateral domains such as environment, competition and public procurement. The ENP's regional cooperation frameworks would centre on trade, energy and transport, in coordination with relevant UfM initiatives and with the involvement of the EIB and EBRD in the region.



## 6. Concluding remarks

Starting from the 1970s, the southern and eastern Mediterranean has been targeted by different EU policies, all built under the assumption that the adoption of reforms leading to more integration with Europe would entail political reform and anchor stability in the region. Across policies, a total of approximately €16 billion ODA has been channelled to SEMCs via several financial instruments to facilitate the implementation of reforms. While such approach succeeded in Central and Eastern Europe, owing to EU membership prospects, it has failed to yield conclusive results in the SEMCs due to inconsistencies in the policies advocated, their lack of enforcement and the absence of clear incentives towards the region.

Since the 1995 Barcelona Process, ODA commitments have risen exponentially testifying to a growing interest towards SEMCs. The patterns of EU development assistance to the region reveal that not all countries have been equally targeted by Brussels' policies and portray the EU as a donor governed by both altruistic and commercial concerns, with an increasing interest in governance-related aid. However, the 2011 popular uprisings in the region call for a rethinking of the EUs policies towards the southern and eastern shores of the Mediterranean while auguring different directions for the EU-Mediterranean Partnership.

Four futures of the EU-Mediterranean Partnership could emerge, driven by the progress in sustainable development and SEMCs' preferences in deepening cooperation with other actors than the EU. Ideally, both regions would engage in sustainable patterns of development, deepening ties and creating institutions in light of the European Community's model to create an EU-Mediterranean Union. But EU-Mediterranean relations might sour with both regions failing to meet the sustainability challenge and discarding cooperation.

However, several signals can be detected in favour of a scenario characterised by deeper cooperation between the EU and the SEMCs in selected areas accompanied by balanced patterns of relations with other actors. The new and incomplete orientations of the EU's neighbourhood policy, the political rise of the Gulf countries in the region and the emergence of China as an important investor augur well for a future EU-Mediterranean Partnership based on cooperation structured along a set of defined areas. On the other hand, facing important challenges in their labour markets they cannot meet alone, the EU's withdrawal would be replaced by other actors eager to have access to new markets, energy resources or gain importance on the regional and global stage. China, Gulf Cooperation Countries (GCC) and others could then emerge as the SEMCs top ODA donors, foreign direct investment (FDI) sources and destinations for SEMCs exports and labour force, which would contribute to the alleviation of SEMCs socio-economic tensions in the long run. However, in the absence of joint strategies between the EU and SEMCs, and with the obsolescence of multilateral cooperation frameworks, tensions between SEMCs would not be resolved, leading to a situation where conflicts could break out, further delaying prospects for sustainable development beyond 2030.



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## Annex 1. EU's Official Development Assistance to the Southern Mediterranean, 1978-2009

Policy	Financial instrument	Programming period	ODA commitments (€ mil)
<b>GMP</b>	Protocol 1	1978-1981	687
	Protocol 2	1982-1986	672
	Protocol 3	1987- 1991	1,596
<b>RMP</b>	Protocol 4	1992-1994	1,757
<b>BP</b>	MEDA 1	1995-1999	5,376
<b>BP, ENP</b>	MEDA 2/ENPI	2000-2009	11,885

*Sources:* OECD and DAC Statistics Database.

## Annex 2. Fields of cooperation in Association Agreements

Legend: ● = explicit mention in AA. — = no explicit mention in AA. Na = Not applicable

Title in AA	Provisions	Algeria	Egypt	Israel	Jordan	Lebanon	Libya	Morocco	Palestine	Syria	Tunisia	Turkey
<b>ECONOMIC COOPERATION</b>	Industrial products	●	●	●	●	●	na	●	●	na	●	na
	Agriculture fisheries and processed agricultural products	●	●	●	●	●	na	●	●	na	●	na
	Common provisions	●	●	●	●	●	na	●	●	na	●	na
	Reciprocal commitments	●	●	●	●	—	na	●	—	na	●	na
	Cross border supply of services	●	—	—	●	—	na	—	—	na	—	na
	Commercial presence	●	—	—	●	—	na	—	—	na	—	na
	Temporary presence of natural persons	●	—	—	—	—	na	—	—	na	—	na
	Transport	●	—	—	—	—	na	—	—	na	—	na
	Domestic regulation	●	—	—	—	—	na	—	—	na	—	na
	Definitions	●	—	—	●	●	na	—	—	na	—	na
	General provisions	●	—	—	●	—	na	—	—	na	—	na
	Current payments and movement of capital	●	●	●	●	●	na	●	●	na	●	na
	Competition and other economic matters	●	●	●	●	●	na	●	●	na	●	na
	Intellectual property rights	●	●	●	●	●	na	●	●	na	●	na
	Public procurement	●	●	●	●	●	na	●	●	na	●	na
	Regional cooperation	●	●	●	●		na	●	●	na	●	na
	Education and training	—	●	—	●	●	na	●	●	na	●	na
	Scientific technical and technological cooperation	●	●	●	●	●	na	●	●	na	●	na
	Environment	●	●	●	●	●	na	●	●	na	●	na
	Industrial cooperation	●	●	●	●	●	na	●	●	na	●	na
	Promotion and protection of investments	●	●	—	●	●	na	●	●	na	●	na
	Standardization and conformity assessment	●	●	●	●	●	na	●	●	na	●	na
	Approximation of laws	●	●	●	●	●	na	●	●	na	●	na

	Financial services	●	●	●	●	●	na	●	●	na	●	na
	Agriculture and fisheries	●	●	●	●	●	na	●	●	na	●	na
	Transport	●	●	●	●	●	na	●	●	na	●	na
	Communications	●	●	●	●	●	na	●	●	na	●	na
	Energy (and mining for Algeria)	●	●	●	●	●	na	●	●	na	●	na
	Tourism (and craft sector for Algeria)	●	●	●	●	●	na	●	●	na	●	na
	Customs	●	●	●	●	●	na	●	●	na	●	na
	Statistics	●	●	—	●	●	na	●	●	na	●	na
	Consumer protection	●	●	—	—	●	na	—	—	na	—	na
<b>COOPERATION IN THE FIELD OF JUSTICE AND HOME AFFAIRS</b>	Institutional building and rule of law	●	—	—	—	●	na	—	—	na	—	na
	Movement of persons	●	●	●	●	●	na	●	—	na	●	na
	Cooperation in the prevention and control of illegal migration (including readmission for Algeria, Egypt, Lebanon)	●	●	●	●	●	na	●	—	na	●	na
	Legal and judicial cooperation	●	—	—	—	—	na	—	—	na	—	na
	Preventing and tackling organized crime	●	—	—	—	●	na	—	—	na	—	na
	Combating money laundering	●	●	●	●	●	na	●	—	na	●	na
	Combating racism and xenophobia	●	—	—	—	—	na	—	—	na	—	na
	Combating drugs and drugs addiction	●	●	●	●	●	na	●	—	na	●	na
	Fight against terrorism	●	●	●	—	—	na	—	—	na	—	na
<b>SOCIAL AND CULTURAL COOPERATION</b>	Workers	●	●	●	●	●	na	●	—	na	●	na
	Dialogue in social matters	●	●	—	●	●	na	●	—	na	●	na
	Cooperation in the social field	●	●	●	●	●	na	●	●	na	●	na
	Cooperation in the fields of education and culture	●	●	●	●	●	na	●	●	na	●	na

