Woodrow Wilson Center European Alumni Association

Conference

"Europe and the Muslim World"

5-7 October 2006, Istanbul

Paul Kevenhörster

EU Development Assistance Policy in the Mediterranean

University of Münster
Institute of Political Science
Platz der Weißen Rose
Scharnhorststraße 100
D 48151 Münster
Germany

kevenho@uni-muenster.de

1. The fight against poverty: the European Union

For many years, the European Union has been a leading institution of international cooperation: the fifth largest member of the Development Assistance Committee (DAC) within the Organization for Economic Cooperation and Development (OECD) in terms of Official Development Assistance (ODA) and, after the World Bank, the second largest multilateral donor. The development co-operation policy of the European Union, dating back to the Treaty of Rome in 1957, is based on the Treaty of Maastricht, which in November 1993 introduced development co-operation as an explicit part of European Policy. The aim of this policy is to promote

- the sustainable economic and social development of the developing countries, especially the most disadvantages ones;
- the smooth and gradual integration of developing countries into the world economy;
- the campaign against poverty in developing countries;
- the development and consolidation of democracy, the rule of law;
- the respect for human rights and fundamental freedom.

The Treaty of Maastricht (Art 130) has put the fight against poverty at the centre-stage of the European development co-operation. This approach is very much in line with the Millennium Development Goal No 1 of halving the proportion of people living in absolute poverty by the year 2015. In effect, this means stimulating economic growth, supporting social sectors, improving an essential participation of beneficiary populations and targeting interventions effectively on the most vulnerable groups. As it is also the case with other donors' programmes, it is, however, extremely difficult to assess the overall impact of European activities on poverty. Increased evaluation studies seem, therefore, to be necessary. On the other hand, the European Commission has in the meantime revised its strategy for the reduction of poverty. This strategy also implies a reduction of inequality and the fight against social exclusion.

Today only 20 % of European ODA is distributed by the European Union itself, but 80 % by bilateral and multilateral organizations. European aid is based on two pillars: the European budget and the European Development Fund (EDF). In combination with historical preferences of European donors, this system channels official development assistance not however to the poorest countries, but to strategically important regions like Eastern-Europe and the Mediterranean. Poor Asian countries are, therefore, not sufficiently accepted as recipient countries, compared with ACP countries (Africa, Caribbean and Pacific), Eastern Europe and the Mediterranean.

The development aid of the European Union is administrated by the Commission in Brussels and divided into two regional categories:

- The first historically important category is the aid to the countries in Africa, the Caribbean and the Pacific (ACP).
- The second category of development cooperation covers Latin America, the Mediterranean, Asia and Southeast-Europe.

After the end of the Cold War the share of the first category (ACP) dropped from more than 60 % to about 34 % (Olsen 2005, 574). This part of European development assistance on the basis of the Cotonou agreement (former Lomé Conventions) is administrated by the European Development Fund. The second category is financed by the ordinary European Union budget. In 2001 13.5% of the total aid budget was allocated to Asia, 10 % to Latin America, 27 % to south-eastern Europe and 16 % to the Mediterranean (North Africa and the Middle East). The last two shares have kept rising since the 80’s. The aid programme for the Mediterranean region was, however, never based on a coherent policy for this region, “accidental at best”, and it became never, as intended, “the twin of the Lomé” (Olsen 2005, 582). The attention for this policy has instead been rising for many years.

2. Regional Focus: the Mediterranean

The Cotonou Agreement differs from the old Lomé Agreements in its new development policy perspective: the view that aid is leverage for trade (Dickson 2004, 51). Aid, therefore, should be designated to facilitate the integration of developing countries into the world economy. During the last decade member states of the European Union have become increasingly aware of the important role played by the southern Mediterranean and North African Countries. Poverty combined with high fertility rates – legally or illegally – lead to migration into Europe. For these reasons, it is extremely important to increase economic cooperation - i.e. aid and investment – with North African countries, and to systematically reduce restrictions on imports of goods.

