

EURO-MEDITERRANEAN FINANCIAL COOPERATION: WHAT FUTURE?

RYM AYADI

Senior Research Fellow¹

The Centre for European Policy Studies (CEPS), Brussels

SALIM GADI

Research Assistant

The Centre for European Policy Studies (CEPS), Brussels

I. Brief Overview of EU Policies and Funding Frameworks with Southern Mediterranean Countries

The 2011 uprisings in the Southern Mediterranean have put the region at the forefront of current policy developments, questioning their future domestic political systems and, subsequently, the future of the EU Partnership with its Southern Neighbourhood. Against this backdrop, this paper analyses the EU development funding allocated to the region over the past decade and provides an insight into the future of the Euro-Mediterranean Partnership based on the results of an opinion survey. The first section reviews the policy and financing frameworks governing Euro-Mediterranean relations; section two analyses the results of the Euromed Survey 2010 and provides an insight into the future of the Euro-Mediterranean Partnership.

1.1 Policy Frameworks and Funding Instruments for EU Cooperation with the Southern Mediterranean before 2007

1.1.1 1970-1995: The Global Mediterranean Policy and the Renovated Mediterranean Policy

Southern Mediterranean Countries (SMCs)² have benefited from EU development assistance since the 1970s within different policy frameworks under which a series of bilateral agreements formed the backbone of EU funding to the region. Starting with the Global Mediterranean Policy (GMP) in 1972, Europe's Southern Neighbours concluded cooperation agreements based on the three pillars of commercial, social and financial cooperation. The latter pillar built on financial protocols that specified aid volumes committed to SMCs. Financial and economic cooperation took three forms: grants, the European Investment Bank (EIB) and the European Commission (EC) 1% interest rate loans.

Europe's enlargement to Greece, Portugal and Spain in the 1980s urged a redefinition of its relations with Southern Neighbours. The 1990 Renovated Mediterranean Policy (RMP) sought to reinforce the existing frameworks while providing them with narrower objectives and strategies. The €2.37 billion allocated for the period 1992-1996 represented an increase of 40% in commitments compared to the previous policy framework. It was aimed at supporting the implementation of the International Monetary Fund (IMF) and World Bank structural adjustment programmes, in particular the development of small- and medium- sized enterprises (SMEs), and financing regional cooperation initiatives. Trade relations were deepened through a duty- free access to European markets for agricultural goods in 1993. Support for South-South integration stands as the major innovation of the RMP, perceived as a stabilising factor for the region and the EU. The initiatives that followed the RMP reaffirmed the importance of regional integration with the ambition of creating a Euro-Mediterranean free trade area.

1. She is also Director of the Mediterranean Prospects Network – Medpro, www.medpro-foresight.eu.

2. The acronym SMC designates Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria, Tunisia, and Turkey.

1.1.2. 1995-2007: The Barcelona Process

In the aftermath of the Gulf War and the signing of the Oslo Accords in 1993, the 1995 Euromed Partnership went beyond the RMP by attempting to tie Europe's stability wants to SMC socioeconomic development needs. In November 1995, the Barcelona Ministerial Conference marked a crucial shift in the way relations were previously structured by engaging SMC foreign affairs ministers in the final statement. While the previous approaches considered Mediterranean "third countries", the Barcelona Conference which gave birth to the Euromed Partnership enacted the term of Mediterranean partners.³ The Partnership went a step further than other initiatives and was built on three pillars:

- 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;
- Economic cooperation and regional integration with the aim of achieving a free trade area by 2010;
- Socio-cultural cooperation by developing people-to-people contacts and a vibrant civil society through concrete initiatives.

On institutional grounds the Barcelona Process (BP) revoked the previous cooperation agreements by establishing bilateral Association Agreements (AAs) as the foundation of Euro-Mediterranean relations. AAs are concluded for an unlimited period of time and cover the three dimensions of the Euromed Partnership with slight differences between countries. Broadly, they consist of titles covering trade in goods and services, economic cooperation, social/cultural cooperation and financial cooperation, the latter category specifying that funds will be allocated to help SMCs meeting the objectives set out in the AAs.⁴

To achieve the objectives established in the AAs, cooperation initiatives are implemented in two steps under the BP. First, Country Strategy Papers (CSPs) adopted by the EC and SMCs sum up the political and economic situation of the country, give the "EU's strategic response," and detail the general as well as specific objectives of cooperation. National Indicative Programmes (NIPs) adopted by the EC and SMCs divide these objectives into priorities and sub-priorities. To meet the objectives set in the sub-priorities, funds are allocated to specific cooperation programmes and some of the latter fund initiatives in the beneficiary countries, such as awareness-raising activities and pilot projects. The implementation of regional cooperation objectives follows the same steps with Regional Strategy Papers (RSPs) and Regional Indicative Programmes (RIPs), both documents following the same structure as their national counterparts. Under the BP, CSPs/RSPs were drafted for the period 2002-2006. Two series of NIPs/RIPs divide their objectives for the periods 2002-2004 and 2005-2006.

The BP also institutionalised relations at the regional level by enacting conferences on foreign affairs at ministerial level aimed at monitoring the progress achieved in meeting the objectives set in the Barcelona Declaration. Several sectoral ministerial conferences were also born under the partnership such as agriculture, water, energy and health to name a few. In addition, the Euromed committee composed of senior officials of the EU, Member States and SMCs is responsible for the global administration of the partnership. The Euro-Mediterranean Parliamentary Assembly consisting of parliamentarians originating from the European, Member States', and SMCs' parliaments makes recommendations for the partnership. Furthermore, the 5+5 dialogue was created in 1990 as an informal structure bringing together foreign affairs and/or interior ministers of Spain, France, Italy, Malta, Portugal, Morocco, Algeria, Tunisia and Libya, Mauritania. This structure aims at reinforcing the BP by discussing all the issues affecting it. While the idea dated from the 1980s, the 5+5 dialogue materialised only in 1990. A first

3. The Euromed Partnership/Barcelona Process targets Morocco, Algeria, Tunisia, Egypt, Israel, Palestinian Authority, Jordan, Lebanon, Syria and Turkey.