### Annex 3. Documents shaping Euro-Mediterranean relations

	Signature of AA	Entry into force of AA	ENP country report	ENP Action Plan	Joint adoption with partner country	Latest ENP implementation report	CSP 2002-2006 and NIP 2002-2004	NIP 2005-2006	CSP 2007-2013 and NIP for 2007-2010	NIP 2011-2013	Additional bilateral agreements
<b>Algeria</b>	Apr 02	Sep 05	..	..	..	..	Yes	Yes	Yes	Yes	
<b>Egypt</b>	Jun 01	Jun 04	Mar 05	2006	Mar 07	May 10	Yes	Yes	Yes	Yes	Science and technology
<b>Israel</b>	Nov 95	Jun 00	May 04	2004	Apr 05	May 10	No	No	Yes	Yes	Agriculture
<b>Jordan</b>	Nov 97	May 02	Jul 04	2004	Jun 05	May 10	Yes	Yes	Yes	Yes	Science and technology
<b>Lebanon</b>	Jun 02	Mar 03	Mar 05	2006	Jan 07	May 10	Yes	Yes	Yes	Yes	
<b>Libya</b>	..	..	..	..	..	..	..	..	..	Yes	
<b>Morocco</b>	Feb 96	Mar 00	May 04	2004	Jul 05	May 10	Yes	Yes	Yes	Yes	Science and technology
<b>Palestine</b>	Jul 97	Jul 97	Jun 04	2004	May 05	..	No	No	No	No	
<b>Syria</b>	..	..	..	..	..	..	Yes	Yes	Yes	Yes	
<b>Tunisia</b>	1995	Mar 98	May 04	2004	Jul 05	May 10	Yes	Yes	Yes	Yes	Science and technology
<b>Turkey</b>	1963	..	..	..	..	..	..	..	..	..	Science and technology

*Note:* AA = Association Agreement; CSP = Country Strategy Paper; ENP = European Neighbourhood Policy; NIP = National Indicative Programme



## Annex 4. Matching between Association Agreement chapters and OECD CRS sectors

Euro-Mediterranean Association Agreements (AAs) are structured along a preamble recalling the general objectives pursued by the EU member states and the Mediterranean partner country and eight titles:

- i. Political dialogue
- ii. Free movement of goods
- iii. Right of establishment and services
- iv. Payments, capital, competition and other economic provisions
- v. Economic cooperation
- vi. Cooperation in social and cultural matters
- vii. Financial cooperation
- viii. Institutional, general and final provisions

Titles are further divided into chapters, and chapters into articles, each article specifying the objectives of cooperation. All AAs follow the same structure with only marginal differences across countries. The rationale behind the matching of OECD Development Assistance Committee (DAC) purpose nomenclature on aid activities with the Chapters of the AAs, lies in Title VI of all AAs which specifies that: “with a view to implement this Agreement’s objectives, financial cooperation shall be implemented for [the partner country] in line with the appropriate financial procedures and resources.” The EU-Algeria AA was taken as a model due to its broad coverage. Due to the non-state nature of Palestine, the country has concluded an interim AA of narrower scope, mainly focused on economic and social-cultural cooperation. Despite the importance of humanitarian aid to the country and the absence of provisions for trade liberalisation, Palestine was included in the analysis.

To allow for a better understanding of the objectives behind the provision of ODA to the southern and eastern Mediterranean, aid activities were matched with AA articles using DAC purpose classification of aid activities. The OECD classifies aid activities at two levels according to their ultimate objective: for example, commitments for basic education are divided between funds earmarked for early childhood education, primary education and basic life skills for youth and adults. Two criteria were used to perform the matching:

- The proximity between the DAC purpose definition and the objectives of cooperation spelled in the AA
- The existence of a related article in the AA.

While such an exercise allows making only minimal assumptions on the objectives of aid activities, it was nevertheless assumed that aid activities classified under the DAC sector “Government and Civil Society” fell under the AA title of Cooperation in the field of justice and home affairs. This was done to avoid creating a separate category as well as to reflect the importance of promoting good governance in the EU’s relations with the southern Mediterranean.

Under the title free movement of goods, AAs lay down the modalities and schedule of tariff liberalisation measures in the areas of Industrial and Agricultural Products. This title was matched with DAC sector Trade Policies and Regulations and merged with Economic Cooperation to avoid having a separate category of such a small magnitude, since ODA in this category represents only 2% of the EU’s total development finance to the region.

General Budget Support was factored in Economic cooperation because aid under this category was given only to Tunisia and Palestine as part of economic reform packages.

The category “Emergency – Humanitarian” was created for activities classified under the following DAC sectors: Emergency Response, Reconstruction Relief and Rehabilitation, Disaster Prevention and Preparedness. The remaining activities not fitting the matching were classified under “Other”.



Table A1. Matching between OECD DAC sector nomenclature and AA chapters

DAC sector	DAC purpose	Chapter in AA	Title in AA
III.3.a. Trade Policies & Regulations	Trade policy and admin. management	Free movement of goods	Economic cooperation
	Multilateral trade negotiations		
	Trade facilitation		
	Trade education/training		
	Regional trade agreements (RTAs)		
I.4. Water Supply & Sanitation	Water resources policy/administrative management	Environment	
	River development		
	Water supply & sanitation - large systems.		
	Water resources protection		
	Basic drinking water supply and basic sanitation		
	Waste management/disposal		
	Education/training in water supply & sanitation		
I.6. Other Social Infrastructure & Services	Statistical capacity building	Cooperation in statistics	
	Narcotics control	Cooperation in customs matters	
II.1. Transport & Storage	Transport policy & admin. management	Transport	
	Water transport		
	Air transport		
	Road transport		
	Rail transport		
	Storage		
	Education/training in transport & storage		
II.2. Communications	Telecommunications	Information society and telecommunications	
	Radio/television/print media		
	Communications policy & administrative management		
	Information and communication technology		
II.3. Energy	Energy policy and administrative management	Energy and mining	
	Electrical transmission/distribution		
	Solar energy		
	Energy education/training		
	Wind power		
	Nuclear power plants		
	Power generation/renewable sources		
	Hydro-electric power plants		
	Oil-fired power plants		
	Power generation/non-renewable sources		
	Gas distribution		
	Energy research		
	Biomass		
	Geothermal energy		

