

*Evaluation of the Council Regulation  
N° 2698/2000 (MEDA II) and its implementation*

Final Report

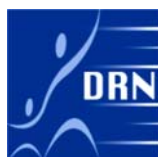
Volume I: Main Report

June 2009

*Evaluation for the European Commission*







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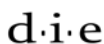
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Framework contract for  
**Multi-country thematic and regional/country-level  
strategy evaluation studies and synthesis**  
in the area of external co-operation

**LOT 4:**

**Evaluation of EC geographic co-operation  
strategies for countries/regions in Asia, Latin  
America, the Southern Mediterranean and Eastern  
Europe (the area of the New Neighbourhood  
Policy)**

**Ref.: EuropeAid/122888/C/SER/Multi**

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Regulation  
N° 2698/2000 (MEDA II) and  
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**Final Report**

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The evaluation is managed by ADE within a consortium led by  
DRN.

*The opinions expressed in this document are not necessarily shared by  
the European Commission*



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# List of Acronyms

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<b>AA</b>	Association Agreement
<b>ACP</b>	Africa Caribbean and Pacific countries
<b>AFD</b>	Agence Française de Développement
<b>AfDB</b>	African Development Bank
<b>ALA</b>	Asia and Latin America
<b>ANGED</b>	Agence Nationale de Gestion des Déchets en Tunisie
<b>AP</b>	Action Plan
<b>APM</b>	Anti-Personal Mines
<b>BC</b>	Bon de Commande
<b>BS</b>	Budget Support
<b>BWI</b>	Bretton Woods Institutions
<b>CSO</b>	Civil Society Organisation
<b>CSP</b>	Country Strategy Paper
<b>DAC</b>	Development Aid Committee (OECD)
<b>DDH</b>	Démocratie et Droits de l'Homme (budget line)
<b>DG</b>	Directorate General
<b>DG DEV</b>	Directorate General for Development of the European Commission
<b>DG RELEX</b>	Directorate General for External Relations of the European Commission
<b>ECHO</b>	Directorate General for Humanitarian Aid of the European Commission
<b>EIB</b>	European Investment Bank
<b>EIDHR</b>	European Initiative for Democracy and Human Rights
<b>EMP</b>	Euro-Mediterranean Partnership
<b>EMWIS</b>	Euro-Mediterranean Water Information System
<b>ENP</b>	European Neighbourhood Policy
<b>ENPI</b>	European Neighbourhood and Partnership Instrument
<b>EQ</b>	Evaluation Question
<b>EU</b>	European Union
<b>EUROMED</b>	Euro-Mediterranean Partnership
<b>FDI</b>	Foreign Direct Investment
<b>FEMIP</b>	Facility for Euro-Mediterranean Instrument and Partnership
<b>FTA</b>	Free Trade Area/Arrangement
<b>GMP</b>	Global Mediterranean Policy
<b>HEALTH</b>	Health budget line
<b>IFC</b>	International Finance Corporation
<b>IMF</b>	International Monetary Fund
<b>IPA</b>	Instrument for Pre-accession Assistance
<b>KfW</b>	Kreditanstalt für Wiederaufbau Banken Gruppe (German Development Bank)
<b>MEDA</b>	Euro-Mediterranean Partnership Programme; Mediterranean members of the partnership.
<b>MESRST</b>	Ministère de l'Enseignement Supérieur, de la Recherche Scientifique et de la Technologie (Tunisia)
<b>METAP</b>	Mediterranean Environment Technical Assistance Program
<b>MPC</b>	Mediterranean Partner Countries
<b>MS</b>	Member States
<b>MTEF</b>	Medium-Term Expenditure Framework
<b>NFP</b>	National Financing Plan
<b>NGO</b>	Non Governmental Organisation
<b>NIP</b>	National Indicative Programme
<b>NMP</b>	New Mediterranean Policy
<b>ODA</b>	Official Development Assistance

<b>ONG</b>	Organisation Non Gouvernementale
<b>PADSEL</b>	Projet d'Appui au Développement Socio-Economique Local du nord-est de l'Algérie
<b>PCA</b>	Partnership and Cooperation Agreement
<b>PFM</b>	Public Finance Management
<b>PIU</b>	Project/Programme Implementation Unit
<b>PSD</b>	Private Sector Development
<b>PSD/T</b>	Private Sector Development and Trade
<b>RCF</b>	Risk Capital Facility
<b>RIP</b>	Regional Indicative Programme
<b>ROM</b>	Result Oriented Monitoring
<b>RSP</b>	Regional Strategy Paper
<b>SAAP</b>	Support the implementation of the Association Agreement Programme
<b>SAF</b>	Structural adjustment facility
<b>SCR</b>	(Service Commun Relex) Joint Service for External Relations
<b>SMAP</b>	Short and Medium-term priority environment Action Programme
<b>SME</b>	Small and Medium Enterprise
<b>TA</b>	Technical Assistance
<b>TACIS</b>	Technical Assistance to the Commonwealth of Independent States
<b>TAIEX</b>	Technical Assistance and Information Exchange Instrument
<b>TEMPUS</b>	Trans European Mobility Programme for University Studies
<b>TEP</b>	Trade Enhancement Programme (Egypt)
<b>TIM</b>	Temporary International Mechanism
<b>UNDP</b>	United Nations Development Programme
<b>UNRWA</b>	United Nations Relief and Works Agency
<b>VET</b>	Vocational and Education Training
<b>WB</b>	World Bank
<b>WB&amp;GS</b>	West Bank & Gaza Strip
<b>WTO</b>	World Trade Organisation



# 0 Executive summary

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## Scope, and objective the evaluation (Chapter 1)

The evaluation covers the Commission's co-operation with the Mediterranean Partner Countries (MPC) implemented under the MEDA II Regulation over the period 2000-2006. It includes Commission funds managed by the European Investment Bank (EIB). Geographically it covers the MEDA-8 countries (Algeria, Egypt, Jordan, Lebanon, Morocco, Syria, Tunisia, WB&GS) and Israel (eligible for regional cooperation only). Its objective is twofold:

(i°) to analyse the performance of the Commission's assistance to the Mediterranean Partner Countries in the framework of the MEDA II Regulation ;

(ii°) to draw lessons from past co-operation so as, first, to improve implementation of the current strategy and, second, to aid preparation of the future strategy and indicative programmes under the European Neighbourhood Policy Instrument (ENPI) that succeeds and replaces the MEDA II Regulation.

## EU-MEDA Cooperation context and implementation (Chapter 2)

The **Barcelona process**, also known as the Euromed partnership, was initiated at the 1995 Barcelona conference. It is focused on three objectives or **pillars**: **1st pillar**) a political and security partnership to achieve a common area of peace and stability, **2nd pillar**) an economic and financial partnership to create an area of shared prosperity, and **3d pillar**) a partnership in social cultural and human affairs to promote understanding between cultures and exchanges between the respective Civil Societies. It is

formalised in **Association Agreements** (AA) concluded with all MPC<sup>1</sup> and providing for a regular political dialogue in all fields; establishment of the conditions for a gradual trade liberalisation (with the concrete objective of establishing a Free Trade Area between the EU and each MPC by 2010); promotion of regional integration; and economic, social, cultural and financial cooperation. The **MEDA II Regulation** has been the main financing instrument of the partnership during the period 2000-2006 and made €5.3bn (the MEDA programme) available for its support. The partnership also benefited from Commission support funded out of thematic budget lines and from non-financial cooperation. In addition the EIB provided €6.5bn in loans from its own resources to support the private sector and infrastructure in the MPC.

The **management structure** of the MEDA programme evolved over the period. In 2000 the reform of the Commission's external assistance addressed four broad areas: the Commission's programming assistance; the project cycle; the creation of a EuropeAid Co-operation Office; and the devolution of project and programme management tasks and responsibilities to Delegations. From 2003 a new version of the Financial Regulation became effective.

The **cooperation strategy** of the Commission is based on **strategy documents** (CSP/RSP) identifying objectives and priorities over a period of five years. Every two to three years Indicative Programmes (NIP/RIP) allocate resources within the CSP. **Geographically** MEDA II resources have been distributed as follows: regional programme (17.7%), Morocco (18.4%), WB&GS (15.1%), Egypt (11.3%), Turkey (10.9%), Tunisia (9.1%), Jordan (6.3%), Algeria (5.7%), Syria (2.9%) and Lebanon (2.6%). **Sectorwise** the priority has been placed

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<sup>1</sup> Although the AA has been concluded with Syria, it is not in force as its signature is pending a Council decision

on the Economy (40%). The social sectors and infrastructure each benefited from 20% of the total commitments, the remaining 20% being shared between all other sectors. Among the **financial modalities**, traditional TA programmes remained the most used (54.4%); budget support, conducted in four countries, accounted for 35.5% of total commitments, whereas funds made available to the EIB and Twinning represented respectively 9.2% and 0.9%.

This cooperation was implemented in the extremely difficult context of a region affected by severe and long lasting internal conflicts and tensions, compounded with important weaknesses in political and economic governance in many MPC.

### The evaluation approach (Section 1.2)

The evaluation was conducted in three phases. In the **first** phase the broad approach was set out, comprising an analysis of the context, reconstruction of the intervention logic (cf. vol. II), and formulation of eleven Evaluation Questions (EQs) along with associated judgement criteria and indicators (See box, p.5), and definition of the organisation (methods and instruments) required for collection of the facts needed to answer the EQs. The **second phase** focused on fact-finding: it was centred on an analysis of a sample of 25 interventions, involving documentary analysis and interviews with resource persons in the Commission Services. It also included field visits in four countries (Algeria, Egypt, Lebanon and Tunisia). The **third phase** consisted of an analysis of the findings, their synthesis, and formulation of Conclusions and Recommendations. The main limits of the evaluation were the restricted focus on the MEDA II regulation which is only part of the assistance to the MPC, and the very large range of countries, sector and financial modalities deployed which made it difficult to analyse a representative sample of interventions.