4. Israel is an exception since the EU-Israel AA does not contain a title on financial cooperation.

meeting was held in 1991 but the process stopped until 2001. Several meetings have been held since then, the last one in April 2010.

The Euromed Partnership also brought changes on financial grounds by creating the MEDA (*Mesures d'Accompagnement*) programme and the FEMIP (*Facilité Euro-Méditerranéenne d'Investissement et de Partenariat*), the latter being managed by the EIB. The MEDA programme revoked the financial protocols used to finance Euro-Mediterranean cooperation by providing financial and technical support to SMCs conditional on the implementation of mutually agreed reforms. Contrary to previous provisions, allocations are no longer given on a country basis but on a project basis. The MEDA programme lasted until the end of 2006 and had a total budget of €8.7 billion, split in two programming periods: MEDA I, from 1995 to 1999, with a total budget of €3.43 billion and MEDA II, from 2000 to 2006, with a total budget of €5.35 billion.

The FEMIP was established in 2002 and aims at improving the region's private sector and SMEs' access to finance. FEMIP benefits from a yearly allocation from the EU budget (€32 million per year for the period 2007-2013) and provided almost €6 billion of loans between 2002 and 2006. The FEMIP manages an additional financial instrument, the FEMIP Trust Fund (FTF). The FTF finances technical assistance and venture capital projects in the Southern Mediterranean with contributions from the EC and 15 Member States.

1.2. The European Neighbourhood Policy and the European Neighbourhood and Partnership Instrument

The EU's 2004 and 2007 enlargements urged another redefinition of its external policies amid fears that Eastern neighbours⁵ attracted increased attention from Brussels to the detriment of SMCs. To avoid such a perception among its Southern Partners, the European Neighbourhood Policy (ENP) was created in 2007, embracing both Eastern and Southern countries. 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. Most of these objectives are already embedded in the BP and to take into account the heterogeneity of both regions as well as their experience in dealing with the Brussels institutions; the EU's programming of assistance was split into East and South.

On institutional grounds, the entry into force of the ENP did not modify the structuring of bilateral relations, but on financial grounds it brought important changes for SMCs. While the MEDA programme targeted them specifically, the newly-born European Neighbourhood and Partnership Instrument (ENPI) is designed to benefit both regions. In absolute terms, the entry into force of the ENPI did not translate into lower commitments to SMCs. Yet *prima facie* figures shade the fact that the EU is increasingly shifting its attention towards its Eastern Partners. After excluding Israel, Lebanon and Palestine,⁶ average yearly per capita commitments to SMCs are lower than commitments to the Eastern Neighbourhood by a factor of 3. The table below gives the distribution of the ENPI's commitments to both countries for the period 2007-2009.

5. Countries under the ENP are Armenia, Azerbaijan, Georgia, Ukraine and Moldova, hereafter referred to as "Eastern Neighbours".

6. Both Lebanon and Palestine benefit from important commitments for distress relief, rehabilitation and humanitarian aid.

Table 1: Country distribution of commitments under the ENPI's bilateral cooperation for 2007-2009 (Euros million)

	ENPI	Average per year	Population (million, 2009)	Average per year per capita
Algeria	146.99	49.00	34.90	1.40
Egypt	428.25	142.75	83.00	1.72
Israel	0.00	0.00	7.44	0.00
Jordan	227.12	75.71	5.95	12.72
Lebanon	206.09	68.70	4.22	16.26
Libya	10.04	3.35	6.42	0.52
Morocco	561.36	187.12	31.99	5.85
Occupied Palestinian Territory	1,256.61	418.87	4.04	103.60
Syria	110.86	36.95	21.09	1.75
Tunisia	255.09	85.03	10.43	8.15
Average South	320.24	106.75	209.49 (total population)	15.20
Average south except Israel, Lebanon and Palestinian Adm. Areas	248.53	82.84	193.78	4.59
Armenia	187.03	62.34	3.08	20.22
Azerbaijan	89.87	29.96	8.78	3.41
Georgia	474.12	158.04	4.26	37.10
Ukraine	677.31	225.77	46.01	4.91
Moldova	305.8	101.93	3.60	28.29
Average East	346.826	115.61	65.74	18.78

Source: OECD Creditor Reporting System (CRS) and Development Assistance Committee (DAC) databases

Regional cooperation was not discarded under the ENPI: for the period 2007-2009, commitments to SMCs amounted to a total of €371.4 million. An additional instrument was also created: the Cross Border Cooperation (CBC) programme. The CBC's objectives are fourfold: the promotion of economic development in bordering regions; support for secure and efficient borders; the promotion of people-to-people contacts; and cooperation in the fields of public health, the fight against organised crime, and the environment. The CBC has been allocated a total of €1.11 billion for the period 2007-2013, of which €355 million (a share of 31% of the CBC's total budget) are committed to multi-country initiatives for the protection of the Mediterranean Basin and to Morocco and Tunisia for border protection programmes with Spain and Italy.

The entry into force of the ENP created another funding instrument managed by the EIB: the Neighbourhood Investment Facility (NIF). The NIF aims at supporting investments in infrastructures as well as in the private sector (with a particular focus on SMEs) in both the Eastern and Southern Neighbourhood. It benefits from a €700 million commitment from the EC and from voluntary contributions from 15 Member States, the latter amounting to €47 million in 2009.

1.3. The Union for the Mediterranean

Since 2008, SMCs have benefited from an additional policy framework, the Union for the Mediterranean (UfM) enacted under the French Presidency of the EU. While Euro-Mediterranean relations have become deeper at each step, EU cooperation and assistance did little to enhance the overall economic and social situations of SMCs. Two reasons have been advocated by the UfM's initiator Nicolas Sarkozy: first, while the EU acts as a unified block, SMCs are divided, hence hindering cooperation results. Second, EU initiatives were believed to be not visible enough. To tackle these two issues and to revive the optimism under the Barcelona Process, in July 2008 Euro-Mediterranean Heads of State created the Barcelona Process: Union for the Mediterranean.