II.4. Banking & Financial Services	Financial policy & admin. management	Financial services		
	Formal sector financial intermediaries			
	Education/training in banking & financial services			
	Informal/semi-formal financial Intermediaries			
	Monetary institutions			
II.5. Business & Other Services	Business support services & institutions	Industrial cooperation		
	Privatisation			
III.1.a. Agriculture	Agricultural policy & admin. mgmt	Agriculture and fisheries		
	Livestock			
	Food crop production			
	Agricultural development			
	Agricultural services			
	Agricultural education/training			
	Agricultural co-operatives			
	Agricultural inputs			
	Agricultural research			
	Agricultural water resources			
	Agricultural land resources			
	Agricultural financial services			
	Livestock/veterinary services			
	Agrarian reform			
	Plant/post-harvest protection & pest control			
	Industrial crops/export crops			
	Agricultural extension			
	Agricultural alternative development			
	III.1.b. Forestry		Forestry policy & administrative management	Agriculture and fisheries
			Forestry development	
Fuelwood/charcoal				
Forestry services				
Forestry research				
Forestry education/training				
III.1.c. Fishing	Fishery development	Agriculture and fisheries		
	Fishing policy and administrative management			
	Fishery research			
	Fishery education/training			
	Fishery services			
III.2.a. Industry	Industrial policy & admin. mgmt		Industrial cooperation	
	Industrial development		Industrial cooperation	
	Transport equipment industry		Transport	
	Cement/lime/plaster		Industrial cooperation	
	Pharmaceutical production			
	Chemicals			
	Sme development			
	Cottage industries & handicraft		Tourism and the craft sector	

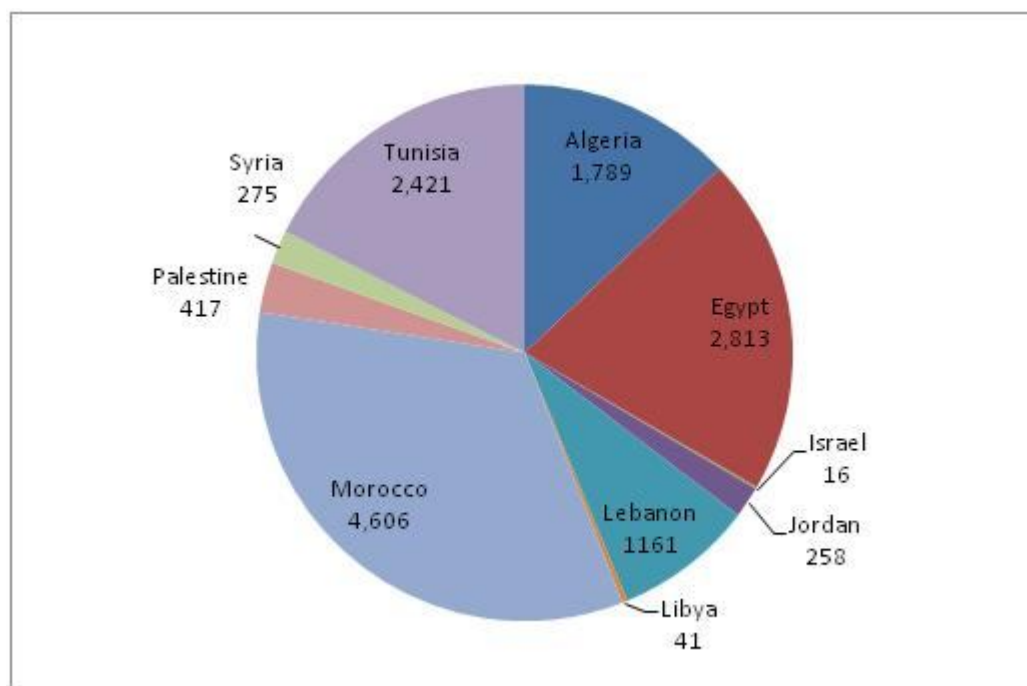
	Agro-industries	Agriculture and fisheries	
	Textiles - leather & substitutes	Industrial cooperation	
	Energy manufacturing	Energy and mining	
	Engineering	Industrial cooperation	
	Forest industries	Agriculture and fisheries	
	Technological research & development	Industrial cooperation	
	Basic metal industries		
	Non-ferrous metal industries		
	Fertilizer plants		
III.2.b. Mineral Resources & Mining	Mineral/mining policy & administrative management	Energy and mining	
	Precious metals/materials		
	Mineral prospection and exploration		
	Ferrous metals		
	Coal		
	Industrial minerals		
	Oil and gas		
	Fertilizer minerals		
	Off-shore minerals		
	Non-ferrous metals		
III.3.b. Tourism	Tourism policy and administrative management	Tourism and the craft sector	
IV.1. General Environment Protection	Environmental education/training	Environment	
	Environmental policy and administrative management		
	Bio-diversity		
	Environmental research		
	Site preservation		
	Biosphere protection		
	Flood prevention/control		
IV.2. Other Multisector	Research/scientific institutions	Scientific, technical and technological cooperation	
	Rural development	Agriculture and fisheries	
VI.1. General Budget Support	General budget support	..	
I.1.a. Education, Level Unspecified	Education policy & administrative management	Cooperation in the fields of education and culture	Social and cultural cooperation
	Education facilities and training		
	Teacher training		
	Educational research		
I.1.b. Basic Education	Early childhood education		
	Primary education		
	Basic life skills for youth & adults		
I.1.c. Secondary	Vocational training		

Education	Secondary education		
I.1.d. Post-Secondary Education	Higher education		
	Advanced tech. & managerial training		
I.2.a. Health, General	Health policy & administrative management	Cooperation in the social field	
	Medical services		
	Medical education/training		
	Medical research		
I.2.b. Basic Health	Basic health care		
	Basic health infrastructure		
	Basic nutrition		
	Health personnel development		
	Infectious disease control		
	Health education		
	Tuberculosis control		
I.3. Population Policies/Programs & Reproductive Health	Population policy and administrative management		
	Family planning		
	Reproductive health care		
	Personnel development: population & reproductive health		
	STD control including hiv/aids		
I.5.a. Government & Civil Society-general	Women's equality organisations and institutions		
I.6. Other Social Infrastructure & Services	Housing policy and administrative management		
	Social/welfare services		
	Culture and recreation		
	Employment policy and administrative management.		
	Low-cost housing		
	Multisector aid for basic social services		
	Social mitigation of HIV/AIDS		
IV.2. Other Multisector	Multisector education/training	Cooperation in the fields of education and culture	
I.5.a. Government & Civil Society-general	Human rights	..	Cooperation in the field of justice and home affairs
	Elections		
	Public sector policy and administrative management		
	Media and free flow of information		
	Democratic participation and civil society		
	Public finance management		
	Legal and judicial development		
	Decentralisation and support to subnational govt.		
	Legislatures and political parties		
	Anti-corruption organisations and institutions	Fight against corruption	