### Findings supporting the answers to the Evaluation Questions (Chapter 3)

In terms of **relevance** (EQ1, EQ2) all Commission interventions related to and fitted within the Barcelona process, and the Commission has attempted to cover all its aspects. At bilateral level the Commission aimed at responding to the demands expressed by the partners. These were largely driven by their domestic priorities and it was not always demonstrated that the proposed measures were sufficiently strategic to alleviate the internal and regional constraints to achieve the Barcelona objectives. The second pillar of Barcelona has been central in the cooperation programme but the Commission has also attempted to address sensitive issues (such as Civil Society, human rights) that were lower on partner agendas. The regional programmes faced severe difficulties linked to the political situation and regional tensions and were therefore oriented to maintaining and stimulating a dialogue and establishing networks between the MPC and with the EU. It proved a prerequisite for, and created the conditions for, the more strategic regional programme for the period 2007-13.

In terms of **effectiveness and impact** (EQ3, 4, 5, 6 & 7) the findings can be grouped in six categories:

(i°): The main effort of the Commission has been on economic reforms and support to the private sector and trade, followed by the social sectors and water and sanitation. In all these fields the interventions have supported complex structural reforms that were national priorities. The approach has been generally comprehensive taking into account the complexities of those sectors with large BS and TA programmes.

The financial support provided under the MEDA II Regulation was prepared alongside and accompanied by non-financial cooperation (particularly in relation to tariff dismantlement along the lines of the AA), EIB investments from own resources, and management by EIB of Commission funds (TA, interest subsidies and Risk Capital Facility).

(ii°) A majority of Commission interventions aimed at strengthening the economic context and institutional capacity rather than targeting specific populations or groups.

(iii°) Budget support has been the most important instrument in four of the countries. It was generally conducted in cooperation with other multilateral institutions (WB, IMF, AfDB) when it related to macroeconomic reforms. In most cases it supported reforms that were central to the Government's agenda and it benefited from considerable investment (in funds and human resources) by the partner. BS interventions were generally characterised by a higher level and greater depth of preparation and, therefore, benefited from a high degree of ownership. This modality contributed to improving the quality and continuity of the policy dialogue with the partners and to focus it on essential reforms. There have however been some cases where the shift from sector TA programmes to BS was insufficiently prepared with and understood by the partner, leading to more problematic implementation.

(iv°) In terms of results, Commission interventions have contributed to improving the formulation, and stimulating implementation, of important reforms at macroeconomic and sector levels. Many of these reforms have involved important changes in the policies of the partners. Sector support contributed to improved functioning and governance of the institutions supported. TA programmes have generally delivered satisfactorily their expected outputs. However, difficulties were observed with fulfilment of the conditions relating to core reforms, such as tariffs of the utility companies, subsidies, and governance of the financial sector.

(v°) The Commission has made a real effort to address sensitive issues such as justice, promotion of Civil Society organisations (CSO), democratisation and human rights. Where possible the Commission has acted in support of the government's reforms. With regard to CSO it moved from a direct support to these institutions (as under MEDA I) to strengthening the capacity of specialised government agencies to handle and fund them. This new approach,

where applied, has strengthened the CSO but their participation in the development process has not increased. Policy dialogue was delicate and not always possible on sensitive issues of human rights, democracy, freedom of expression, etc. and reforms slower than expected (e.g. justice). To mitigate these difficulties without endangering a constructive dialogue that was taking place in other areas, non-MEDA instruments have also been used and in some countries the Commission has opted for channelling its funds through UN agencies.

(vi°) Most Commission interventions delivered satisfactorily their output and achieved good results. In term of impact significant progress have been realised in the area of macro-economic stabilisation and trade liberalisation, and the social indicators have generally improved in all MPC. Attribution of these achievements to MEDA II is impossible but a number of converging indications, notably the directions of the support of the Commission and the direct results of many interventions, point to a real contribution. However, the convergence of the living standards, the significant breakthrough of exports from the MPC to the EU and the intensification of intra-regional trade that would be necessary to reach the objective of shared prosperity (2d Pillar of Barcelona) have not taken place at the expected pace notwithstanding the increased financial resources and the faster disbursement of MEDA II. The main explanatory factors behind these trends are the lack of export diversification of many MPC economies and, therefore, the absence of complementarity between their production structures and a slow pace of economic and political reforms that limited their competitiveness.

The main findings on *efficiency, coordination, complementarity* and *sustainability* (EQ 9, 10 & 11) are regrouped because they are very much intertwined and the latter two are key components of efficiency. The main factors that played an important role for these aspects in the MEDA II implementation were as follows:

(i°) Reform of the Management of External Assistance (2000) and the implementation of the new Financial Regulation (2003). The strategic approach has been strengthened and has been further accentuated by the ENP and its Action Plans; the evolution of the procedures of the Office Quality Support Group has improved the programming stages and provided tasks managers with useful checklists; and devolution of management to the Delegations has given them more responsibilities in the conduct of policy dialogue with the partners. All these factors proved beneficial in terms of efficiency.

(ii°) The increased use of BS as an instrument to support reforms proved globally positive in terms of efficiency except in some interventions where there had been insufficient preparation and awareness raising of the partner. It allowed more space for policy dialogue resulting in improved ownership. It introduced continuity in the support of the reforms and the gradual building-up of a cooperative dialogue on politically-sensitive issues. It also simplified management for the partner who could use its own procedures. When it was conducted in coordination with other multilateral institutions it permitted an efficient blend of competences beneficial to the partner. The use of matrices of conditions agreed with the partner's authorities to trigger the disbursement of successive tranches was well accepted by the partners and proved an effective way of monitoring the advancement of reforms during interventions supporting complex systemic policies. In the case of sector interventions targeted on developmental goals this approach limited the possibility of assessing benefits of the reforms to the beneficiaries.

(iii°) Diversity and complementary of modalities have positively influenced efficiency (and effectiveness). Under MEDA II several instruments have been deployed: traditional TA programmes, BS, twinning, Commission funds made available to the EIB. They have been managed in complementarity with non-MEDA budget lines operated by the Commission (EIDHR, etc.) and with the EIB using own funds for investments in infrastructure and private sector support. Twinning, as a system permitting institutional technical assistance and

transfer of know-how between MS and MPC institutions, has generally been positively assessed. Conversely, the inappropriateness of the institutional set-up of large TA programmes generally entailed a reduction of the period left to contract, hereby leading to massive decommitments for several programmes.

(iv°) Coordination between the Commission and EU MS has been the object of guidelines at the outset of MEDA II. There is strong coordination in the political dialogue accompanying the AA and the identification of the regional programmes. Moreover, strategic coordination between Commission services and the BWI and the EIB takes place in the Luxembourg process.

(v°) The rationale for using a particular modality is not always explicit and clearly spelled out. It is not explained why some interventions are conducted as BS rather than TA or *vice versa*.

(vi°) Regional interventions suffered from insufficient ownership in the countries in which they were implemented due to the fact that they were not directly addressing national issues..

Overall there has been clear progress in formulation and swifter implementation. Compared to MEDA I, disbursement rates are considerably higher. This is evidently a result of the extensive use of BS but not exclusively so since the disbursement rates for non-BS interventions have doubled in MEDA II as compared to MEDA I.

The ***cross-cutting issues*** (EQ8) considered in this evaluation were gender and environment. They were recognised as critical *per se* and key to sustainable economic and social development in most strategy and programming documents, but have not been the object of in-depth analysis. Outside the interventions targeted on them, the cross-cutting issues were generally not addressed under MEDA II. The interventions targeting directly gender and environment contributed to greater awareness by the authorities and enhanced awareness of the populations. It should also be noted that environmental issues are tackled by other

thematic budget lines, such as LIFE third countries.

#### **Conclusions (chapter 4)**

Based on the answers to the evaluation questions, conclusions have been drawn from a triple perspective:

##### ***1° Appropriateness of the MEDA II cooperation modalities to the Barcelona objectives***

The cooperation with the MEDA countries aimed at particularly ambitious goals and was deployed within a unique political context. It addressed a large range of situations and faced an extremely difficult regional context. The Commission offered a pragmatic answer. It tried to strengthen regional partnership by using the preparation of the regional programme as a platform for a high-level dialogue between all parties, and at bilateral level it sought to respond to partner needs and stimulate establishment of the FTA. The strategic priorities were set by the Commission and the MPCs on economic and social reforms with lower emphasis on basic development issues (C1).

The Commission interventions contributed to progress on the three pillars of Barcelona, but the achievements vary across countries and are not sufficient to allow the level of economic convergence and harmonisation of governance with the EU that is inscribed within the Barcelona process (C2). Stimulation of regional cooperation proved a major hurdle. Therefore interventions focused on establishing dialogue and networks on issues of common interest. Whereas identification and preparation of the regional activities were discussed and endorsed at a high political level, their implementation, at country level had limited visibility and reduced ownership when they did not address directly national issues. Together with the relatively modest magnitude of resources allocated compared to the ambitious regional goals, and, in several cases, the absence of national structures to take over post-programme control, this contributed inevitably to low sustainability (C3).

##### ***2° Results, impact and sustainability of Commission interventions***

MEDA II contributed to improved formulation and implementation of major reforms - although with difficulty when reforms were politically sensitive - and to progress in public sector management and professional practices. The Commission support has contributed *inter alia* to changes that have been beneficial in terms of strengthened stabilisation, opening-up to trade, international credibility and improved governance at macro and sector levels. Progress towards establishment of the FTA has been realised in terms both of negotiation and of implementation of trade arrangements with the EU and between MPC, and in terms of MPC capacity to sustain the competition it involves (C4). The good results achieved in the economic and social sectors have not been accompanied by commensurate consolidation of human rights and democratisation and a strengthened involvement of Civil Society in the development process (C5). The improvements observed in the functioning of institutions have probably led to better services for the population and, it is hoped, the poor (C6).

##### ***3° Instruments adopted to finance Commission's interventions***

The last group of conclusions points to the often insufficient explanation of the rationale underlying the choice of instruments (C8), a positive assessment of the increased recourse to BS and its effectiveness to accompany and stimulate partner's important policy reforms (C9), the monitoring of BS that stimulated and assessed the process of reforms but did not include instruments to verify that the reforms undertaken were producing their intended outcomes (C10). In countries where budget support was not possible large assistance programmes proved difficult to implement for accompanying reforms (C11). The use of the Commission funds managed by the EIB was effective to link the EIB banking activities and the economic and development interventions of the Commission (C12).

## Recommendations (chapter 6)

Derived from the Conclusions, Recommendations are structured in three groups according to their importance, in descending order:

**Priority 1:** Improving the collective ownership of the Barcelona process and maximising the contribution of the Commission's cooperation to its objectives.