While the initiative sought initially to target only European countries bordering the Mediterranean, after German criticisms the UfM was opened to all 27 EU members. The UfM consists of a total of 43 countries gathered around six concrete initiatives:⁷

- De-pollution of the Mediterranean Sea,
- Establishment of maritime and land highways,
- Joint civil protection programme on prevention, preparation and response to natural and man-made disasters;
- Mediterranean Solar Energy Plan exploring the opportunities for developing solar energy in the region;
- Euro-Mediterranean University, inaugurated in June 2008 and based in Slovenia, and;
- Mediterranean Business Development Initiative, supporting companies operating in the region through technical assistance and access to finance.

Institutionally, the UfM builds on 2 bodies: the Co-Presidency and the General Secretariat. The Co-Presidency is held by an EU member and a non EU-member country and rotates every two years. Egypt and France held the Co-Presidency until the February 2011 popular uprising that led to the ousting of Hosni Mubarak. Since then, the Co-Presidency has been vacant. The UfM's decisions are taken at the bi-annual summit of Heads of State and Government as well as during the Annual Conference of Foreign Affairs Ministers, based on an agenda prepared by a conference of senior officials whose headquarters are in Brussels. The General Secretariat, based in Barcelona, is responsible for the implementation of policies and projects identified and adopted by the UfM. After two years of delays, the General Secretariat took office in Barcelona in September 2010.

On institutional grounds, the UfM sets ambitious objectives and governance structures to advance in regional integration. On financial grounds, two additional instruments were created: the InfraMed and the Faro funds. InfraMed was launched in May 2010, with contributions from Caisse des Dépôts et des Consignations (CDC, France), Cassa Depositi e Prestiti (CDP, Italy), the European Investment Bank (EIB), Caisse des Dépôts et Garanties (CDG, Morocco) and EFG Hermes (Egypt).⁸ InfraMed is the first financial facility of the UfM and aims at financing infrastructure projects. Its commitments amount to €385 million and are expected to increase to €1 billion. The Faro fund was allocated a total of €1 million to fund innovative projects on both shores of the Mediterranean. Faro is managed by Invest in Med and provides entrepreneurs with seed capital up to €20,000 per project, financing half of its expenses.⁹

7. In addition to the 27 EU Member States, the UfM brings together: Albania, Algeria, Bosnia and Herzegovina, Croatia, Egypt, Israel, Jordan, Lebanon, Mauritania, Monaco, Montenegro, Morocco, the Palestinian Authority, Syria, Tunisia and Turkey. Libya declined the invitation and has an observer status.

8. "Lancement du Fonds InfraMed Infrastructure", <http://www.caissedesdepots.fr/actualite/toutes-les-actualites/toutes-les-actualites-hors-menu/lancement-du-fonds-inframed-infrastructure.html>. Last accessed: 17th May 2011.

II. What Future for EU Funding in the Southern Mediterranean?

2.1 The EC's Response to the Arab Spring: "A Partnership for Democracy and Shared Prosperity"

In line with the uprisings that started to rock the Southern Mediterranean in early 2011, it is useful to analyse the EC's early reactions as far as future directions of ODA are concerned. The Tunisian, Egyptian and Libyan uprisings took many actors and especially the EU by surprise. The strength, rapidity and coordination of civil society in overthrowing decades-old autocratic regimes demonstrated how impossible it is to continue past policies while ignoring peoples' democratic and socio-economic aspirations.

The EU's response to the "Arab Spring" and an embryonic vision of the future of its Neighbourhood Policy towards the Southern Mediterranean is embedded in the 8th March Commission Communication for "A Partnership for Democracy and Shared Prosperity". Besides the immediate humanitarian assistance provided "to support democratic transition" in Tunisia and later Egypt, the Communication introduces several changes in the way the EU will conduct future policies towards the Southern Mediterranean.

First, the EU's new approach builds more on the principle of "differentiation". Under this principle, the EU will commit more resources to reforming countries. This "incentive based approach", under which countries advancing fast in reforms will also translate into resources being shifted away from countries retracting from implementation of reforms. At the country level, the partnership for democracy and shared prosperity (hereafter referred to as "the partnership") is likely to reinforce the current country-wise patterns of ODA commitments, since up to 10th May 2011 only Egypt, Jordan, Morocco and Tunisia have agreed to reform/amend their constitutions with a view to increasing political freedom.

Second, a qualitative change is expected to take place in terms of support for democracy and institution building. While the promotion of democratic reforms and good governance ranked high in the EU's approach to relations with the Southern Mediterranean, little has been effectively done and the language has failed to translate into concrete initiatives. Since the enactment of the Barcelona Process, OECD DAC data record a mere total commitment for support to NGOs of €1 million; and a study on democratic reform in Morocco states that EU pressure to promote democratic reform has been all but effective (Kheeka, et al., 2008). The creation of the Civil Society and Neighbourhood Facility aimed to be focused on advocacy capacities of civil society organisations (CSOs); their ability to monitor reform and participate effectively in the policy dialogue could potentially reverse past trends. More details as soon as they are released will allow further assessment of its effectiveness, especially in light of the existing "European Instrument for Democracy and Human Rights".

Third, support for economic development is reaffirmed with proposals to increase the EIB's lending mandate and calls on the Council to adopt EC proposals on EIB reflows. Under the current arrangement, both the EIB and other financial intermediaries are not allowed to re-invest the funds from previous operations. According to the EC Communication, lifting this constraint would immediately free €120 million to finance new operations; an amount representing 32% of the concessional loans issued by the EIB to the region since 1995. Moreover, the amendment to the mandate of the European Bank for Reconstruction and Development (EBRD) advocated by the EC to allow the bank to undertake operations in the region would make additional resources available to finance operations in the region. The memorandum of understanding signed 1st March between the EC, the EIF and the EIB paves the way for the EBRD's positioning in the region.