I.5.b. Conflict, Peace & Security	Post-conflict peace-building (un)	..	
	Land mine clearance		
	Security system management and reform		
	Civilian peace-building, conflict prevention and resolution		
	Reintegration and salw control		
X. Support to NGO's	Support to local and regional NGOs	..	
	Support to national NGOs		
	Support to international NGOs		
VIII.1. Emergency Response	Emergency/distress relief	..	Emergency - Humanitarian
	Emergency food aid		
	Relief co-ordination; protection and support services		
VIII.2. Reconstruction Relief & Rehabilitation	Reconstruction relief		
VIII.3. Disaster Prevention & Preparedness	Disaster prevention and preparedness		
III.2.c. Construction	Construction policy and administrative management	..	Other
IV.2. Other Multisector	Multisector aid		
	Urban development and management		
	Non-agricultural alternative development		
IX. Administrative Costs of Donors	Administrative costs		
VI.2. Dev. Food Aid/Food Security Ass.	Food security programmes/food aid		
VI.3. Other Commodity Ass.	Import support (commodities)		
	Import support (capital goods)		
VII. Action Relating to Debt	Action relating to debt		
	Rescheduling and refinancing		
	Debt forgiveness		
	Debt for development swap		
	Debt buy-back		
XI. Refugees in Donor Countries	Refugees in donor countries		
XII. Unallocated / Unspecified	Sectors not specified		
	Promotion of development awareness		

## Annex 5. Official Development Assistance commitments for the southern and eastern Mediterranean by country, by sector and programming period: France, Germany, Italy, Spain and the US

Figure A1. France's commitments to the southern and eastern Mediterranean by country, 1995-2009 (€ mil)



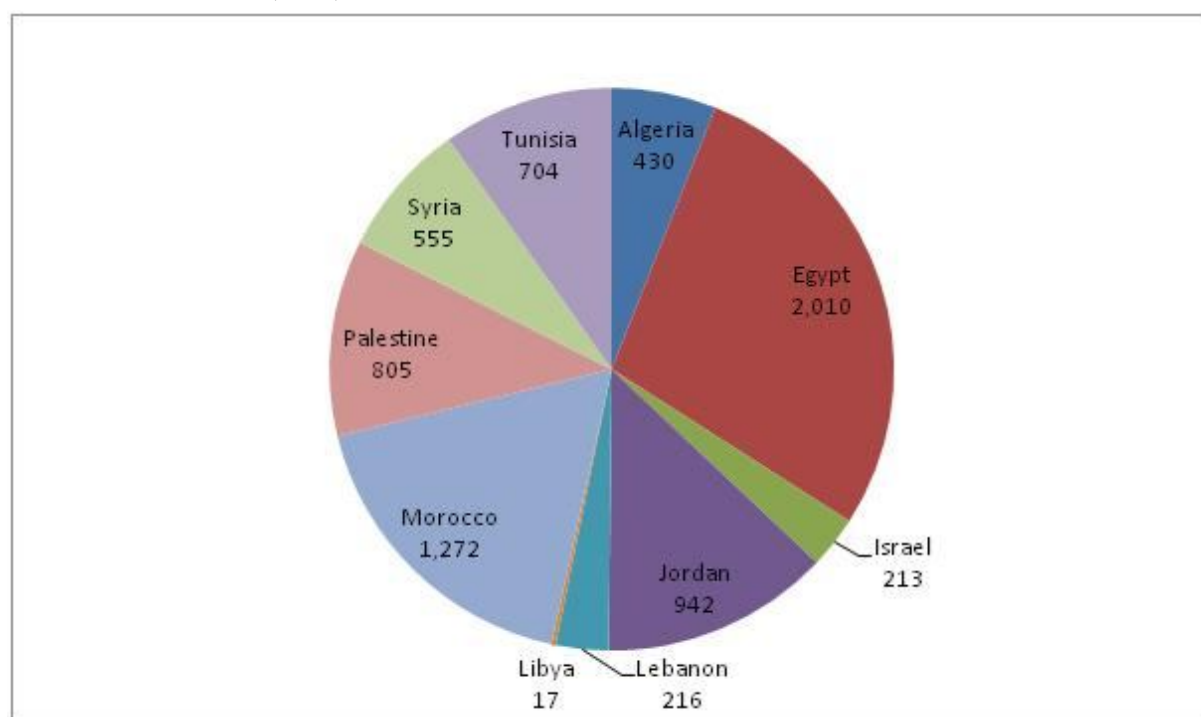
Source: OECD DAC Statistics database.

Table A2. Sector distribution of France's ODA commitments to the southern and eastern Mediterranean, 2000-09 (%)

	2000-01	2002-04	2005-06	2007-09
<b>Economic cooperation</b>	22	24	29	60
<b>Social and cultural cooperation</b>	37	53	51	30
<b>Cooperation in the field of justice and home affairs</b>	0.5	1	1	1
<b>Emergency - Humanitarian</b>	0	3	3	0
<b>Other</b>	39	19	17	9

Source: OECD CRS Database and authors' own classification. Figures may not add up to 100% due to rounding.

Figure A2. Germany's commitments to the southern and eastern Mediterranean by country, 1995-2009 (€ mil)