*R1.1 Promote joint analysis of the main issues facing the MEDA region and of the most appropriate policies for addressing them.*

*R.1.2 In order to improve the efficiency and consistency in the use of aid instruments (BS, TA, twinning, loans, grants, etc) make explicit the rationale that should govern the use of each of them and agree with the partner and the other donors on the appropriateness of their use.*

*R1.3 Further strengthen support to justice, democratisation and human rights and foster development of the Civil Society.*

*R.1.4 Given the effectiveness of BS to accompany and stimulate reforms in the partner countries the use of this instrument should be further increased provided it is based on an explicit rationale and meets strict eligibility criteria.*

*R.1.5 In order to improve private enterprises (and particularly SME's) access to finance, increase the resources available for risk capital investment.*

*R.1.6 Develop a regional pool of experts from the MPC.*

*R.1.7 With the ENPI regional programme, build on achievements in terms of networks and dialogue to increasingly develop a regional response to crucial regional issues.*

*R.1.8 Favour increased ownership of regional interventions at implementation stage.*

*R.1.9 Foster complementarity between bilateral and regional interventions.*

*R.1.10 Ensure that sufficient resources are made available for translation and awareness raising.*

**Priority 2:** Ensuring that the benefits of the cooperation reach the people.

*R.2.1 Identify the populations that should benefit from the interventions and include provisions to ensure that they do so.*

*R.2.2 In interventions targeted on institutions delivering social and utility services to the public, ensure that the benefits of the institutional strengthening reach the poor.*

*R.2.3 Better factor measurement of outcomes into the design of Commission interventions. Do not exclusively monitor the reform process but also verify the outcomes of the reforms. Conduct ex post evaluations to assess the impact of the interventions.*

**Priority 3:** Improving the design and implementation of Commission interventions.

*R.3.1 Pursue existing efforts in policy dialogue and devote maximum time and resources to it.*

*R.3.2 Allow more time for the analysis underlying the technical preparation of interventions: conduct ex ante impact assessments jointly with the partner, taking due account of the partner's perceptions.*

*R.3.3 Improve consistency in the use of the budget support instrument vis-à-vis traditional TA programmes and maintain coherence between objectives and allocated means.*

*R3.4 Avoid large TA programmes and limit the magnitude of the interventions to what is feasible within the deadlines.*

*R.3.5 Strengthen EIB-Commission coordination at programming and implementation stages for FEMIP TA involving strategic sector policy aspects.*

*R.3.6 Strengthen institutional memory of past and ongoing interventions.*

# 1 Evaluation Framework

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## 1.1 Introduction

This evaluation of Council Regulation n°2698/2000 (known in short as the MEDA II Regulation) and its implementation is part of the 2007 evaluation programme of the Joint Evaluation Unit of the EuropeAid Co-operation Office (AidCo) and the Directorates-General (DG) for Development (DEV) and External Relations (RELEX)

The **objective** of this evaluation<sup>2</sup> is:

- to analyse the performance of the Commission's assistance to the Mediterranean Partner Countries (**MPC**) in the framework of the MEDA II Regulation ;
- to draw lessons from past co-operation so as, first, to improve implementation of the current strategy and, second, to aid preparation of the future strategies and indicative programmes under the European Neighbourhood and Partnership Instrument that succeeds and replaces the MEDA II Regulation.

## 1.2 Evaluation scope

The Euro-Mediterranean partnership (Euromed) aims at turning the Mediterranean area into a common area of peace, stability and prosperity through the reinforcement of political dialogue and security; an economic and financial partnership; and a social, cultural and human partnership.

The MEDA programme is the Commission's principal financial instrument for the implementation of the Euro-Mediterranean partnership and its activities. The establishment of a Euro-Mediterranean free-trade area is viewed as likely to foster stability and prosperity in the Mediterranean region. Support for the reforms necessary to achieve it is, therefore, an important component of the programme. Other instruments, not covered by the MEDA II Regulation, also support the Barcelona process. They include:

- the political dialogue:
  - at regional level, through the Ministerial conferences, the Euromed Committee and *ad hoc* thematic meetings
  - at bilateral level, framed by the Association Agreements (see section 2.1);
- EIB own resources: within its Euromed Mandate, the EIB intervened with own resources and in its capacity to provide long-term finance. It lent more than € 6.5 billion to the MPCs over the MEDA II period;

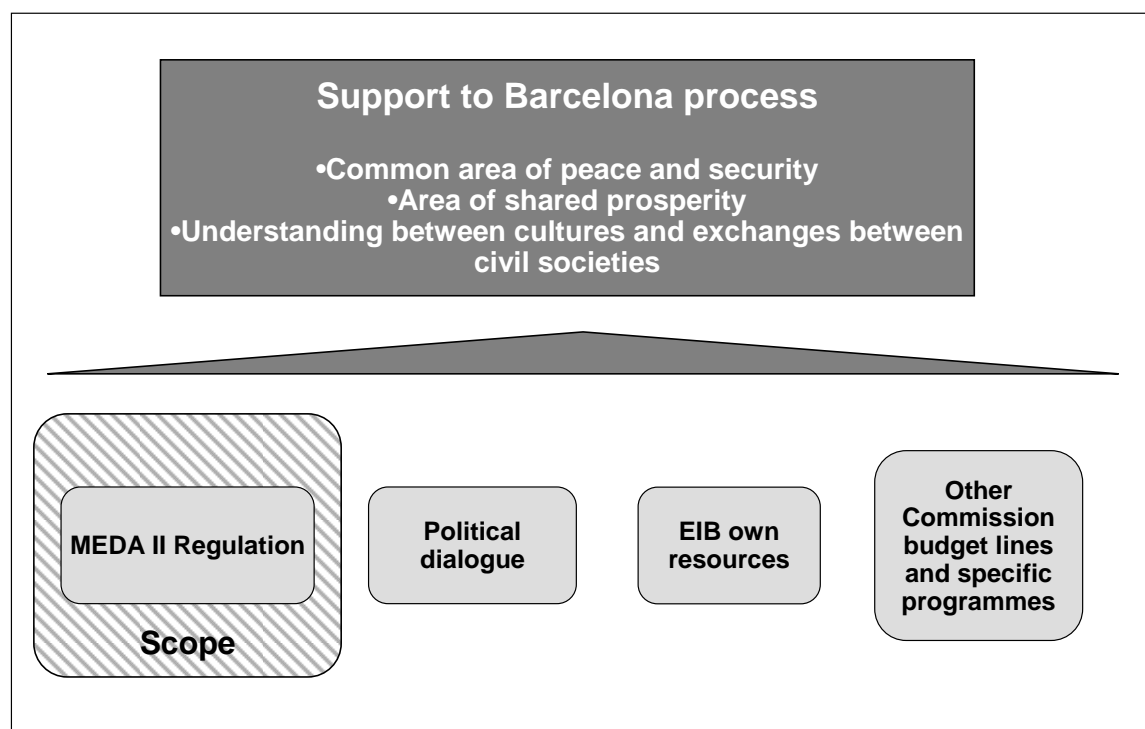
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<sup>2</sup> See the Terms of Reference in Annex 1.

- other Commission budget lines including Food Security (FOOD); Democracy and Human Rights (DDH); Anti-Personal Mines (APM); Rehabilitation (REH) and Health (HEALTH); aid to the United Nations Relief and Works Agency (UNRWA); etc. (see also annex 3);
- emergency support programmes, such as the Temporary International Mechanism (TIM)<sup>3</sup> set up in 2006 by the European Commission, EU Member States and other donors to provide essential supplies and cover running costs for health, education and social services for the Palestinians.

This whole set of instruments is taken into account in the evaluation as they are complementary; but the scope of the evaluation as such only covers the Commission's co-operation with the MPC as implemented under the MEDA II Regulation over the period 2000-2006, including its Annex II which specifies the objectives and rules of implementation of Article 2 of the Regulation (see figure 1.2.1 and annex 3). It also includes Commission funds managed by the European Investment Bank (EIB).

**Figure 1.2.1 – Evaluation scope**



The MEDA programme provided financial and technical assistance to the countries in the southern Mediterranean: Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, the West Bank and Gaza Strip, Syria, Tunisia and Turkey (see figure 1.2.2 and annex 3 for a

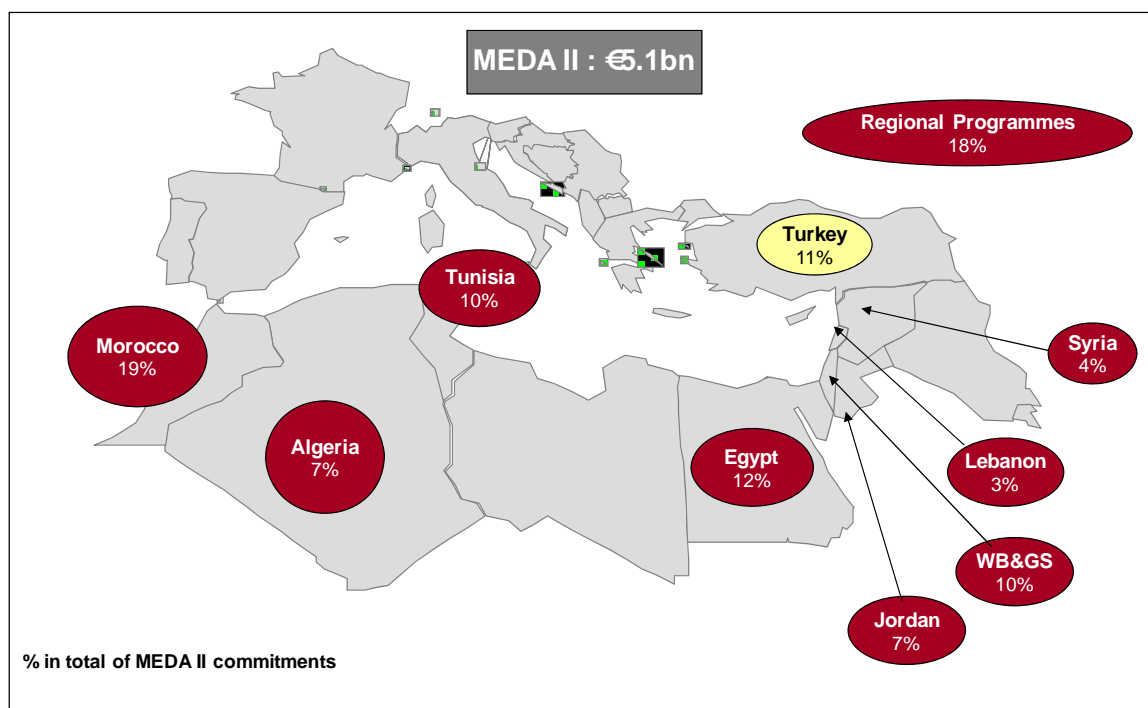
<sup>3</sup> The TIM is partly funded under the MEDA regulation, partly under other budget lines.



detailed list of interventions by country). However, only nine of these 12 countries have been fully involved in the whole MEDA II programme since Turkey, Malta and Cyprus became ineligible for inclusion in the MEDA II budget line. As from December 2001, Turkey became a beneficiary of the dedicated instrument of pre-accession assistance (IPA) and is no longer a beneficiary of the MEDA programme. Malta and Cyprus, members of the EU from 1 May 2004, are no longer MEDA beneficiaries. Israel is only eligible to receive funds from the regional envelope.