The European Council has in various meetings during the 90’s (from Lisbon 1992 to Vienna 1998) placed the regional emphasis on the European neighbourhood, especially Central and

Eastern Europe, the Mediterranean, and the Middle East. Common strategies are usually based on common interests (Smith 2004, 62). The European Council looks at these regions – as stated in Cologne in June 1999 – not only as partners in its external relations, but also "*for the stability and security of our continent.*" In the 90's the Foreign Ministers of the European Union considered the Mediterranean and the Middle East increasingly as priority areas for the Common Foreign and Security Policy (CFSP) of the Union – much more important than in 70's and 80's. Under the Spanish presidency, the Euro-Mediterranean Partnership had already been launched by the conference in Barcelona on 27./28. November 1995. In cooperation with 12 Mediterranean countries the conference agreed on a programme on the basis of three pillars:

- Strengthening political dialogue
- Economic and financial cooperation
- Integration of the social, cultural and human dimension.

The conference in Barcelona has been the culmination of a process to reassess Community policy towards the Mediterranean on the basis of strategy papers and intensive communication between the Council and the European Parliament. The Mediterranean States participating at the Barcelona Conference were Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Syria, Tunisia, Turkey and the Palestinian Authority (Santos 2001, 39).

European development perspectives in this area have been implemented by the Euro-Mediterranean Assistance Programme (MEDA). The establishment of a free trade area should be realized by 2010. Agreements have thus far been signed with Israel, Jordan, Morocco, the Palestinian Authority, Tunisia, Algeria and Lebanon. Designed to promote socioeconomic development, regional cooperation and the Middle East Peace Process, it successfully redressed the imbalance with respect to Central and Eastern Europe: The ratio of aid to the Mediterranean compared with Central and Eastern Europe went up from 1:5 to 3.5:5. For the 2000-2006 period the European Union has allocated 5.35 billion Euro to MEDA (Smith 2004, 71). Serious problems, however, remain regarding the fulfilment of the Euro-Mediterranean partnership program: internal and external conflicts, lack of progress in the Middle East peace process, and finally the collapse of this process, frustrating the EU's strategy.

With respect to the Mediterranean the membership of the three northern Mediterranean counties, Spain, Portugal und Greece created several problems for the export of agricultural products (wine, olive oil, citrus fruits, tomatoes) produced by non-member Mediterranean countries (Arts 2004, 102). A main problem has been the persistent and strong protectionism in favour of agricultural products within the European Community. Consequently during the last decades European development aid for the agricultural sector in the non-member Mediterranean states dropped considerably while at the same time project aid for water supply, education and health increased. The Mediterranean member states – especially Spain – have, however, at the same time stimulated EU-attention for the Mediterranean.

3. FEMIP

Since October 2002, the Facility for *Euro-Mediterranean Investment and Partnership* (FEMIP) has supported the efforts of the Barcelona Declaration of 1995 for peace, stability and shared prosperity by more than 7.2 billion Euro invested in the countries of the southern and eastern rims of the Mediterranean from 2002 to 2005 (FEMIP 2005, 4). FEMIP's projects are concentrated on two priority areas of development cooperation:

- development of the private sector and
- creation of an investment-friendly environment.

FEMIP finances projects in the private sector both in the form of local initiatives and foreign direct investment. Furthermore, it supports infrastructure projects (energy, transport, communication) and investment in human capital (health, education, housing). FEMIP's activities have been financed by the European Investment Bank (EIB). Initiatives of the European Commission and the EIP in this region have been complimentary to a considerable degree. More than 7.8 billion Euro have been deployed for the period 2000-2006, stemming largely from the Euromed II Mandate and complimentary facilities (FEMIP 2005, 6):

EUROMED II Mandate
FEMIP support is granted by the Euromed II Mandate of the European Investment Bank conferred by the member states and covered by the EU's Guarantee Fund. Priorities of cooperation are the development of the private sector and upgrading of the economic infrastructure.

Euro-Mediterranean Partnership Facility
This facility, much smaller than the Mandate, was established in 2001 and supports partner countries especially in the energy and communication sectors.

Risk capital envelope
FEMIP is, to a smaller degree than the first two facilities, a provider of investment capital, drawing on a “risk capital” envelope financed by the EU budget. It offers equity and other resources for unlisted private companies.