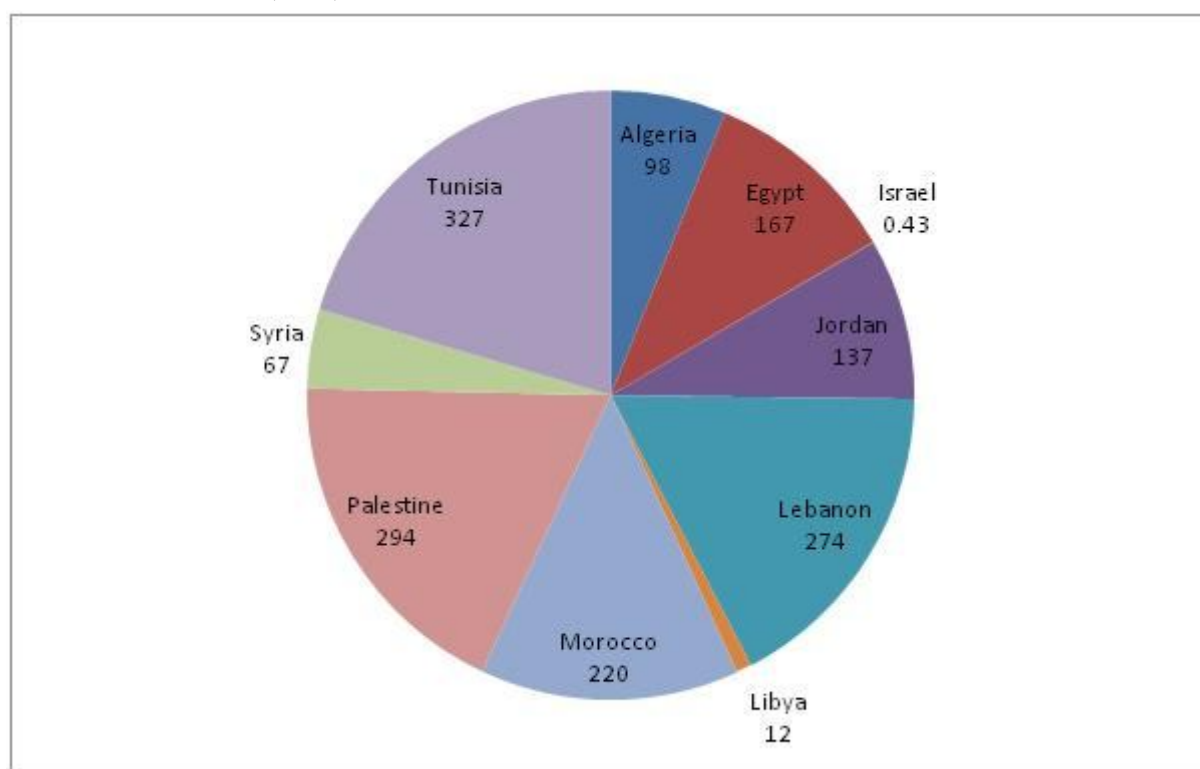
Source: OECD DAC Statistics database.

Table A3. Sector distribution of Germany's ODA commitments to the southern and eastern Mediterranean, 2000-09 (%)

	2000-01	2002-04	2005-06	2007-09
<b>Economic cooperation</b>	45	45	57	47
<b>Social and cultural cooperation</b>	29	33	25	32
<b>Cooperation in the field of justice and home affairs</b>	1	2	3	3
<b>Emergency - Humanitarian</b>	1	1	4	3
<b>Other</b>	25	18	12	15

Source: OECD CRS Database and authors' own classification. Figures may not add up to 100% due to rounding.

Figure A3. Italy's ODA commitments to the southern and eastern Mediterranean by country, 1995-2009 (€ mil)



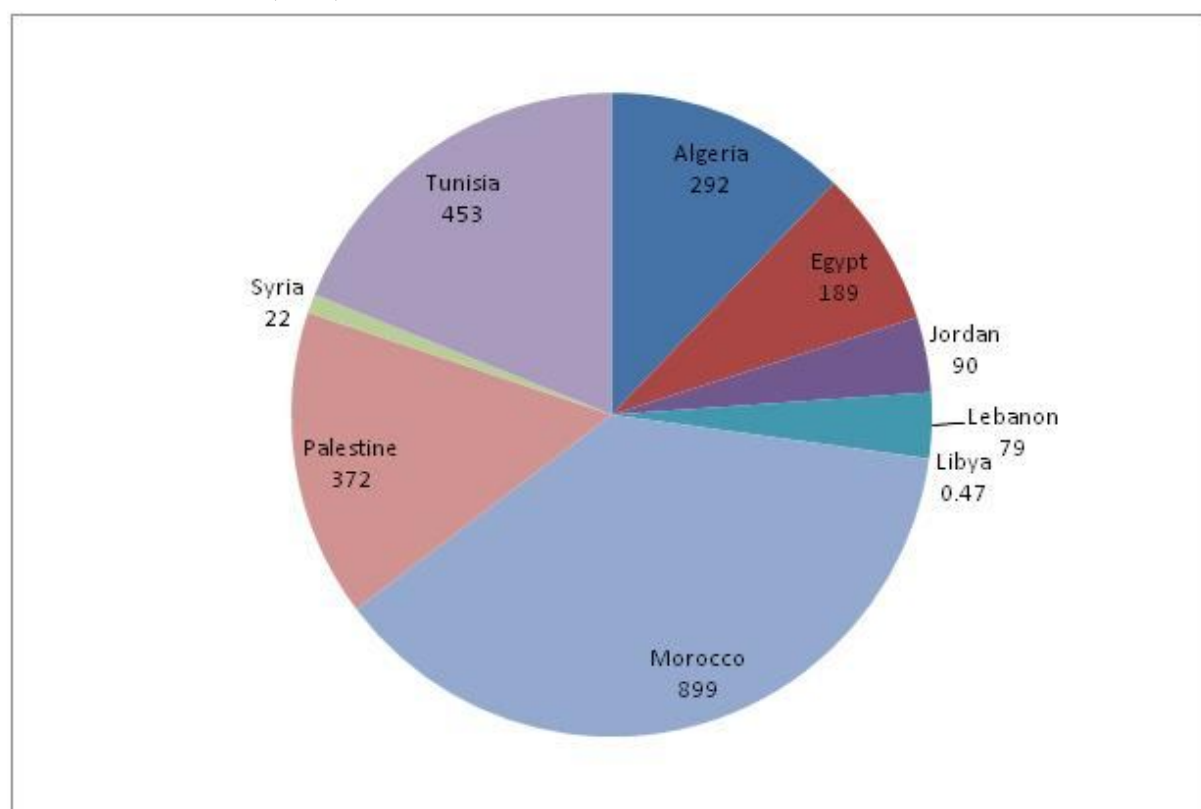
Source: OECD DAC Statistics database.

Table A4. Sector distribution of Italy's ODA commitments to the southern and eastern Mediterranean, 2000-09 (%)

	2000-01	2002-04	2005-06	2007-09
<b>Economic cooperation</b>	64	49	59	45
<b>Social and cultural cooperation</b>	13	12	12	11
<b>Cooperation in the field of justice and home affairs</b>	2	5	4	4
<b>Emergency - Humanitarian</b>	3	9	11	15
<b>Other</b>	18	25	14	26

Source: OECD CRS Database and authors' own classification. Figures may not add up to 100% due to rounding.