Morocco is the main beneficiary of the MEDA programme, followed by - in decreasing order - Egypt, West Bank and Gaza Strip, Tunisia, Jordan, Algeria, Syria and Lebanon. Regional programmes accounted for 18% of the total MEDA II envelope.

**Figure 1.2.2 - MEDA II funds (2000-06) geographical distribution**

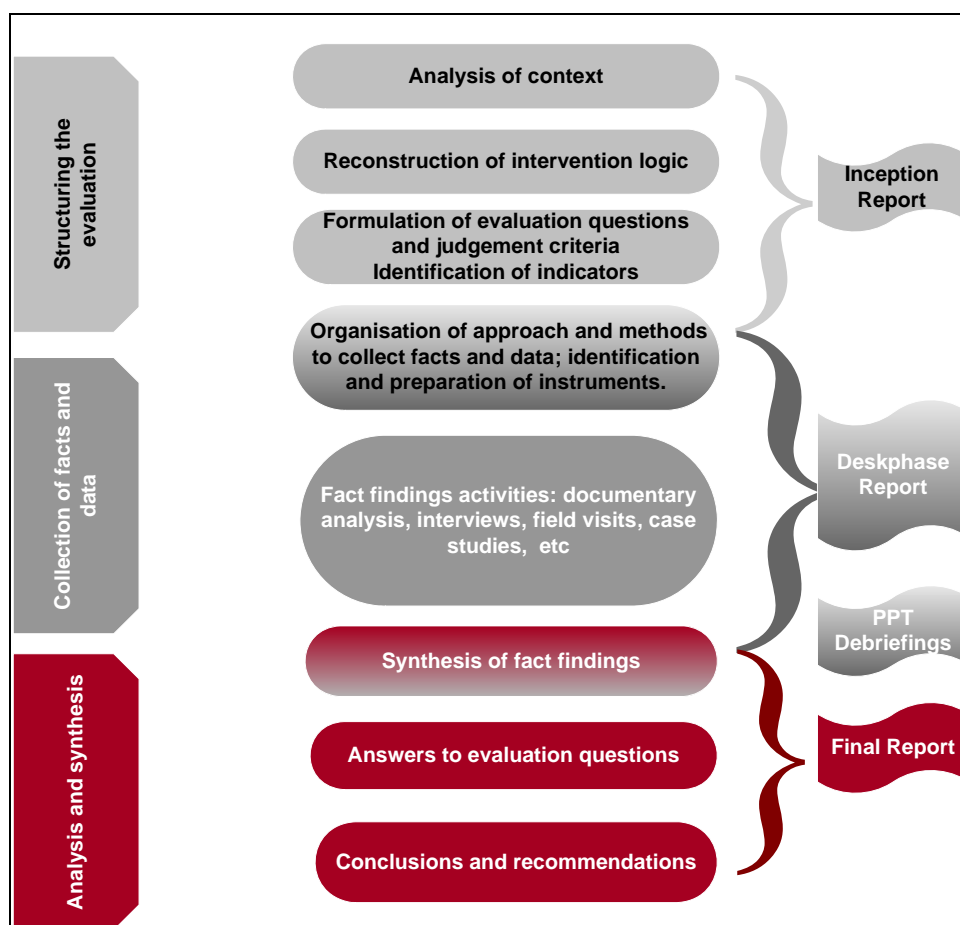


Source: Annex 3 – Inventory of MEDA II interventions

### 1.3 Evaluation approach

The evaluation was conducted in three consecutive phases:

**Figure 1.3.1 - Evaluation phases and corresponding activities and outputs**



#### 1° *The structuring phase*

The first phase aimed at defining with the Reference Group a common reference for the evaluation, which included the following:

- reconstruction of the intervention logic underlying the objectives and intended impacts pursued by the Commission during implementation of the MEDA II Regulation (explained in volume II) ;
- definition of Evaluation Questions to better focus the scope of the evaluation and give more concrete content to the evaluation criteria (see box) ;
- definition of Judgment Criteria and related Indicators for each Evaluation Question, and selection of instruments to inform these indicators (see annex 4).

These elements were presented in the *Inception Note*. The *Desk Phase Report* further analysed the context and policy framework of the evaluation and developed the methods and tools to be used for collecting the information needed to substantiate the indicators and validate the judgement criteria. Based on this overview of a documentary analysis of a selection of interventions, it presented the proposed criteria for selecting countries to be visited. These points are further developed in volume II.

<b>The 11 Evaluation Questions</b>	
<b>EQ1</b>	To what extent have the Commission's interventions been designed in the framework of the objectives and principles of the Barcelona process and the rules of the MEDA II Regulation?
<b>EQ2</b>	To what extent are the Commission's bilateral and regional strategies and supported programmes reflecting the priorities and the needs of the MPC and to what extent are they locally and regionally owned?
<b>EQ3</b>	To what extent have the Commission's interventions to support private sector development and trade contributed to improving growth and competitiveness?
<b>EQ4</b>	To what extent have the Commission's interventions improved the livelihoods of the targeted beneficiaries, in particular the poor?
<b>EQ5</b>	To what extent have the Commission's interventions contributed to improve good governance in the fields of the administration of justice and the police, respect for human rights and the participation of Civil Society in the development process?
<b>EQ6</b>	To what extent did the increased use of budget support as an instrument to support reforms contribute to improving public finance governance and increasing the cost-effectiveness of interventions targeted on public finance and social sector reforms?
<b>EQ7</b>	To what extent have the MEDA interventions for infrastructure provision in the water sector delivered quantified economic and social benefits, supported national institutional capacity and furthered cross-border cooperation?
<b>EQ8</b>	To what extent were cross-cutting issues related to environment and gender taken into account into the design and implementation of Commission interventions and how far did this result in improved integration of these issues in the policies of the supported MPC?
<b>EQ9</b>	To what extent are the institutions supported and the results achieved by the Commission's assistance likely to be sustained without further Commission support?
<b>EQ10</b>	To what extent have the Commission strategies and programmes been designed and implemented in coherence with EU policies or in coordination and complementarity with the EIB, Member States and other donors?
<b>EQ11</b>	To what extent are the implementation modalities ensuring swift and cost-effective implementation of the Commission-supported interventions?

## 2° *The fact finding phase*

This phase consisted of data collection to inform and substantiate the Indicators. Table 1.3.1 hereunder provides an overview of the different methods and tools used. An indication of the funding covered by each tool is also provided. The tools and methods are further developed in volume II.

**Table 1.3.1 – Indicative coverage of funding by the evaluation approach**

Elements of evaluation approach	MEDA II	
	# Interventions	In Euro
<b>Inventory</b>	307	5.1bn
<b>Selection of interventions</b>	25	1bn
<b>4 country missions</b>	17	651m
<b>Monitoring reports (ROM)</b>	378	2.3bn
<b>General study</b>	Overall (602 documents consulted)	
<b>Interviews at Commission and EIB HQs, in Delegations and with the partners</b>	Overall (153 interviews)	
<b>Consultation of specific experts</b>	Overall (3 sessions with 5 senior experts)	

- **Inventory:** for the inventory, data collection aimed at being comprehensive and accordingly covered all MEDA II interventions, including interventions financed with Commission funds managed by the EIB, as well as interventions funded from other budget lines (EIDHR, food security, Rehabilitation, anti-personal mines, health, aid to the UNRWA).
- **Desk study on a selection of interventions:** twenty-five MEDA II interventions were selected for desk study, with a view to covering a large proportion of the funding (20% of total MEDA II commitments), and to respecting in a balanced way the distribution of Commission's interventions in the MPCs observed in the inventory per instrument, sector of intervention and countries.
- **Focused country missions:** Four focused country missions were undertaken. As recommended by the Commission, a balance between Maghreb and Mashreq countries has been respected and countries having been the object of recent country evaluations have been ruled out. As a result, Algeria, Egypt, Lebanon and Tunisia have been retained. Field missions allowed coverage of 16 interventions in the field out of the 25 selected and completion of information from the desk study with the experience of Commission staff in the Delegations and stakeholders in the country capitals (national authorities, other local beneficiaries, EU MS, other donors, etc.). Extensive briefings and debriefings with Commission Delegations were held during the country missions.
- **Monitoring reports:** The global analysis of 378 MEDA II monitoring reports made possible some preliminary quantitative analysis (presented in annex 8) which focuses on whether programmes/projects in different sectors or in different countries tend to exhibit different characteristics in terms of performance. Moreover, an in-depth study of available ROM reports provided by the Commission Services for the 25 selected interventions was conducted. It provided information complementary to the other information sources and a number of concrete examples.
- **General study of transverse and strategic-level issues:** more than 600 documents were consulted for this evaluation. In addition to intervention-specific documents, key information was identified through a review of transversal assessments and evaluation reports, as well as through a review of a wide array of strategic documents such as Communications, Declarations and Regulations, and legal agreements relating to cooperation between the Commission and the EIB.