9. "Un nouveau soutien pour les projets innovants en UPM: le FARO, fonds d'amorçage et d'orientation", <http://www.lejmed.fr/Un-nouveau-soutien-pour-les.html>. Last accessed: 17th May 2011.

Fourth, the EC Communication recognises the need to adapt its regional cooperation strategy to the current situation prevailing in the region so as to focus on “projects delivering concrete benefits in energy, environment, transport, trade and social dialogue.” While the Lisbon Treaty urges the Union for the Mediterranean (UfM) to reform, a possible approach to grant the institution a new role could consist of transferring a share of the funds earmarked for regional cooperation to the UfM for the design and implementation of development projects matching the objectives of both the BP and ENP (Ayadi and Fanelli, 2011).

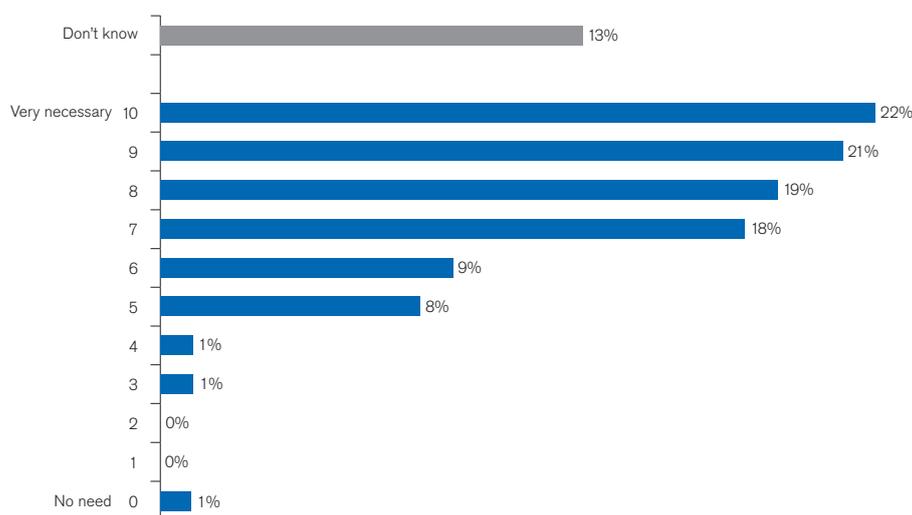
2.2 Public Perceptions of the Future of Euro-Mediterranean Relations

Against the backdrop of the profound changes in the EU’s Southern Neighbourhood and of the turbulent times in the Eurozone, let us now compare the EU’s early initiatives with the public perceptions of the Euro-Mediterranean Partnership and the likely development of Euro-Mediterranean relations. The European Institute of the Mediterranean (IEMed) conducts a yearly survey to assess the perceptions of the Euro-Mediterranean Partnership by academics, business community members, government officials, and CSO members from both the EU and SMCs. By focusing on their perceptions, the Euromed Survey is intended to evaluate the progress, achievements and shortcomings of Euro-Mediterranean relations.

2.2.1 A Need to Reform the ENPI

From the 2010 results, besides the perception of a low likelihood of an increase in commitments to SMCs for the period 2014-2020,¹⁰ four main issues emerge as far as current policies are concerned. First and foremost, a large majority of respondents to the Survey (70%) ranked a review of the current financial instruments and modalities for Euro-Mediterranean cooperation very necessary.¹¹

Graph 1: Need for a review of the current financial instruments and modalities (regardless of the amount allocated) for Euro-Mediterranean cooperation (European Neighbourhood and Partnership Instrument and FEMIP) (%)



Source: Compiled by the IEMed based on the results of the 2nd Euromed Survey

10. Respondents had to assign a 1 to 10 probability to the event of an increase in commitments to SMCs. See annex B.13 for figures.
 11. Respondents were asked to make a 1 to 10 ranking, 10 being the most necessary.

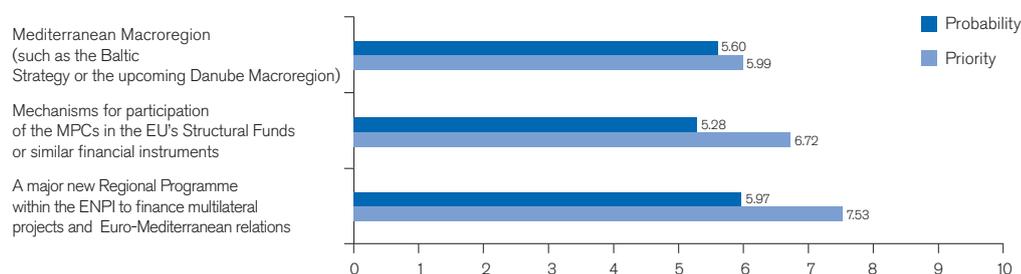
Analysis of open questions show that the EU's lack of commitment towards genuine good governance and democratic reforms is widely criticised, so are the rules governing the procedures for the award of public contracts, believed to be excessively cumbersome, lengthy and resulting in the exclusion of aid actors. This can be particularly the case for aid actors with a relatively smaller administrative capacity, such as NGOs.

Second, Euro-Mediterranean actors call on an increased involvement of international financial institutions in the region, with many answers to open questions explicitly calling for the creation of a Euro-Mediterranean development bank. Such an institution was promoted by French President Nicolas Sarkozy in 2010 but divisions between Member States and most notably from Germany prevented the project from materialising. In this regard, the EC's proposals on the EBRD's involvement in the region can be interpreted as a step towards meeting the expectations of Euro-Mediterranean actors. The EBRD's experience in Eastern Europe combined with the EIB's practical experience in the region could create scope for enhanced cooperation in order to support development in SMCs. Moreover, to realise the potential of an increased presence of international financial institutions, their experience and product range could be expanded and procedures simplified so as to increase the number of potential beneficiaries in SMCs. For instance, the EBRD has a particular experience in promoting microcredit in the Eastern European countries and such an experience can be replicated in the SMCs.