Figure A4. Spain's ODA commitments to the southern and eastern Mediterranean by country, 1995-2009 (€ mil)



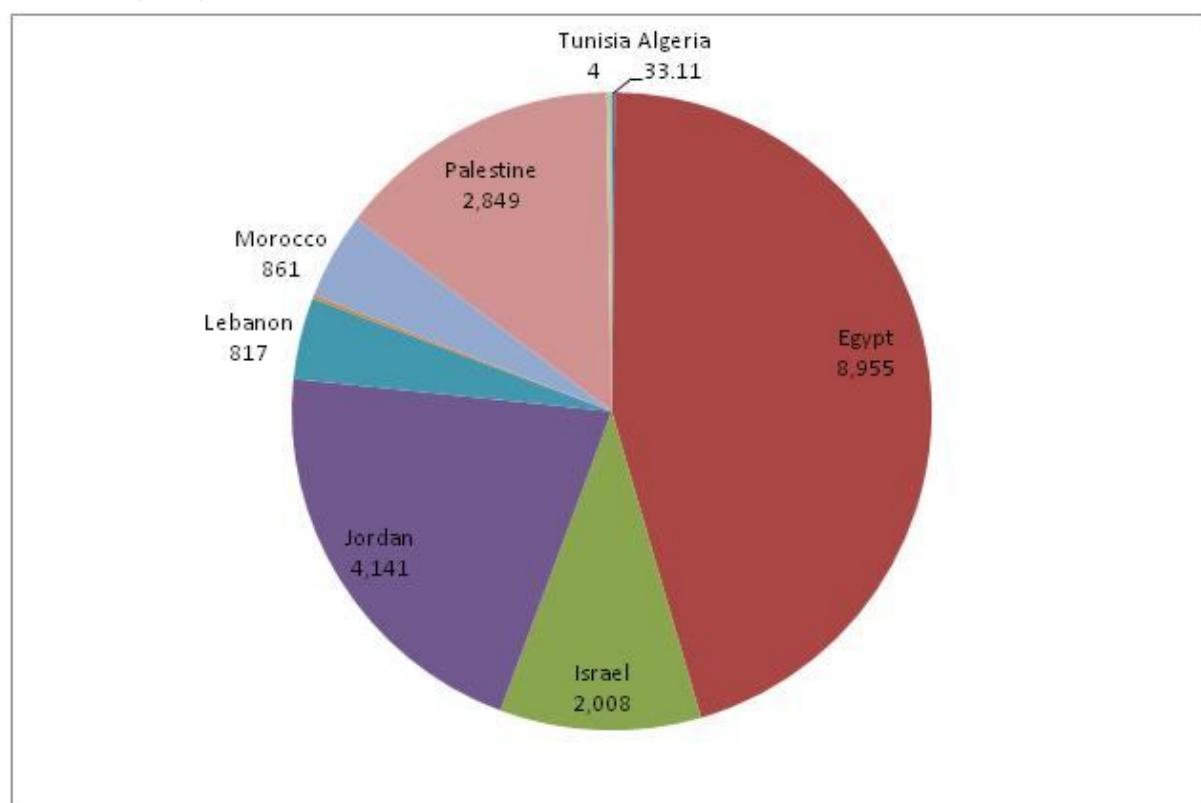
Source: OECD DAC Statistics database.

Table A5. Spain's ODA commitments to the southern and eastern Mediterranean, 2000-09 (%)

	2000-01	2002-04	2005-06	2007-09
<b>Economic cooperation</b>	16	45	47	64
<b>Social and cultural cooperation</b>	63	28	24	17
<b>Cooperation in the field of justice and home affairs</b>	3	2	4	4
<b>Emergency - Humanitarian</b>	1	9	5	9
<b>Other</b>	16	16	21	6

Source: OECD CRS Database and authors' own classification. Figures may not add up to 100% due to rounding.

Figure A5. US' ODA commitments to the southern and eastern Mediterranean by country, 1995-2009 (€ mil)



Source: OECD DAC Statistics database.

Table A6. Sector distribution of US' ODA commitments to the southern and eastern Mediterranean, 2000-09 (%)

	2000-01	2002-04	2005-06	2007-09
<b>Economic cooperation</b>	49	48	45	49
<b>Social and cultural cooperation</b>	13	13	22	23
<b>Cooperation in the field of justice and home affairs</b>	9	7	10	14
<b>Emergency - Humanitarian</b>	0	2	7	12
<b>Other</b>	29	31	16	1

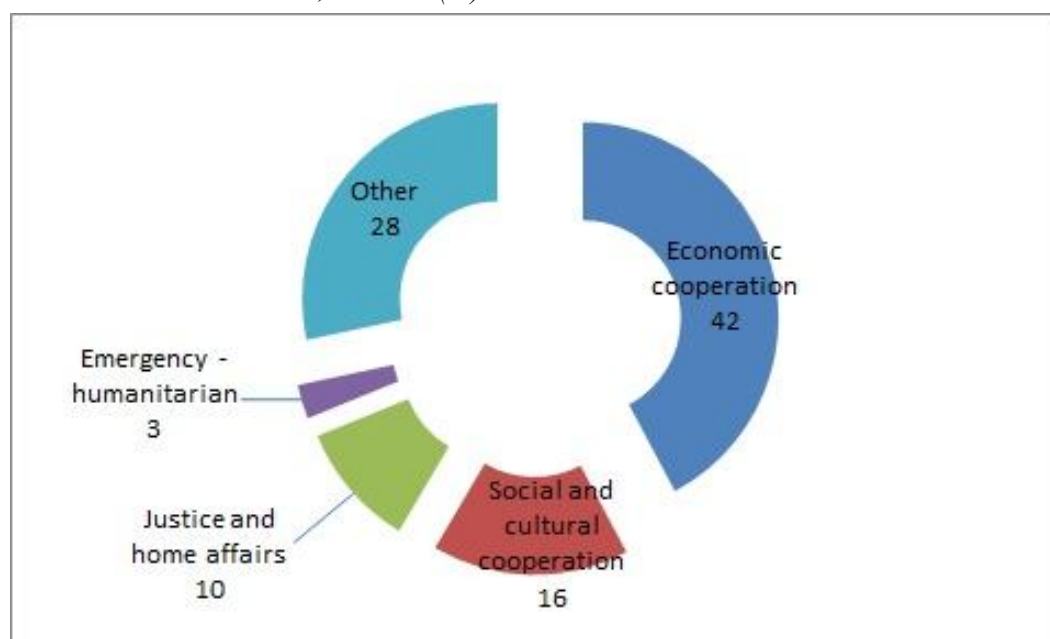
Source: OECD CRS Database and authors' own classification. Figures may not add up to 100% due to rounding.

## Annex 6. Overview of Euro-Mediterranean regional cooperation initiatives

Regional cooperation has been an instrument of Euro-Mediterranean cooperation since the creation of the Renovated Mediterranean Policy (RMP) in 1992 but was given more emphasis under the 1995 Barcelona Process. Euro-Mediterranean regional cooperation was created as a means to reinforce the objectives pursued by relations at the bilateral level, yet the €1.1 billion committed by EU institutions since 2000 contrast with the developmental challenges faced by the region.