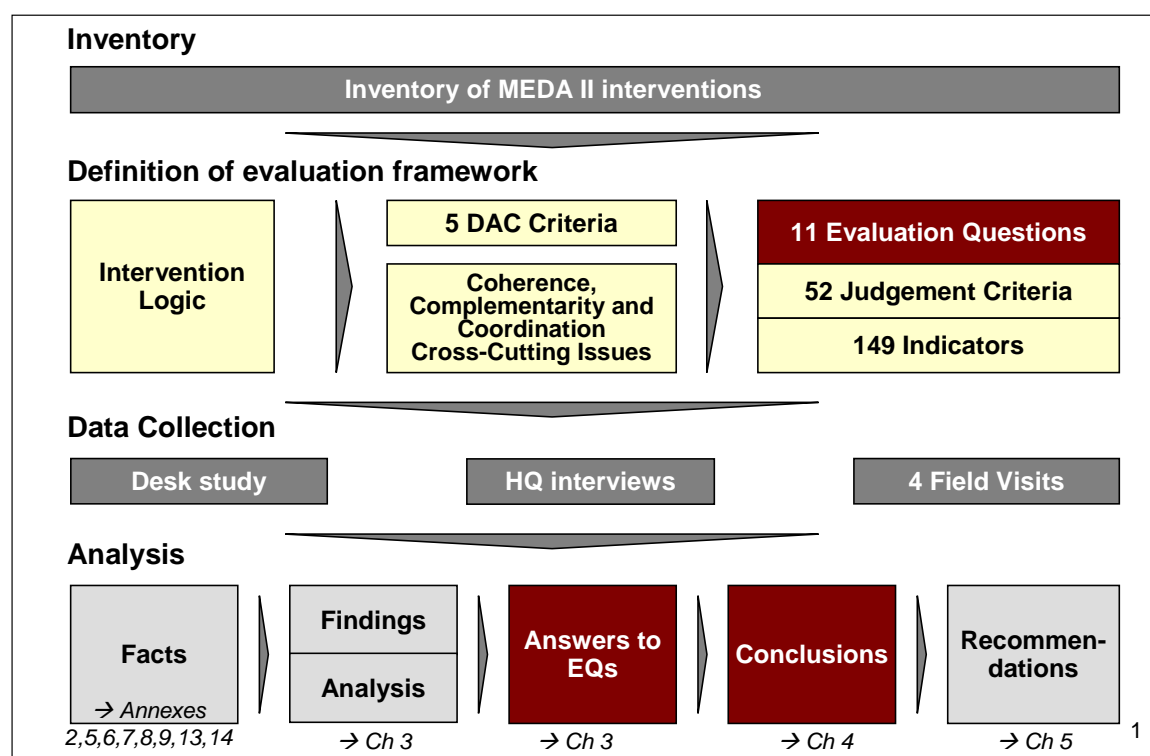
- **Interviews:** more than 150 interviews were conducted for this evaluation<sup>21</sup>, notably through headquarters visits, in Brussels for the Commission, and in Luxembourg for the EIB, and in the field during the country mission interviews.
- **Consultation of specific experts:** meetings were organised by the evaluation team at key stages of the process with several experts of particular interest for this evaluation.

### 3° The synthesis phase

The third phase consisted of the *analysis* and *synthesis* stages aiming at providing sound evidence-based *answers to the Evaluation Questions*, and useful *Conclusions* and *Recommendations*.

The whole evaluation approach is summarised in figure 1.3.2.

**Figure 1.3.2 – Structured Evaluation Approach**



## 1.4 Limits of the evaluation

The evaluation faced a number of limitations which included the following:

- Information related to the early years of MEDA II proved sometimes difficult to retrieve. This does not necessarily mean that information does not exist but it points to limits in the management and archive of the information within the different services of the Commission. This rendered more difficult the analysis of those interventions which had terminated or for which the persons involved in implementation were no longer

available. The use of evaluation and ROM reports, when available, to some extent helped the team cope with this difficulty.

- Limits due to the restricted focus of the evaluation: The MEDA II Regulation is only part of the assistance provided to the MEDA countries under the Barcelona process. The evaluators tried to take into account the political aspects and other instruments but could not include them fully in the evaluation (see section 1.2).
- In view of the wide variety of situations in the MEDA region and of the diverse range of countries, the restriction on the number of visits to only four countries proved a severe limitation. As explained in volume II, the evaluation tried to overcome this limitation by analysing the documentary information available for a selection of 25 interventions covering a wider geographical range. Analysis of the ROM reports also permitted an expansion in the geographical coverage of the analysis.
- Given the fact that many regional programmes are managed from countries on the north side of the Mediterranean, field visits to some EU countries would also have been desirable to allow more comprehensive analysis of the interventions.
- A bias originating from the fact that the information collected depends on the person interviewed. The data provided by key informants has been systematically cross-checked to ensure its validity.

## 1.5 Structure of the report

The evaluation report is structured as follows. The main report (volume I) presents the final synthesis of the evaluation. Chapter 1 includes an introduction to the evaluation and the approach taken. Chapter 2 provides an overview of the EU-MEDA cooperation context over the period of the evaluation. Chapter 3 presents the answers to the Evaluation Questions with the supporting findings and analysis; Chapter 4 draws out the major Conclusions that emerge from the findings, and Chapter 5 presents the operational Recommendations derived from these conclusions.

Two volumes of supporting material accompany the main report. Volume II is a detailed presentation of the methodology for the different phases of the evaluation. Volume III regroups the annexes. In addition to the usual annexes (Terms of Reference, lists of persons met and bibliographical references - respectively annexes 1, 10 and 15), several annexes present the important analytical and informative material collected and elaborated in support of the evaluation process. They are as follows:

- Material relating to structuring of the evaluation, elaboration of its methodology, definition of its approach and preparation of data collection, viz:
  - An overview of the political, economic and social developments and the major related issues in the MEDA area (annex 2)
  - The inventory of interventions (annex 3). This annex includes, in addition to the comprehensive classified list of interventions agreed under the MEDA II

- Regulation, an explanation of the methodology adopted for assembling the inventory and analysing of its composition.
- The list of Evaluation Questions along with the related Judgement Criteria and Indicators, together with indication of the potential sources of information and possible channels for obtaining it (annex 4). This annex, produced during the inception phase of the evaluation, formed - along with the intervention logic (explained in volume II) - the core of the methodological approach to the evaluation.
  - The list of FEMIP interventions involving the use of Commission funds managed by the EIB (annex 12). This annex provides for each operation an indication of the type of Commission funds involved (Risk capital facility, TA or interest subsidy).
  - Summary descriptive fiches of the budget support interventions conducted under MEDA II (annex 5)
  - Background country notes prepared for the evaluators in advance of the field missions (annex 9). These notes include, for each country visited: an overview of the political, social and economic context of the country; an overview of the Commission cooperation over the period 2002-2006 and of the planned activities for the next programming period; an overview of the Commission interventions implemented over the period 2000-2006.
- Material relating to organisation of the information and findings collected through the documentary analysis and field missions, via:
    - Two important annexes relating to the screening of the 25 interventions selected to serve as the basis for this evaluation. Annex 6 provides a substantial summary of the main characteristics of each intervention, whereas annex 7 is a compilation of the data collected across the various interventions.
    - Annex 11 provides a summary of the main findings emerging from the field missions.
  - Material concerning the additional analytical support for answering the Evaluation Questions.
    - A transversal statistical analysis of 378 ROM (Results Oriented Monitoring) reports (annex 8)
    - A table with a selection of indicators on the quality of the business environment designed to assess its evolution in the MEDA Region and in selected transition countries (annex 13).
    - An analysis of the international and intraregional trade flows of the MEDA countries, based on the Eurostat and IMF Directions of Trade statistical databases (annex 14).





## 2 EU-MEDA cooperation context and implementation

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This Section presents the main characteristics of the Commission's cooperation programmes with the MEDA area. Annex 2 gives a comprehensive overview of the political, economic and social developments and challenges in the region.

### 2.1 The cooperation framework

The Barcelona process was initiated by the Barcelona Conference of November 1995. It followed a long period of cooperation between the MPC and the EU that formally started in 1972 with the adoption by the EU of the Global Mediterranean Policy (GMP). The GMP led to the conclusion of a series of bilateral cooperation agreements focused on trade issues.

The 1995 Barcelona Conference concluded with a Declaration that paved the way for a more integrated approach focused on development, trade, political dialogue on human rights and democracy, and cultural exchanges with a view to promoting a Mediterranean "space" of prosperity and dialogue.

The Declaration defines three pillars of the Euro-Mediterranean Partnership (EMP): **i**° a political and security partnership to achieve a common area of peace and stability (pillar 1); **ii**° an economic and financial partnership to create an area of shared prosperity (pillar 2); and **iii**° a partnership in social cultural and human affairs to promote understanding between cultures and exchanges between the respective Civil Societies (pillar 3).

#### 2.1.1 Political and Security Partnership

The Declaration sets out a number of common objectives in matters of internal and external stability:

- respect for **human rights and fundamental freedoms** (including freedom of expression, freedom of association and freedom of thought, conscience and religion);
- development of the **rule of law and democracy** in the political systems of the MPCs;
- respect for **territorial integrity**, the principles of **non-intervention in the internal affairs** of another partner and of the peaceful settlement of disputes;
- **fight against terrorism** and organised crime.

#### 2.1.2 Economic and financial partnership

This is based on a twin approach:

- (i) Gradual establishment of a free trade area (FTA) between the EU and each Mediterranean country targeted for 2010. The FTA will be set up by means of the Association Agreements (AA) and free trade agreements to be concluded between the MPCs themselves. It will cover "most trade" in compliance with the World Trade

Organisation (WTO) obligation. Tariff and non-tariff barriers to trade in manufactured products will be gradually eliminated in accordance with timetables to be negotiated between the partners. Trade in agricultural products will be liberalised in stages, as will trade in services. To facilitate its establishment, four priority areas have been defined:

- adoption of suitable measures regarding rules of origin (introduction of cumulation of origin), certification, protection of intellectual and industrial property rights, and competition;
  - pursuit and the development of policies based on the principles of market economy and integration of their economies, taking into account their respective needs and levels of development;
  - adjustment and modernisation of economic and social structures, giving priority to promotion and development of the private sector, upgrading of the productive sector and establishment of an appropriate institutional and regulatory framework for a market economy;
  - promotion of mechanisms to foster transfers of technology.
- (ii) Implementation of economic cooperation and concerted action in the following areas: investment and internal savings, regional cooperation, industrial cooperation and support to SME, cooperation in energy and water resources management, modernisation of agriculture, transport infrastructure, and others.