Third, a reform of regional cooperation is viewed as a top priority for the respondents to the Survey. Euro-Mediterranean experts were asked to attribute a level of probability and priority to three prospective new financial instruments.¹² The first instrument, the Mediterranean macro-region, inspired by the EU's Strategy for the Baltic Sea¹³ was assigned both a moderate priority and probability, pointing at respondents' scepticism both towards the instrument's relevance in the Mediterranean context and the EU's willingness to design such an instrument for its Mediterranean partners. Second, respondents were asked to repeat the same exercise, this time devising the SMCs participation in EU structural funds. Underlining stakeholders' feelings about the need for an increased commitment to the region and perhaps the structural funds' success in the neighbourhood, this option was assigned a very high priority as well as slightly higher probabilities. However, the most striking feature regarding the prospects for future financial instruments resides in the high priority assigned by respondents to a reform of the ENPI to finance multilateral projects.

Graph 2: Level of priority and a level of probability to new financial instruments which could eventually be implemented in the Mediterranean

(average on a scale of 0-10, where 0 stands for less, and 10 for more)



Source: Compiled by the IEMed based on the results of the 2nd Euromed Survey

12. See annex B.12 for figures.

13. According to the EC "Macro-Regional Strategies in the European Union", "there is no standard definition for macro-region: the term has been used to describe both globally significant groups of nations (the EU, ASEAN etc.) and groupings of administrative regions within a country (Australia, Romania)". The definition applied here, developed during the preparation of the European Union Strategy for the Baltic Sea Region, will be "an area including territory from a number of different countries or regions associated with one or more common features or challenges."

The allocation for regional cooperation since the inception of the BP has totalled €154 billion, and its share in total commitments to the region by programming period has remained stable at around 10%. For the period 2007-2009, funds committed to regional cooperation have totalled €371.4 million, of which €96 million were committed to FEMIP and around €93 million to Erasmus Mundus and Tempus programmes,¹⁴ both initiatives representing a total of 50% of regional cooperation commitments. The remaining €185 million have been committed to multi-sector initiatives and cooperation projects in the fields of governance, civil society, transport, and energy and environment.¹⁵

Several criticisms can be made of the current framework of regional cooperation. First, the total allocation for regional cooperation is dominated by three initiatives, two of which also benefit the Eastern Neighbourhood countries, hence negatively affecting the visibility of regional cooperation while raising questions about its precise goals. Second, within the ENPI's regional cooperation, CBC programmes of which Morocco and Tunisia are the main beneficiaries only add to the panorama of financial instruments for regional cooperation. Third, regional cooperation lacks precise objectives beyond the general ones set in the BP, let alone the resources to meet them. Fourth, there is no coordination between regional cooperation initiatives and bilateral cooperation programmes, the two pursuing different tracks. Fifth, with the creation of the UfM in 2008, specifically designed to promote regional cooperation, the ENPI's regional cooperation seems to be a double-edged sword, preventing resources from being invested in ambitious regional development programmes. Against this backdrop, rationalisation of initiatives, objectives and means of regional cooperation seem necessary. In line with respondents' perceived need to reinforce regional cooperation through ambitious development projects, resources under the ENPI's regional envelope for the Southern Neighbourhood could be channelled to the UfM. The institution would then become the main actor responsible for fostering regional cooperation.

2.2.2 Scenarios for the future of the Euro-Mediterranean Partnership

To draw a picture of the likely future of the Euro-Mediterranean Partnership in light of the current economic crisis, respondents were asked to assign probabilities of 1 to 10 to three positive and three negative scenarios concerning the long-term impact of the crisis on Euro-Mediterranean relations. The following three scenarios of a negative long-term impact of the crisis on the Euro-Mediterranean Partnership were submitted to assess their likelihood:¹⁶

- The crisis would permanently reduce the EU's ability to mobilise resources for SMCs;
- The crisis would exacerbate social tensions inside the EU thus shifting its willingness to cooperate with SMCs;
- The crisis would urge the EU to resolve its economic problems without integrating SMCs in its strategies.

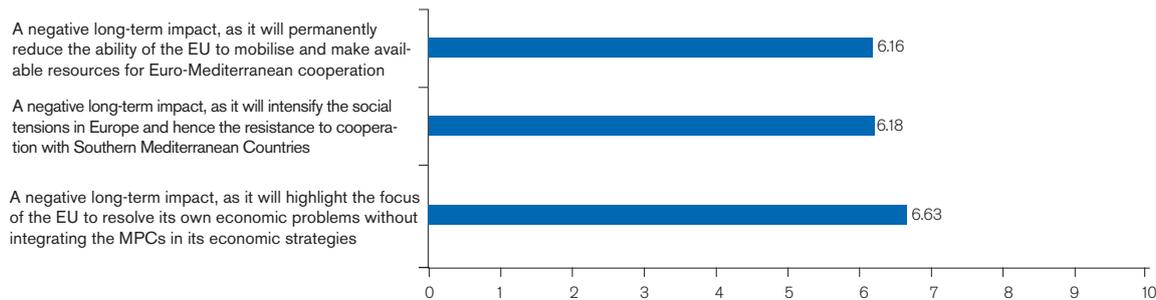
14. Tempus IV is funded by the ENPI and encompasses countries from the Eastern and Southern Neighbourhood. The total programme has been allocated €124 million. Assuming an equal funding per country, commitments to SMCs under Tempus IV have amounted to €74.4 million. Source: European Commission ENPI Regional Info Notes, 2008.