At first sight, the sector distribution of the EU's regional cooperation commitments is similar to that of bilateral allocations (Figure A6). Economic cooperation has ranked high in the EU's regional cooperation with the southern and eastern Mediterranean, concentrating almost half of commitments over the period considered. Within this category, support for FTA completion through projects addressing trade policies and regulations has been extremely low and represented less than 1% of total regional flows to the region. In contrast, 15% of regional ODA were earmarked as support to EIB's operations in the region. These funds came from the FEMIP and EIB's risk capital instruments, and the bank used them for its operations in the region. The remaining commitments funded cooperation programmes in the areas of infrastructure, agricultural development and environment preservation among many other diverse and small-scale initiatives. In the area of social and cultural cooperation, Erasmus Mundus and Tempus programmes concentrated 35% of funding, the remaining 65% of the initiatives being split across funding for scholarships, pilot projects for education as well as other activities. The same broad patterns hold for justice and home affairs, where the EU's regional cooperation envelope has funded initiatives aimed at raising awareness in the field of human rights, enhancing border control activities, as well as justice reform among many others such as field visits, officials' meetings, etc.

Figure A6. Sector distribution of regional cooperation initiatives for the southern and eastern Mediterranean, 2000-09 (%)



Sources: OECD CRS Database and authors' own classification.

These particularities aside, the EU's regional development assistance to the region has mostly consisted of funding training programmes for Southern Mediterranean public officials, members of civil society organisations and financing pilot projects and awareness-raising activities in the different areas of the partnership (Table A7). Despite the EU's emphasis on using regional cooperation as a means to foster dialogue and co-ownership between the northern and southern/eastern shores of the Mediterranean, the latter countries are excluded from developing regional cooperation initiatives,

responsibility for which rested on DG RELEX and DG DEV and EuropAid. While the adoption of the Lisbon Treaty and the entry into function of the European External Action Service bring important institutional changes in the EU's external policies, it remains to be seen whether these changes will lead to an inclusion of southern and eastern Mediterranean countries in the design of regional cooperation programmes.

*Table A7. Selected regional cooperation programmes for the southern and eastern Mediterranean (1995-2009)*

Field of action	Initiative name	Type of initiative	Description	Funding (€ mil)
<b>Environment</b>	Sustainable Water Management and De-pollution of the Mediterranean Sea	Training	The programme foresees to promote the enforcement of sustainable water management policies through policy dialogue, training, raising awareness. Its objective is to contribute also to the realisation of the "Horizon 2020 Initiative" through the development of planning and management skills of the Mediterranean partner countries. It also intends to support the Mediterranean Water Strategy which ministers failed to adopt.	22
<b>Transport</b>	Euromed Transport project	Training	The Euromed Transport project is aimed at supporting the implementation of the regional transport action through the conduction of feasibility studies, the provision of technical assistance and training. The project is also in charge of monitoring at the country level the implementation of the regional transport action plan	6
<b>Trade</b>	INVEST in MED	Awareness raising	Programme aimed at trade facilitation and investment promotion through the organisation of business-to-business meetings	9
<b>Energy</b>	MED-EMIP Energy Cooperation	Training	Programme establishing a regional platform for energy policy dialogue and providing demand-driven support to partner countries based on their needs	4
<b>Civil protection</b>	Civil protection (PPRD South)	Training	The Programme for Prevention, Preparedness and Response to Natural and Man-made Disasters aims at developing a Euro-Mediterranean system of mitigation, prevention and management of natural and man-made disasters through capacity-building, training and region-wide coordination	5

*Source:* Authors' own compilation based on EuropeAid (2010).

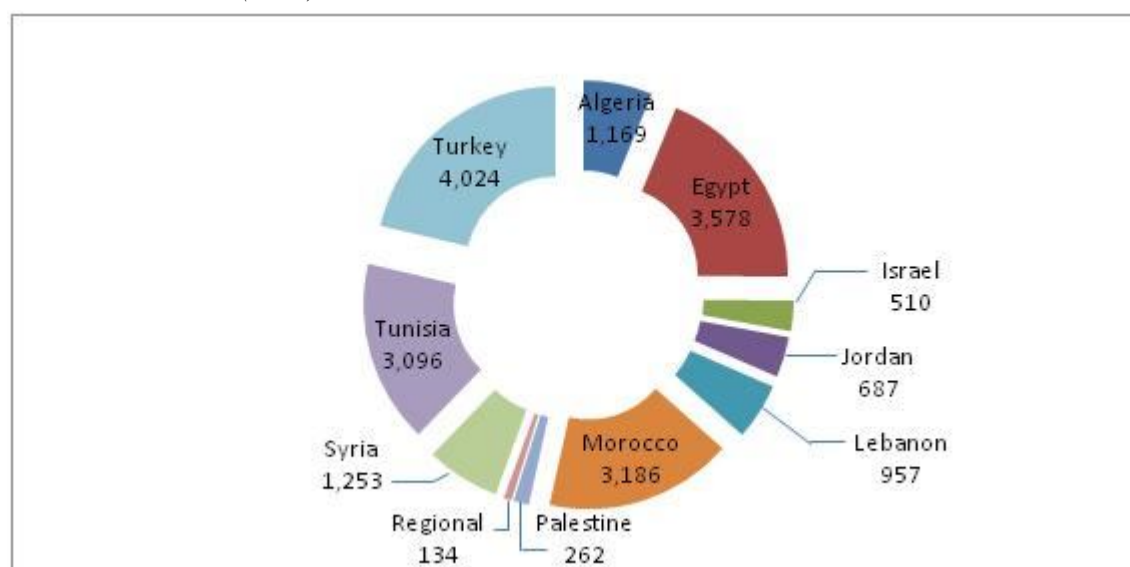


## Annex 7. European Investment Bank operations in the southern and eastern Mediterranean

The European Investment Bank (EIB) has been active in the southern and eastern Mediterranean since 1972, when the bank provided recipient countries with 1% interest loans to support their liberalisation efforts and later the implementation of Structural Adjustment Programmes (SAPs). 30 years after EIB's first operations in the region, in 2002, the bank's operations in the region were centralised with the creation of the FEMIP, short for "Facilité Euro-Méditerranéenne d'Investissement et de Partenariat" (French for Euro-Mediterranean Facility for Investment and Partnership).

FEMIP acts as the dedicated financial arm of the Euro-Mediterranean and is mandated to improve access by the private sector and particularly micro, small, and medium-sized companies to finance; to support economic development and modernisation through four instruments: loans, risk capital, private equity investments and technical assistance projects.<sup>35</sup> FEMIP is funded by a yearly allocation of €32 million originating from the Euro-Mediterranean regional cooperation budget and has financed €12 billion operations between 2002 and 2009. Most of these were loans and risk capital-private equity operations, technical assistance projects amounting to €3.8 billion. Similarly to the patterns of EU institutions' development assistance to the region, since the enactment of the Barcelona Process (BP) Egypt, Jordan, Morocco and Tunisia emerge as the main beneficiaries of the EIB's operations in the southern and eastern Mediterranean (Figure A7). On the other hand, the sectoral distribution of FEMIP's investments in the region is different, with an important concentration on infrastructure for energy generation and supply; transport and storage; and banking and financial services (Figure A8).