### **2.1.3 Social, cultural and human partnership**

This is based on the existence and recognition of, and mutual respect for, diverse traditions, cultures and civilisations throughout the Mediterranean, and on the promotion of common roots. To this end, the Barcelona Declaration and its work programme emphasise:

- the importance of intercultural dialogue, and of dialogues between religions;
- the importance of the role the media can play in reciprocal recognition and understanding of cultures;
- development of human resources in the area of culture: cultural exchanges, knowledge of other languages, implementation of educational and cultural programmes that respect cultural identities;
- the importance of health and social development and respect for fundamental social rights;
- the essential contribution Civil Society can make to the Euro-Mediterranean partnership and the need to strengthen the instruments of decentralised cooperation so as to encourage exchanges between those active in development;
- cooperation in the field of illegal immigration, the fight against terrorism, drug trafficking, international crime and corruption.

In order to monitor progress towards the partnership's objectives, the Barcelona Declaration provides for periodic meetings of the Ministers for Foreign Affairs of the Mediterranean partners and the EU (see figure 2.1.1). These meetings are prepared by a Euro-Mediterranean Committee for the Barcelona process, which meets regularly at senior official level. This Committee is also responsible for taking stock of and evaluating the follow-up to the Barcelona process and for updating the work programme.

The various activities approved under the partnership are followed by *ad hoc* thematic meetings of ministers, senior officials and experts, exchanges of experience and information, contacts between those active in Civil Society and by any other appropriate means.

An essential feature of the implementation of the Euro-Mediterranean Partnership has been the negotiation of Association Agreements between the European Union and its Mediterranean Partners to replace the Co-operation Agreements of the 1970s. The Euro-Mediterranean Association Agreements, which govern bilateral relations, provide for specific arrangements with each partner country. They share a similar structure and are intended to promote the three pillars of the Barcelona Declaration.

Association Agreements have been signed at different times, thereby reflecting significant differentiations among MPCs (see table 2.1.1). Currently AA have been concluded with all MPC, and all are in force with the exception of the one with Syria, initialled but signature of which is pending a Council decision.

Commitments made under the Association Agreements are implemented through two institutions set up under each AA (see figure 2.1.1). An Association Council organised at ministerial level takes decisions and makes recommendations so that fixed objectives can be attained, while an Association Committee, which regroups senior officials, manages the agreement and settles differences regarding its application and interpretation.

Sector sub-Committees, which involve most of the technical DGs of the Commission, monitor the implementation of the AA.

This whole set of formal regular meetings at various levels frame and complement the financial cooperation provided under the MEDA II Regulation.

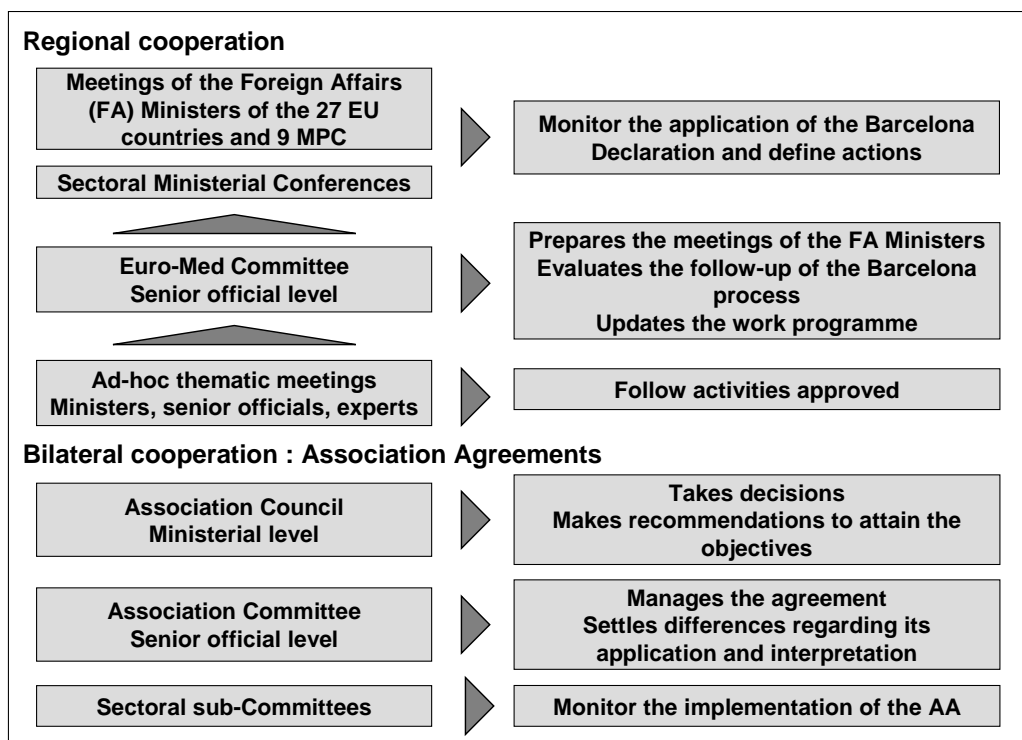
**Table 2.1.1 - Euro-Mediterranean Partnership - Association Agreements**

	Signed in	In force in
Algeria	2002	2005
Egypt	2001	2004
Jordan	1997	2002
Israel	1995	2000
Lebanon <sup>(1)</sup>	2002	2006
Morocco	1996	2000
WB&GS <sup>(2)</sup>	1997	1997
Syria <sup>(3)</sup>		
Tunisia	1995	1998
Turkey	1995	1995

<sup>(1)</sup> Lebanon: Interim Agreement for early implementation of trade measures in force since 2003

<sup>(2)</sup> WB&GS: Interim Agreement

<sup>(3)</sup> Syria: Negotiations initialled 19.10.2004 and concluded / Council to decide on signature

**Figure 2.1.1 – Institutional framework of the Barcelona process**

The MEDA Regulation is the financing instrument of the Euro-Med Partnership. The July 1996 Regulation (EC) 1488/1996, known as Regulation MEDA I, was amended in November 2000 by Regulation (EC) 2698/2000. Both Regulations define the rules for managing the financial assistance made available by the Commission, describe the relationship with the European Investment Bank (EIB), and detail the characteristics of the cooperation programme under the partnership. The MEDA II Regulation provides the new financing amounts (€5.3bn) for the period 2000-2006 and, among other modifications, strengthens the programming process so as to render it more strategic, notably with the introduction of the Country and Regional Strategy Papers (CSP and RSP) and the National and Regional Indicative Programmes (NIP and RIP).

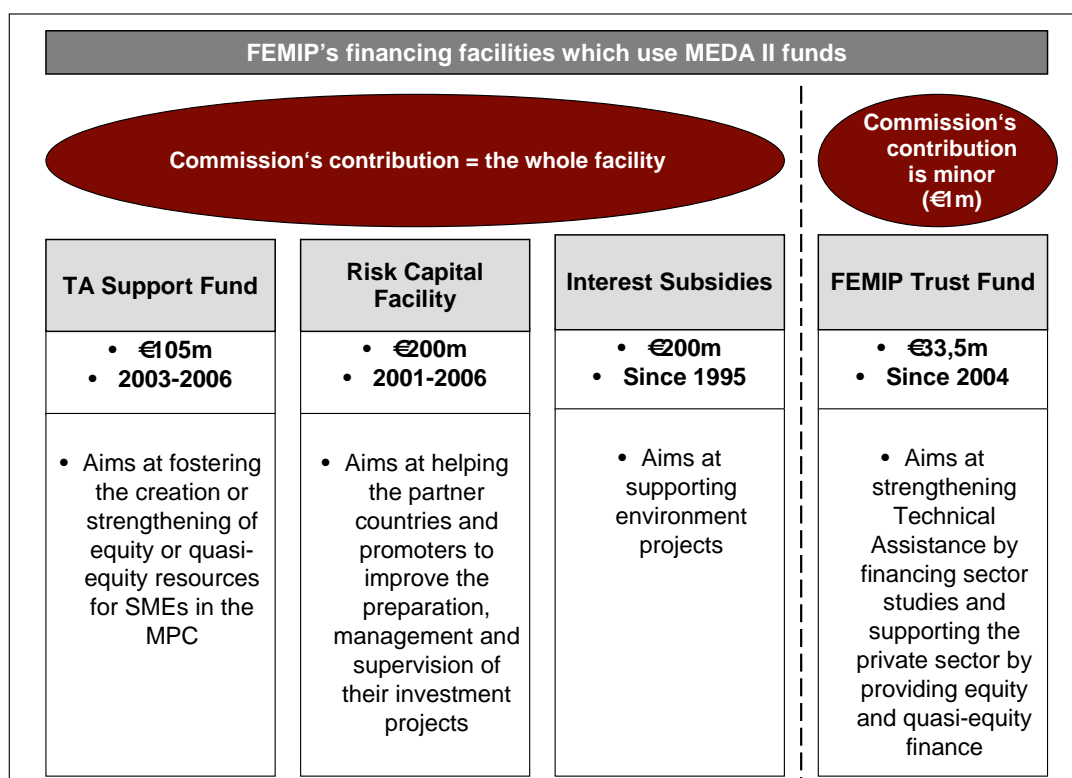
The Facility for Euro-Mediterranean Investment and Partnership (FEMIP)<sup>4</sup>, operational since 2002, regroups various financial facilities operated by the EIB with a view to supporting the “Economic and Financial Partnership” chapter of the Barcelona process. Most FEMIP resources are EIB resources that the Bank is authorised to use for operations in the MEDA countries under the mandate conferred on the MS<sup>5</sup>. In addition five facilities

4 See also Annex 5, R\_21FEMIP

5 The mandate is set at € 6.52 million for the period 1/2/2000 – 31/1/2007 and covered initially 12 countries including Cyprus, Malta and Turkey but has been gradually reduced to the present nine MPC.

allow the Bank to use funds from the Commission budget in combination or in complementarity with its own operations. Four facilities are included in MEDA II (see figure 2.1.2): the TA Support Fund; interest subsidies; the Risk Capital Facility; and the FEMIP Trust Fund. In the last-mentioned the Commission contribution is minor. The figure below sets out the objectives of the four facilities and indicates the level of Commission contributions to each facility.