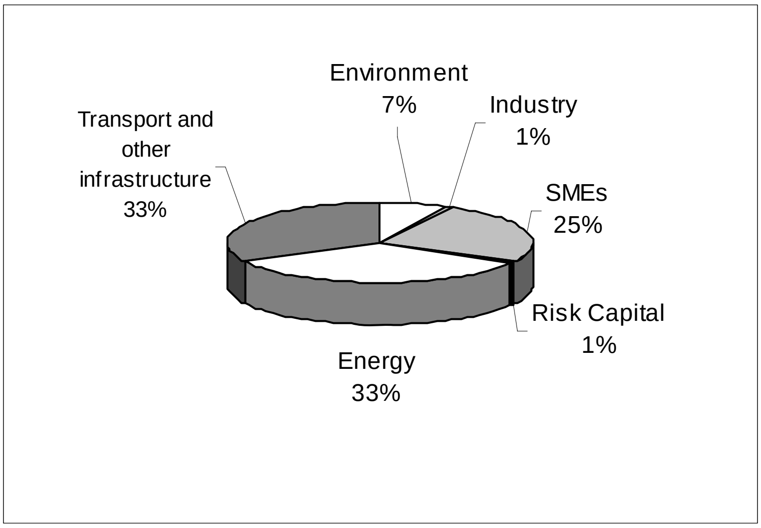
Technical Assistance Support Fund
This fund is an important instrument for improving the quality and impact of the European Investment Bank’s lending operations.

Interest rate subsidies
Out of European Union budgetary resources an interest rate subsidy on FEMIP loans is granted in order to encourage environmental projects and to improve the impact of the projects concerned.

FEMIP Trust Fund
The Fund, established at the end of 2004, is based on the co-financing funds of other international financial institutions. It supports the acquisition of investment capital and financing technical assistance. By this approach, the fund supplements both the risk capital envelope and the Technical Assistance Support Fund.

In 2004 FEMIP has lent 2.2 billion Euro in the Mediterranean Partner Countries, while grants of its Technical Assistance Support Fund reached 13.8 million Euro. The trend towards increased financing of private sector operations continued to support small and medium enterprises and foreign direct investment in the region. To meet its primary objective more than one third of FEMIP’s lending went to foreign direct investment (Algeria, Egypt) and SME financing (Egypt, Lebanon, Morocco, Tunisia and Turkey). Special emphasis has been placed in infrastructure projects (energy, transport and environment).

Figure 1: FEMIP lending in 2004 by sector (EUR 2.2 billion)



Source: FEMIP, Annual Report 2005, Brussels 2005

4. Conditions of Success

An important precondition of success for EU development cooperation with the Mediterranean countries is the partner countries' business environment. According to a World Bank study a set of six business dimensions (starting a business, dealing with licences, hiring and firing, getting credit, protecting investors, enforcing contracts) determines the "*Ease of Doing Business*". The most business-friendly of all partner countries is Israel (rank 29 out of 156). Almost all relevant partner countries are placed in the lower half of the ranking list, especially Turkey, Lebanon, Morocco, Syria, Gaza/West Bank, Algeria and Egypt. These countries exhibit rather rigid labour markets, weak investor protection and poor access to credit. Large and inefficient public sectors in combination with high expenditure levels result in sizable public sector deficits, government debt, limited economic diversification and only partial integration into the world economy. In addition, governance indicators (voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, control of corruption) demonstrate that the Mediterranean countries lag far behind the EU in all aspects of governance. For theses reasons the partner countries have to advance their reform efforts and to further strengthen their investment climate.

Table 1: The Mediterranean partner countries' business environment, 2006

	Ease of Doing Business	Starting a Business	Dealing with Licences	Hiring and Firing	Getting Credit	Protecting Investors	Enforcing Contracts
Israel	29	12	83	58	12	6	103
Tunisia	58	40	88	101	102	133	6
Jordan	74	119	59	68	65	124	58
Turkey	93	46	137	141	103	75	37
Lebanon	95	99	90	49	66	102	142
Morocco	102	50	125	124	146	117	29
Syria	121	135	78	94	124	105	149
Gaza/West Bank	125	152	76	75	129		88
Algeria	128	109	100	96	138	97	131
Egypt	141	115	146	140	142	114	118

Source: World Bank; FEMIP 2005, p. 12

Table 2: EIB Loans to Mediterranean Countries in 2005 (Million Euro)

Turkey	**930**
Egypt	**309**
Syria	**300**
Tunisia	**260**
Lebanon	**170**
Morocco	**160**
Gaza/ West Bank	**55**
Algeria	**10**
Σ	**2194**

Source: EIB-Gruppe, Jahresbericht 2005, p. 41

59% of the EIB loans supported infrastructure-projects, 29% transportation projects, 25% energy-projects and 5% telecommunication-infrastructure. In Gaza and the West Bank the EIB financed projects in the energy sector, transportation, housing and environment protection and particularly supported small and medium firms.