15. For 2007-2010, initiatives include but are not limited to: Euromed Justice II (€5 million), Euromed Police II (€5 million, governance), Medenec II (€5 million energy and environment), Euromed Transport (€9.7 million). Source: *ibid.*

16. See annex C.1 for results on the positive and negative impacts of the crisis on Euro-Mediterranean relations.

Graph 3: Degree of probability of the following scenarios about the impact of the global economic crisis on the Euro-Mediterranean Partnership

(average on a scale of 0-10, where 0 stands for no importance, and 10 for very high importance)



Source: Compiled by the IEMed based on the results of the 2nd Euromed Survey

On average, the three scenarios were given high probabilities, with a majority of respondents assigning more than 5 to each of them. However, among these three scenarios, the one arguing that the exacerbation of social tensions within the EU would translate into higher reluctance to cooperate with SMCs is perceived as the most likely prospect. Sadly enough, the recent language used by some European politicians towards the arrival of illegal migrants fleeing Libya and Tunisia is illustrative of an unwillingness to cooperate with SMCs. In addition, the unilateral decision by France to restore border checks with Italy is illustrative of this. The French move is a *de facto* message sent to North African populations signalling the unwillingness to show solidarity with countries and peoples undergoing democratic reforms or even wars (Carrera et al, 2011).

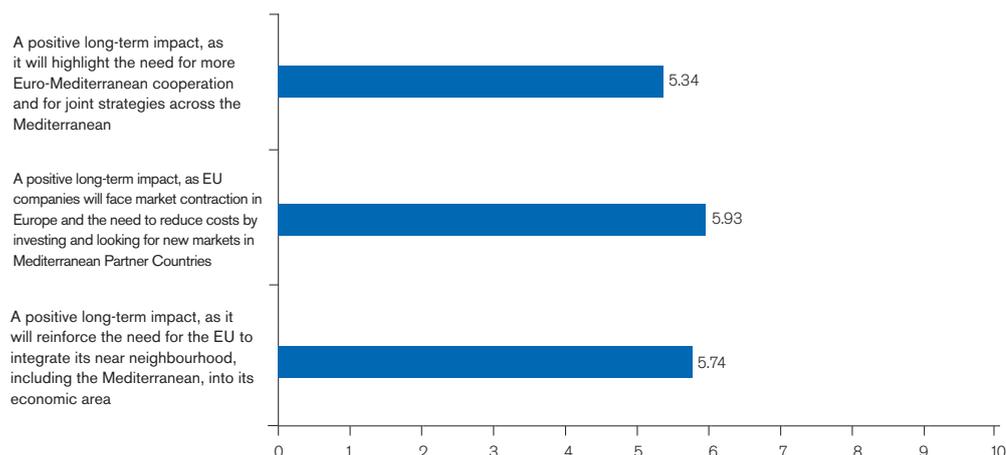
The second scenario perceived as most likely is the one under which the EU would no longer be able to mobilise resources for SMCs due to its own economic and financial problems. Data already show that for the period 2007-2010 the Southern Neighbourhood has received significantly lower commitments than the Eastern on a per capita basis, reflecting an increased weight of Eastern countries in the programming of EU foreign policy. Moreover, the exacerbated tensions over Greece's, Ireland's and Portugal's public finances are likely to shift away funds from ODA to SMCs. Hence, according to the Euromed Survey's respondents, the actual patterns of allocations will remain stable, with additional resources being committed to resolve the EU's own financial problems.

As regards a positive long-term impact of the crisis on the Euro-Mediterranean Partnership, the three following scenarios were submitted for respondents' evaluation:

- The crisis will highlight the need for more cooperation and joint strategies across the Mediterranean;
- The crisis will reduce EU companies' market shares, urging them to reduce costs and look for new markets in SMCs;
- The crisis will reinforce the need for the EU to integrate its near neighbourhood including the Mediterranean.

Graph 4: Degree of probability of the following scenarios about the impact of the global economic crisis on the Euro-Mediterranean Partnership

(average on a scale of 0-10, where 0 stands for no importance, and 10 for very high importance)



Source: Compiled by the IEMed based on the results of the 2nd Euromed Survey

All three scenarios were assigned lower probabilities than the previous ones. Most experts on Euro-Mediterranean relations do not see an increase in cooperation and the development of joint strategies as a likely outcome of the crisis.

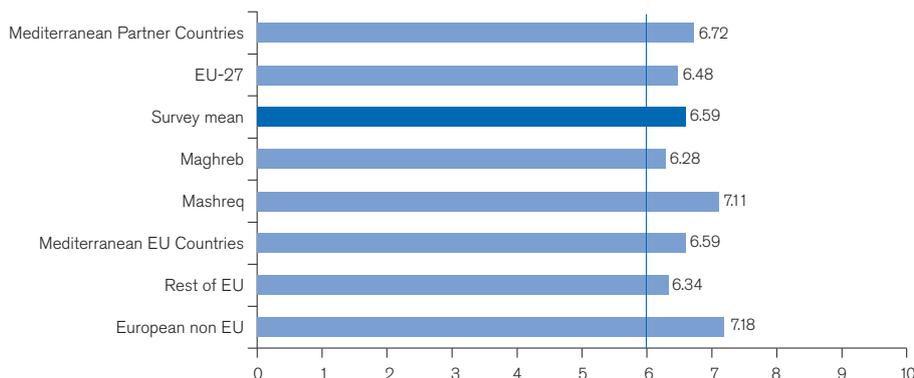
Notwithstanding the widespread perception of receding Euro-Mediterranean relations, the scenario in which EU companies expand to SMCs in order to regain the market shares they have lost in Europe is perceived as the most likely one among the three optimistic prospects. In such a case, Euro-Mediterranean cooperation would very likely shift from today's paradigm of cooperation to an economy-driven structuring of relations.

The scenario consisting of integrating the neighbourhood in the EU economic area is also given higher probabilities. Probabilities are also higher for a scenario consisting of the integration of the EU Neighbourhood in its economic area. The previous scenario would translate into a reinforcement of bilateral and multilateral agreements in the fields of trade in goods and services, investment protection, competition, and intellectual property rights, while the second would imply the extension of the EU customs union and expand the common market. Consistently with these two trends, the process of regional integration and the long pursued objective of creating a Euro-Mediterranean free trade area are assigned high values by respondents.¹⁷ Should one of these two positive scenarios materialise, the EU and the Southern Mediterranean would become two regional players structuring their relations along economic frameworks while holding different political positions on the international stage (Sessa, 2011).