**Figure 2.1.2 – FEMIP’s financing facilities which use MEDA II Commission funds**



Since 2004 the EU has defined its European Neighbourhood Policy (ENP) on the basis of the ring of countries joining its Eastern and Southern borders. It aims at defining sets of priorities incorporated in jointly-agreed Action Plans (AP)<sup>6</sup> differentiated according to the existing state of relations with each country, its needs and capacities, and common interests. The ENP is more focused on bilateral relationships but in principle it complements and supports the existing cooperation agreements as well as the regional dimensions such as the Barcelona Process: Union for the Mediterranean.

With the evolution of time and through the successive instruments of assistance one can observe a shift in the centre of gravity of the cooperation with the MPC from Euro-Mediterranean to Euro-Arab cooperation, as is evident from table 2.1.2.

<sup>6</sup> There is no AP for Algeria

The Barcelona process involved 12 countries initially, namely all the Arab countries except Libya plus four non-Arab Southern Mediterranean Countries. The MEDA I Regulation applied to these countries. A major change occurred under MEDA II as three non-Arab countries became either members of the EU or accession candidates. The shift towards Euro-Arab-centred cooperation in the Mediterranean area has been strengthened with the introduction of the ENPI that applies, for the Southern neighbours, to all Arab countries plus Israel and seven<sup>7</sup> non-Mediterranean countries.

**Table 2.1.2 - Evolving interface between the Barcelona process and supporting instruments**

	Barcelona	MEDA I	MEDA II	ENPI
<b>Arab Countries</b>				
Algeria	X	X	X	X
Egypt	X	X	X	X
Jordan	X	X	X	X
Lebanon	X	X	X	X
Libya				X
Morocco	X	X	X	X
WB&GS	X	X	X	X
Syria	X	X	X	X
Tunisia	X	X	X	X
<b>Other</b>				
Cyprus	X	X	(X)	
Israel	X	X	X	X
Malta	X	X	(X)	
Turkey	X	X	(X)	
Caucasus: Armenia, Azerbaijan, Georgia				X
Belarus, Moldova, Ukraine				X
Russia				X

## 2.2 A cooperation implemented in a difficult political and economic context

Historically political and economic factors proved unfavourable to the regional cooperation between the Southern Mediterranean partners and created a context particularly difficult for the implementation of MEDA II<sup>8</sup>.

On the **political** front, the Israel-Palestinian conflict was characterised by a series of negative developments among which the failure of the Camp David negotiations in 2000 followed by the eruption of the second *intifada*, the electoral victory of the Hamas in 2006, and the military conflict between Israel and Lebanon. Other regional tensions linked to the Western Sahara, border issues, affected negatively the relations between sub-groups of MPC.

This created a situation in which bringing together all MPC around the same discussion table was already a major success never easy to achieve.

Political developments in the MPC were also deeply affected by international events such as 11 September 2001 and the occupation of Iraq from 2003. These factors, together with the rise of moderate and reformist political Islamic movements as well as political extremism have put a severe pressure on the political regimes and progress towards openness and pluralism.

<sup>7</sup> Armenia, Azerbaijan, Belarus, Georgia, Moldova, Russia and Ukraine. Relationship with Russia is governed by a specific Strategic Partnership, not by the ENP, but is eligible to the ENPI

<sup>8</sup> See annexes 2 and 9.

In most MPC deficits in freedom and democracy have generated a real demand for political reforms. The international and regional tensions constituted an important obstacle.

In the **economic** sphere the cooperation also faced major challenges.

The Israeli Palestinian conflict and other regional political tensions have affected negatively the economic activity provoking the destruction of infrastructure, closing borders, and creating a situation discouraging foreign investment.

Economic integration among the South Mediterranean countries is among the lowest in the world<sup>9</sup>. The complementarities between the economies are limited reflecting an insufficient diversification of the productive base, particularly in the oil and gas exporting countries, differences in economic regimes and the very wide spread in the GDP per capita levels spanning from less than \$ 1500 in West Bank & Gaza Strip and Egypt to nearly \$ 20 000 in Israel, but on average inferior to \$ 1800.

Finally, low levels of governance, weak institutions and corruption impacted negatively on business environment, competitiveness and foreign investment.

All these factors led the Commission to manage its cooperation with the countries of the region in taking into account the varying degrees in which they have to take up common challenges so that each country will move closer to the EU at its own pace. Similarly regarding regional integration there is no operational regional institution and, therefore, the Commission attempted to build on sub regional initiatives with a particular interest in the Agadir Agreement (initiated in 2001, signed in 2004 and entered into force in 2007) between Egypt, Jordan, Morocco and Tunisia.

## 2.3 The cooperation management structure and its evolution

On 16 May 2000 the Commission adopted the Communication on the Reform of the Management of External Assistance<sup>10</sup> to make significant improvements in the quality and timely delivery of projects while ensuring robust financial management and increased impact of EU external assistance. Four broad areas are addressed by this reform: Commission programming assistance, the project cycle, creation of a EuropeAid Co-operation Office and the devolution of project and programme management tasks and responsibilities to Delegations. These changes affected the management of the MEDA programmes.

### *Programming assistance*

Multi-annual programming of aid is used to set out a budget and associated objectives for each priority sector. The consistency and quality of programming is closely monitored by the

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<sup>9</sup> See annex 14.

<sup>10</sup> European Commission : « Communication to the Commission on the Reform of the Management of External Assistance », 16 May 2000

Inter-service Quality Support Group (iQSG). This Committee's procedures have evolved towards a focus on the programming stage where important issues of policy and strategy arise, rather than on specific projects. Under MEDA II the Committee gives its opinion on CSPs/RSP, NIPs/RIP and on the annual national and regional financing plans.

#### *Project cycle management*

Project cycle management was reunified from identification through to full implementation and placed in the hands of a new implementing body which replaced the former Common Service for External Relations (SCR). The Directorate General for External Relations and the Directorate General for Development continue to be responsible for the programming of external assistance.

#### *The EuropeAid Co-operation Office*

The EuropeAid Co-operation Office was created on 1 January 2001 by a decision of the Commission on 29 November 2000. It is responsible for the implementation of all the Commission's external assistance instruments managed by the RELEX Services which are financed from the Community budget and the European Development Fund, with the exception of pre-accession instruments, humanitarian aid (ECHO), macro-financial assistance, Common Foreign and Security Policy actions and the Rapid Reaction Facility. EuropeAid is responsible for all phases of the project cycle that follow the programming phase (identification, appraisal, preparation of the financing decision, implementation and monitoring, evaluation).

#### *Devolution to Delegations*

The devolution of the external assistance management system established a separation of tasks and responsibilities between Delegations and Headquarters. The deconcentration policy was implemented in different phases, with the launch of the first phase, involving 22 Delegations, by the end of 2001. Egypt, Morocco, Tunisia and Turkey were part of this first phase. In 2003 a second phase extended the devolution process to Algeria, Jordan, Lebanon, Syria and West Bank & Gaza Strip. Deconcentration covers all the phases of the project cycle that from 1 January 2001 had been under the responsibility of the EuropeAid Co-operation Office. Delegations are also closely associated with the drafting of programming documents and are fully responsible for identification, project preparation and for technical, contractual and financial implementation of approved programmes and projects of the bilateral programme and a number of sub-regional activities. Given their broad geographical nature, certain regional activities continue to be implemented and monitored from EuropeAid's Brussels Headquarters including the regional programme and budget support.



### *New Financial Regulation*

The new version of the Financial Regulation – which replaces the previous one dating from 1977 - for the budget of the European Communities, became effective as of 1 January 2003 (EC Regulation No. 1605/2002 and 2342/2002). It aims to increase transparency but also further tightens the financial procedural framework in which all parties including Delegations and partner governments have to operate<sup>11</sup>. It favoured harmonisation of financial and contractual procedures and therefore impacted on implementation procedures for the MEDA financial instrument in the partner countries.

## 2.4 The cooperation strategy of the Commission over the period

The Commission's cooperation strategy is based on programming documents. In that respect the programming process has evolved, strategy papers defining the long-term objectives of cooperation and identifying priority cooperation areas being established for the 2002-2006. Moreover, National and Regional Indicative Programmes (NIP/RIP) based on the corresponding strategy papers were established with the EIB providing an annex detailing its lending programme for the country concerned. Finally annual financing plans, based on the NIP/RIP, were adopted.

In 2004 the Commission developed the European Neighbourhood Policy. It comprises eastern and southern Mediterranean countries and Armenia, Azerbaijan, Belarus, Georgia, Libya, Moldova and Ukraine<sup>12</sup>. The central element of this policy is the group of bilateral ENP Action Plans agreed between the EU and each partner. These plans set out agendas of political and economic reforms with short- and medium-term priorities. In consequence the NIPs elaborated for 2005-2006 are based both on CSP and ENP Action Plans.

From 2007, as part of the reform of EC assistance instruments, the MEDA, TACIS and various other programmes have been replaced by a single instrument, the European Neighbourhood and Partnership Instrument (ENPI). CSPs have been established for the period 2007-2013 and NIPs have been developed for 2007-2010.

Table 2.3 summarises the basis of the programming priorities presented in the CSP and the RSP of the MEDA region. It identifies the sectors of intervention which were prioritised by country and period in the *Bon de Commande*<sup>13</sup> prior to 2002, and more recently in the CSPs for 2002-2006 and 2007-2013. The last-mentioned period does not fall within the coverage of this evaluation but inclusion of data for the period permits better understanding of the continuity and perspectives of the Commission cooperation with the Region. The table

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<sup>11</sup> It introduced the rule that Financing Agreements must be concluded before of the 31 December of the year following the budgetary commitment (n+1), and that contracts implementing the FA must be concluded within three years of the budgetary commitment (n+3).

<sup>12</sup> Although Russia is also a neighbour of the EU, relations are instead developed through a Strategic Partnership.

<sup>13</sup> The *Bon de Commande* was the strategy document used in the region before the introduction of the CSP.

presents some gaps due to the incompleteness of the data gathered so far<sup>14</sup> (Bons de Commande Mashreq, WB&GS NFPs). At bilateral level the support for economic reforms, trade, social sectors (in particular human resources development), governance and Civil Society, and to a lesser extent natural resources and environment, are the main priorities expressed in the strategy documents. The strategy developed at regional level focused on trade and private sector development, governance, Civil Society, migration, and natural resources and the environment.