5. Coordination and Coherence

The foreign and development policies of the European Union have to be based on a new conceptual basis and a new consensus (Brüne 2005, 13). This concept should, more than ever before, integrate diverging national approaches and draft its own authentic profile. As the *Development Committee of the European Parliament* suggests, the development policy of the European Union should not only complement the national policies, but invest more energies in order to formulate a joint foreign policy-, economic-, strategic and development policy-perspective – based on existing and persistent national interests. The Cotonou-Agreement of 2000 is an important step in this direction.

The European Commission could perform as the third largest international donor – after the World Bank and UN, if it would concentrate its resources and use common institutions more effectively. The *British Overseas Development Institute* has, therefore, proposed the establishment of a new European Fund for the Millennium Development Goals with a budget of five billion Euro per year. This would, in fact, be an important step towards a common European foreign and development policy.

When it comes to policy coherence we have to take into account, that there can be no sustainable development without peace and security. “Tackling poverty and inequality through an adequate level of development assistance is an essential component of any credible and effective security strategy…” (Moreau 2005, 17). This approach requires an appropriate instrument mix combining short-term responses with long-term strategies. In its Financial Perspectives for the period 2007-2013 the proposals of the European Commission are, to a certain degree, moving in this direction.

On the other hand, there prevails strong criticism, that in spite of the fact that poverty eradication is a central goal of EU development policy the Commission proposals are not focused on tackling poverty. Instead they blur the definition of ODA to include foreign policy expenditure in all regions (Towey 2005, 40).

Europe should make the most of its combined resources both on the European and national level (Commission of the European Communities 2006, 6) by

- improving strategic planning,
- increasing effectiveness and impact through better delivery,
- better cooperation between EU institutions and member states,
- improved accountability and visibility.

Reference

Karen Arts: Changing interests in EU development cooperation: the impact of EU membership and advancing integration. In: Karin Arts; Anna K. Dickson (ed.): EU development cooperation. Manchester/ New York 2004, p. 101-112

Stefan Brüne: Europas Außenbeziehungen und die Zukunft der Entwicklungspolitik, Wiesbaden 2005

Commission of the European Communities: Communication from the Commission to the European Council of June 2006. Europe in the World – Some Practical Proposals for Greater Coherence, Effectiveness and Visibility. Brussels 08.06.2006, (COM 2006), 778 final

Anna D. Dickson: The unimportance of trade preferences. In: Karin Arts; Anna K. Dickson (ed.): EU development cooperation. From Model to Symbol. Manchester/ New York 2004, p. 42-59

FEMIP: Facility for Euro-Mediterranean Investment and Partnership, Annual Report 2005. Brussels 2005

Friedrich Ebert Stiftung; terre des hommes; Weed: Civilian Perspective or Security Strategy? European Development Policy Confronting New Challenges in Foreign and Security Policy, Berlin 2005

Francoise Moreau: The reform of European development policy – what has been achieved, what remains to be done? In: Friedrich Ebert Stiftung et al., Berlin 2005, p 16-18

Gorm Rye Olsen: The European Union’s Development Policy: Shifting Priorities in a Rapidly Changing World. In: Paul Hoebink, Olav Stokke (ed.): Perspectives on European Development Cooperation. Policy and performance of individual donor countries and the EU. London, New York 2005, p. 573-608

Carlos Santos: European Union Support for Regional Integration Initiatives in Developing Countries. In: Carol Cosgrove-Sacks (ed.): Europe, Diplomacy and Development. Houndsmills 2001, p. 29-51

Tobias Schumacher: Die Europäische Union als internationaler Akteur im südlichen Mittelmeerraum. Baden-Baden 2005

Karen E. Smith: The ACP in the European Union’s network of regional relationships: still unique or just one in the crowd? In: Karin Arts; Anna K. Dickson (ed.): EU development cooperation. Manchester/ New York 2004, p. 60-79

Olive Towey: Financing security objectives from national and European development budget – a critical analysis. In: Friedrich Ebert Stiftung et al., Berlin 2005, p. 36-41