17. See annex C.2 for Survey results on the perceptions of the value of the Euro-Mediterranean area and of the process of regional integration.

Graph 5: Grading the added value of regional economic integration in the Mediterranean (in particular through the creation of the Euro-Mediterranean Free Trade Area) in relation to the general process of globalisation and global trade liberalisation

(average on a scale of 0-10, where 0 stands for no added value, and 10 for very high added value).



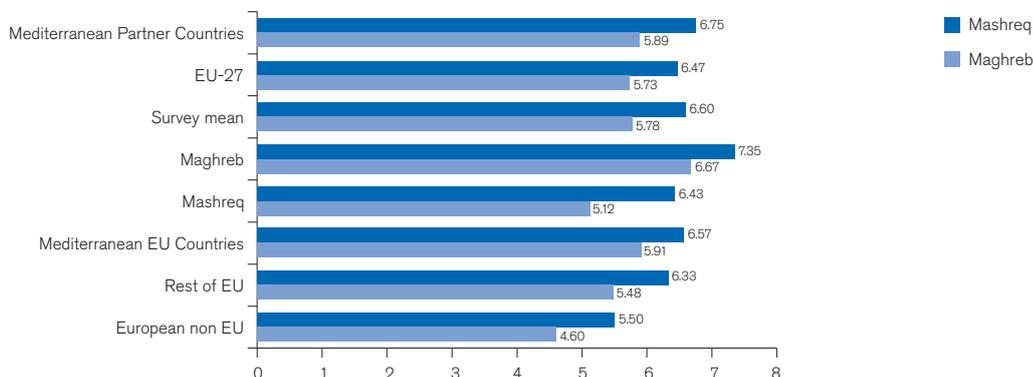
Source: Compiled by the IEMed based on the results of the 2nd Euromed Survey

The prospective exercise undertaken by the Euromed Survey 2010 also shows two distinct and very interesting features to gauge the future of Euro-Mediterranean relations. EU-based respondents are consistently less optimistic about the future of the partnership than their Southern counterparts. The high likelihoods assigned to negative prospects for the Euro-Mediterranean Partnership and the surrounding pessimism of EU respondents suggest there is a sort of “neighbourhood fatigue” in the EU due to increased difficulties and uncertainties surrounding Europe’s own future. On the other hand, SMC respondents’ optimism conjectures the existence of an “EU appetite”.

This “neighbourhood fatigue” with Europe relatively less interested in its Southern Partners could very well translate into a situation in which other economic and geopolitical actors take over its influence in the region. Similarly, as with the prospects perceived for the future of Euro-Mediterranean relations, respondents were asked to assign probabilities to the likelihood of such an event while distinguishing between the Maghreb (Algeria, Libya, Morocco, Tunisia) and Mashreq (Egypt, Jordan, Lebanon, Palestine, Syria) countries.¹⁸

Graph 6: Assessment of the probability that the external economic actors, such as the United States, China, the Gulf countries or others, will gradually displace the prominent economic role of the EU in the Mediterranean

(average on a scale of 0-10, where 0 stands for low probability, and 10 for very high probability)



Source: Compiled by the IEMed based on the results of the 2nd Euromed Survey

18. See annex C.3 for Survey results on the likelihood of other external actors taking over EU influence in the region.

Answers show clearly different patterns for the two sets of countries. As far as the Maghreb countries are concerned, the EU is perceived as likely to remain the main external actor with respondents assigning moderate likelihoods (between 4 and 6) to a loss of EU influence in the sub-region. For Mashreq countries, the exact opposite holds with the likelihood of other actors taking over EU influence in the region perceived as very high (between 7 and 9). Both patterns of responses are consistent with empirical evidence on the increasing role of Chinese investments in oil rich Algeria and Libya as well as with the patterns of Arab ODA to Mashreq countries. China is increasingly present in Algeria, investing in the oil and infrastructure sectors to the point that the gains stemming from increased Sino-Algerian ties are put forward by Algerian officials to obtain more favourable terms with the EU on trade grounds.¹⁹ The proposal to Jordan and Morocco to join the Gulf Cooperation Council²⁰ is also symptomatic of the increased presence of geopolitical and economic actors in the region. Should the negotiations succeed and both countries become part of the grouping, increases in trade, investment and development assistance flows are likely to increase, hence loosening EU influence in the region. Broadly speaking, in the coming years, the EU will very likely have to cooperate with Gulf countries in its Southern Neighbourhood: Libya's popular uprising aimed at toppling Muammar Gaddafi is strongly supported by Qatar which markets oil on behalf of rebel forces in addition to lending military aircrafts to support the NATO led coalition, as do the United Arab Emirates; and Kuwait emerges as an important donor of humanitarian aid to the country.

III. Conclusion

Starting from the 1970s, the Southern Mediterranean has been targeted by different policies with growing commitments for development assistance simultaneous to an expansion and deepening of cooperation with the EU. Reflecting the diversity of political regimes south of its shores, EU development assistance has been concentrated in a few countries while the sector-wise distribution of commitments picture it as a donor governed by both altruist and commercial concerns, with an increasing interest in governance-related aid. However, as illustrated by the popular uprisings triggered by repressive political regimes and poor socio-economic conditions, despite increasing amounts committed for development assistance, little has been achieved.

Today, the combined uncertainties arising from 2011's revolutions and the EU's unprecedented economic crisis question the actual frameworks governing Euro-Mediterranean relations as well as the objectives and resources devoted to meeting them. As the resolution of EU internal problems and ultimately the safeguarding of the Eurozone will shift away increased resources from Southern Mediterranean countries, a rationalisation of funding instruments and a reinvigoration of the UfM are necessary to support the development of the Southern Mediterranean.

Rethinking the Euro-Mediterranean policies seems more necessary than ever against the backdrop of a growing presence of other geopolitical actors in the region. Indeed, as the latter acquire more influence in the region, a scenario under which Euro-Mediterranean relations are confined to a set of common interests as well as policies in well-defined areas and different positions in others is increasingly likely. Yet to maximise the benefits of such a scenario, important changes need to be implemented.