Figure A7. Country distribution of EIB's operations in the southern and eastern Mediterranean, 2000-09 (€ mil) \*

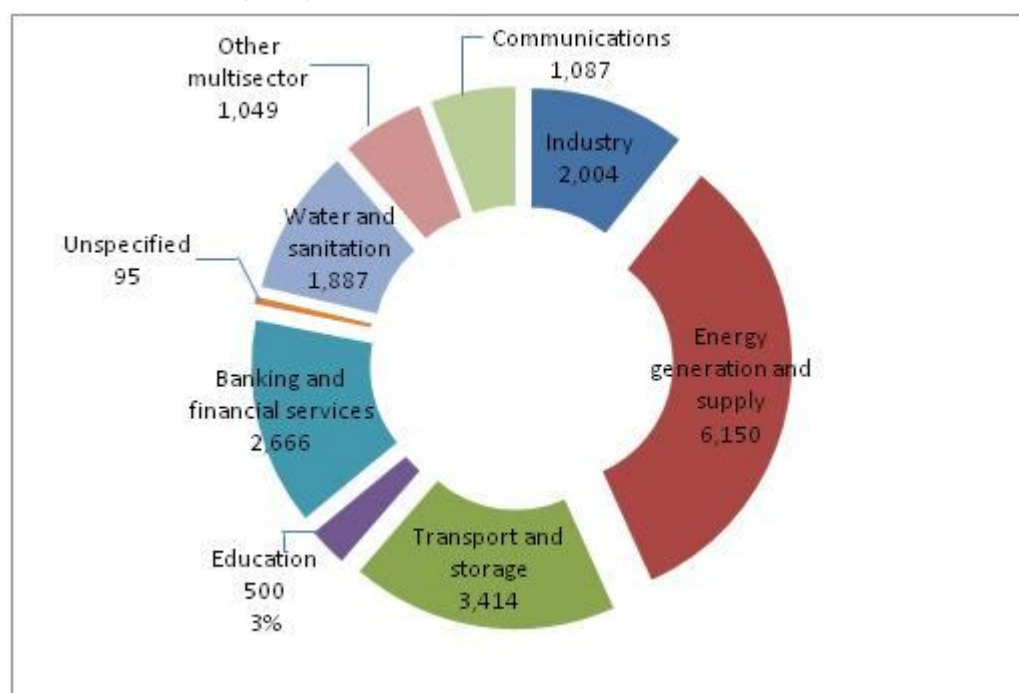


\* Turkey excluded.

Source: Authors' own calculations based on EIB Annual Reports 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008 and 2009.

<sup>35</sup> Venture capital, private equity and technical assistance projects are managed by the FEMIP Trust Fund. For more information on FEMIP's instruments and resources see: [http://ec.europa.eu/europeaid/where/neighbourhood/regional-cooperation/enpi-south/sustainable/femip\\_en.htm](http://ec.europa.eu/europeaid/where/neighbourhood/regional-cooperation/enpi-south/sustainable/femip_en.htm)

Figure A8. Sector distribution of EIB's operations in the southern and eastern Mediterranean, 2000-09 (€ mil)\*



\*Turkey excluded.

Source: Authors' own calculations based on EIB Annual Reports 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008 and 2009.

The creation of the ENP led to the formation in 2008 of an additional fund managed by the EIB, the Neighbourhood Investment Facility (NIF). Similar to that of the ENPI, NIF's mandate encompasses both the eastern and southern neighbourhood and aims at supporting investments in infrastructure as well as in the private sector (with a particular focus on SMEs) in both regions. It benefits from a €700 million commitment from the European Commission and from voluntary contributions from 15 member states, the latter amounting to €47 million in 2009. For SEMCs, the NIF's operations were exclusively concentrated in transport infrastructure with a total of €1.6 billion loans issued by the new instrument.



## About MEDPRO

MEDPRO – Mediterranean Prospects – is a consortium of 17 highly reputed institutions from throughout the Mediterranean funded under the EU's 7<sup>th</sup> Framework Programme and coordinated by the Centre for European Policy Studies based in Brussels. At its core, MEDPRO explores the key challenges facing the countries in the Southern Mediterranean region in the coming decades. Towards this end, MEDPRO will undertake a prospective analysis, building on scenarios for regional integration and cooperation with the EU up to 2030 and on various impact assessments. A multi-disciplinary approach is taken to the research, which is organised into seven fields of study: geopolitics and governance; demography, health and ageing; management of environment and natural resources; energy and climate change mitigation; economic integration, trade, investment and sectoral analyses; financial services and capital markets; human capital, social protection, inequality and migration. By carrying out this work, MEDPRO aims to deliver a sound scientific underpinning for future policy decisions at both domestic and EU levels.

<b>Title</b>	MEDPRO – Prospective Analysis for the Mediterranean Region
<b>Description</b>	MEDPRO explores the challenges facing the countries in the South Mediterranean region in the coming decades. The project will undertake a comprehensive foresight analysis to provide a sound scientific underpinning for future policy decisions at both domestic and EU levels.
<b>Mediterranean countries covered</b>	Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria, Tunisia and Turkey
<b>Coordinator</b>	Dr. Rym Ayadi, Centre for European Policy Studies (CEPS), <a href="mailto:rym.ayadi@ceps.eu">rym.ayadi@ceps.eu</a>
<b>Consortium</b>	Centre for European Policy Studies, <b>CEPS</b> , Belgium; Center for Social and Economic Research, <b>CASE</b> , Poland; Cyprus Center for European and International Affairs, <b>CCEIA</b> , Cyprus; Fondazione Eni Enrico Mattei, <b>FEEM</b> , Italy; Forum Euro-Méditerranéen des Instituts de Sciences Economiques, <b>FEMISE</b> , France; Faculty of Economics and Political Sciences, <b>FEPS</b> , Egypt; Istituto Affari Internazionali, <b>IAI</b> , Italy; Institute of Communication and Computer Systems, <b>ICCS/NTUA</b> , Greece; Institut Europeu de la Mediterrania, <b>IEMed</b> , Spain; Institut Marocain des Relations Internationales, <b>IMRI</b> , Morocco; Istituto di Studi per l'Integrazione dei Sistemi, <b>ISIS</b> , Italy; Institut Tunisien de la Compétitivité et des Etudes Quantitatives, <b>ITCEQ</b> , Tunisia; Mediterranean Agronomic Institute of Bari, <b>MAIB</b> , Italy; Palestine Economic Policy Research Institute, <b>MAS</b> , Palestine; Netherlands Interdisciplinary Demographic Institute, <b>NIDI</b> , Netherlands; Universidad Politecnica de Madrid, <b>UPM</b> , Spain; Centre for European Economic Research, <b>ZEW</b> , Germany
<b>Budget and Funding</b>	Total budget: €3,088,573 EC-DG RESEARCH contribution: €2,647,330
<b>Duration</b>	1 April 2010 – 31 March 2013 (36 months)
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