19. At the 10th EU/Algeria Inter-Parliamentary Meeting held on the 6th and 7th October 2010, Algerian deputies explicitly said that the increased trade and investment relations with China in particular and Asian actors in general are resulting in the EU losing ground in the country. Their remark was in a context where the AA is being renegotiated on Algeria's request. The country pushes for a review of the tariff dismantlement schedule, safeguards for its industry and calls for more EU based FDI.

20. "GCC urges Yemenis to sign pact, welcomes Jordan, Morocco requests to join bloc", <http://english.alarabiya.net/articles/2011/05/11/148639.html>. Last accessed: 12th May 2011. The GCC is a loose economic and political grouping constituted by Bahrain, Kuwait, Saudi Arabia, United Arab Emirates, Oman and Qatar.

IV. References

- AYADI, R. and FANELLI, A. "A New Framework for Euro-Med Cooperation on Micro, Small and Medium Sized Enterprise Support: The Role of the Union for the Mediterranean", CEPS Policy Brief no. 239, March 2011.
- Barcelona Declaration adopted at the Euro-Mediterranean Conference, 27th-28th November 1995.
- CARRERA, S., GUILD, E., MERLINO, M. and PARKIN, J., "A Race Against Solidarity: The Schengen Regime and the Franco-Italian Affair", CEPS Paper in Liberty and Security in Europe, April 2011.
- European Commission, Directorate General for Regional Policy, "Macro-regional strategies in the European Union", 2009.
- European Commission, European Investment Bank, European Investment Fund, European Bank for Reconstruction and Development, "Memorandum of Understanding between the European Commission, the European Investment Bank together with the European Investment Fund and the European Bank for Reconstruction and Development in Respect of Cooperation Outside the European Union", 1st March 2011.
- European Commission, "European Neighbourhood and Partnership Instrument: Algeria National Indicative Programme 2007-2010".
- European Commission, "European Neighbourhood and Partnership Instrument: Cross Border Cooperation Strategy Paper 2007-2013, Indicative Programme 2007-2010".
- European Commission, "European Neighbourhood and Partnership Instrument: Egypt National Indicative Programme 2007-2010".
- European Commission, "European Neighbourhood and Partnership Instrument: Jordan National Indicative Programme 2007-2010".
- European Commission, "European Neighbourhood and Partnership Instrument: Lebanon National Indicative Programme 2007-2010".
- European Commission, "European Neighbourhood and Partnership Instrument: Morocco National Indicative Programme 2007-2010".
- European Commission, "European Neighbourhood and Partnership Instrument Regional Info Notes 2008".
- European Commission, "European Neighbourhood and Partnership Instrument: Syria National Indicative Programme 2007-2010".
- European Commission, "European Neighbourhood and Partnership Instrument: Tunisia National Indicative Programme 2007-2010".
- European Commission, High Representative of the Union for Foreign Affairs and Security Policy, "Joint Communication to the European Council, the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: A Partnership for Democracy and Shared Prosperity", Brussels, 8th March 2011.
- European Institute of the Mediterranean, (IEMed), "Euromed Survey 2010".
- KHAKEE, A., AFOUKANE, J., AMMOR, F. and LUTTERBEEK, D., "Pragmatism Rather than Backlash: Moroccan Perceptions of Western Democracy Promotion", EuroMesCo Paper no. 73, November 2008.
- MILHAUD, C., "Commission sur le Financement du Co-développement en Méditerranée: Rapport au Président de la République", May 2010
- MWEGA, F., "A Case Study on Aid Effectiveness in Kenya: Volatility and Fragmentation of Aid, with a Focus on Health", Wolfensohn Center for Development at the Brookings Institution, Working Paper no. 8, January 2009.
- Organisation for Economic Cooperation and Development (OECD), Creditor Reporting System Database.
- Organisation for Economic Cooperation and Development (OECD), Development Assistance Committee (DAC) Database.
- Official Journal of the European Union, "Euro-Mediterranean Agreement establishing an Association between the European Community and its Member States, of the one part, and the People's Democratic Republic of Algeria, of the other part" L265/2, 10th October 2005.
- Official Journal of the European Union: "Euro-Mediterranean Agreement establishing an Association between the European Communities and its Member States, of the one part, and the Arab Republic of Egypt, of the other part" L304/39, 9th September 2004.
- Official Journal of the European Union, "Euro-Mediterranean Agreement establishing an Association between the European Communities and its Member States, of the one part, and the State of Israel, of the other part" L147/3, 6th June 2000.
- Official Journal of the European Union, "Euro-Mediterranean Agreement establishing an Association between the European Communities and its Member States, of the one part, and the Hashemite Kingdom of Jordan of the other part". L129 15th May 2002
- Official Journal of the European Union: "Euro-Mediterranean Agreement establishing an Association between the European Community and its Member States, of the one part, and the Republic of Lebanon, of the other part" L143/2, 5th May 2006.
- Official Journal of the European Union: "Euro-Mediterranean Agreement establishing an Association between the European Communities and its Member States, of the one part, and the Kingdom of Morocco, of the other part", L70/2, 18th March 2000.
- SESSA, C., "Technical Report on Qualitative Scenarios of Cooperation and Development in the Euro-Mediterranean Region", Paper produced within the MEDiterraneanPROspects Project, April 2011.
- SOUIAH, F., "La Société Algérienne au Miroir des Migrations Chinoises", *Magazine Moyen Orient*, no. 7, August-September 2010.
- WOODS, N., "The Shifting Politics of Foreign Aid", *International Affairs*, March 2005.
- WORLD BANK: "Arab Development Assistance: Four Decades of Cooperation", June 2010.
- YOUNGS, R., "Political Reform and Euro-Mediterranean Relations" in *MED2009: The Year 2008 in the Euro-Mediterranean Area*, IEMED, 2009.