**Table 2.3: Priority areas in the MPCs' national and regional strategy papers 2000-2013**

Country/Region		Political Dialogue	Social Sectors	Economic Reforms, PSD, Trade	Agriculture	Governance	Infrastructure	Natural resources	Humanitarian	Other Multi-Sector
<b>Algeria</b>	BC 2000-01			P1, P2				P3		
	CSP 2002-06		P3	P1, P2		P4				
	CSP 2007-13		P5, P6	P3, P7		P1, P2	P8	P4		
<b>Egypt</b>	BC									
	CSP 2002-06		P2	P1, P2		P3		P3		
	CSP 2007-13		P3	P1, P2						P3
<b>Jordan</b>	BC									
	CSP 2002-06		P3	P1, P2		P5	P4			
	CSP 2007-13		P3	P2, P4		P1		P3		
<b>Lebanon</b>	BC									
	CSP 2002-06		P3	P1		P4		P2		
	CSP 2007-13			P1, P2					P3	
<b>Morocco</b>	BC 2000-01		P1	P1, P2				P3		
	CSP 2002-06	P2		P1						
	CSP 2007-13		P1	P2, P3		P4		P5		
<b>Syria</b>	BC									
	CSP 2002-06		P3	P1, P2, P4		P5				
	CSP 2007-13		P3	P2		P1				
<b>Tunisia</b>	BC 2000-01									
	CSP 2002-06		P5	P2, P3		P1	P4			
	CSP 2007-13		P5, P6	P3		P1, P2	P7	P4		
<b>West Bank and Gaza Strip</b> <sup>(1)</sup>	NFP 2004		P2	P1						
<b>Regional</b>	BC									
	RSP 2002-06			P1, P2		P4		P3		P5
	RSP 2007-13		P3	P2		P1	P2	P2		

Sources: Bon de commande Maghreb, CSP&NIP for all MEDA countries, NFP for WB&GS, RSP and RIP

P1=Priority area 1, P2= Priority area 2, P3= Priority area 3, etc.

<sup>(1)</sup> For WB&GS, Co-operation priorities are established on a ad-hoc basis since 2001

NB: Israel is not presented in this table as it does not benefit from a Commission bilateral aid programme due to its advanced economic development. Israel is eligible, however, for the funds under MEDA which are used for regional cooperation.

<sup>14</sup> In particular, for the first years only one Bon de Commande (BC), for the Mashreq, and one National Financing Plan (NFP), for West Bank and Gaza, has been made available to the evaluators.

## 2.5 The implementation of the strategy

This section presents the main features of the implementation of the MEDA II cooperation strategy through an analysis of the National and Regional Indicative Programmes in the MEDA area. Annex 3 presents an in-depth analysis of the inventory of MEDA II interventions (methodology, distribution of commitments per country, sector and instrument, etc.).

Table 2.5 is derived from the inventory of MEDA II interventions<sup>15</sup> over the evaluation period (Annex 3) and identifies the amounts committed by country and sector of intervention. In a decreasing order, the MPCs that benefited the most from MEDA II resources are: Morocco (€982m), the MEDA region (€904m), Egypt (€592m), Turkey (€551m), West Bank and Gaza Strip (€522m), Tunisia (€517m), Algeria (€339m), Jordan (€332m), Syria (€180m) and Lebanon (€133m). Support for economic reforms, including trade and private sector development (PSD), accounted for 39% of the commitments over the period 2000-06. Infrastructure and social sectors also received a significant share of total commitments (respectively 21% and 19%). The next most favoured sectors over the period were governance and Civil Society, and political dialogue (respectively 5% and 3%). The remaining sectors received only minor support. The distribution of commitments per sector of intervention is quasi similar at bilateral and regional level except that at regional level social sectors received minor support to the benefit of other intervention sectors such as energy, telecommunications, environment, and culture and information.

**Table 2.5: MEDA II commitments per sector of intervention and per country 2000-2006 (€Millions)**

	Economic reforms	Infrastructure	Social sectors	Other/Multi-Sector	Governance	Political Dialogue	Natural Resources	Humanitarian	Agriculture	Total
Algeria	50.0	87.0	127.0	0.6	48.2	10.0	5.0	0.0	11.0	338.8
Egypt	180.0	181.7	141.0	11.8	25.0	25.0	10.0	0.0	18.0	592.5
Jordan	205.0	7.0	72.0	5.8	7.0	35.0	0.0	0.0	0.0	331.8
Lebanon	46.0	23.0	5.0	0.7	8.0	12.0	0.0	28.0	10.0	132.7
Morocco	282.8	422.4	100.5	0.8	102.7	20.0	52.8	0.0	0.0	982.0
WB&GS	420.1	3.7	80.0	11.1	0.0	7.5	0.0	0.0	0.0	522.4
Syria	65.0	34.0	75.0	3.8	2.0	0.0	0.0	0.0	0.0	179.8
Tunisia	279.1	46.3	148.0	0.7	23.5	20.0	0.0	0.0	0.0	517.5
<b>Total Bilateral (without Turkey)</b>	<b>1528.1</b>	<b>805.1</b>	<b>748.5</b>	<b>35.3</b>	<b>216.4</b>	<b>129.5</b>	<b>67.8</b>	<b>28.0</b>	<b>39.0</b>	<b>3597.6</b>
Turkey (<2002)	150.0	106.6	116.0	151.9	0.0	0.0	0.0	27.0	0.0	551.5
<b>Total Bilateral</b>	<b>1678.1</b>	<b>911.6</b>	<b>864.5</b>	<b>187.2</b>	<b>216.4</b>	<b>129.5</b>	<b>67.8</b>	<b>55.0</b>	<b>39.0</b>	<b>4149.1</b>
<b>Regional</b>	<b>305.5</b>	<b>169.8</b>	<b>118.7</b>	<b>173.8</b>	<b>21.2</b>	<b>44.8</b>	<b>45.0</b>	<b>24.0</b>	<b>1.5</b>	<b>904.4</b>
<b>Total</b>	<b>1983.6</b>	<b>1081.5</b>	<b>983.2</b>	<b>360.9</b>	<b>237.6</b>	<b>174.3</b>	<b>112.8</b>	<b>79.0</b>	<b>40.5</b>	<b>5053.5</b>

Source: Annex 3 – Inventory of MEDA II interventions

<sup>15</sup> The inventory of interventions does not display credits for administrative expenditure (€147.38m) that fall under MEDA II as they did not finance cooperation activities and are therefore out of the scope of this evaluation.

## 2.6 Other donors' cooperation

Beyond the support provided by the Commission the MPC benefit from substantial assistance from the EU Member States and other bilateral (notably the US) and multilateral donors (WB and AfDB). The OECD DAC database is the only source offering a comprehensive picture of official development aid (ODA) to the Mediterranean countries by all donors. Tables 2.6.1 and 2.6.2<sup>16</sup> provide an overview of total ODA (disbursements) to the MEDA countries.

**Table 2.6.1 Total (net) ODA 2000-2006, Disbursements. Million \$US.**

	EC	EU MS	EU total	Other bilateral	(Of which US)	Multilateral (not incl. EC)	Total
	(1)	(2)	(3) =(1)+(2)	(4)=(7)-(6)-(3)	(5)	(6)	(7)=(3)+(4)+(6)
Algeria	371	1,130	1,501	303	14	77	1,881
Egypt	842	2,288	3,130	4,649	3,854	352	8,131
Israël	0	0	0	0	0	0	0
Jordan	371	489	860	3,109	2,636	666	4,635
Lebanon	445	593	1,038	861	303	435	2,334
Morocco	1,375	2,057	3,432	867	-54	111	4,410
WB&GS	1,184	1,505	2,689	3,139	1,137	1,947	7,775
Syria	215	295	510	-40	1	246	716
Tunisia	768	1,139	1,907	358	-120	21	2,286
Turkey	1,699	380	2,079	245	-85	61	2,385
<i>Total incl. Turkey</i>	<i>7,270</i>	<i>9,876</i>	<i>17,145</i>	<i>13,491</i>	<i>7,687</i>	<i>3,917</i>	<i>34,553</i>
<i>Total excluding Turkey</i>	<i>5,571</i>	<i>9,496</i>	<i>15,067</i>	<i>13,246</i>	<i>7,771</i>	<i>3,856</i>	<i>32,168</i>

Source: <http://stats.oecd.org/wbos/default.aspx?DatasetCode=TABLE%202A>

<sup>16</sup> The tables refer to "net" ODA, and therefore negative figures are possible for donors providing concessional loans as reimbursements in a given year may exceed new drawings in the same year.

**Table 2.6.2 Total (net) ODA 2000-2006, Disbursements. Distribution by donor, in %.**

	EC	EU MS	EU total	Other bilateral	(Of which US)	Multilateral (not incl. EC)	Total
	(1)	(2)	(3) =(1)+(2)	(4)=(7)-(6)-(3)	(5)	(6)	(7)=(3)+(4)+(6)
Algeria	19.7%	60.1%	79.8%	16.1%	0.8%	4.1%	100.0%
Egypt	10.4%	28.1%	38.5%	57.2%	47.4%	4.3%	100.0%
Israël							
Jordan	8.0%	10.5%	18.5%	67.1%	56.9%	14.4%	100.0%
Lebanon	19.1%	25.4%	44.5%	36.9%	13.0%	18.6%	100.0%
Morocco	31.2%	46.7%	77.8%	19.7%	-1.2%	2.5%	100.0%
WB&GS	15.2%	19.4%	34.6%	40.4%	14.6%	25.0%	100.0%
Syria	29.9%	41.2%	71.2%	-5.5%	0.2%	34.4%	100.0%
Tunisia	33.6%	49.8%	83.4%	15.6%	-5.2%	0.9%	100.0%
Turkey	71.2%	15.9%	87.2%	10.3%	-3.5%	2.6%	100.0%
Total incl. Turkey	21.0%	28.6%	49.6%	39.0%	22.2%	11.3%	100.0%
Total excluding Turkey	17.3%	29.5%	46.8%	41.2%	24.2%	12.0%	100.0%

Source: <http://stats.oecd.org/wbos/default.aspx?DatasetCode=TABLE%202A>

The tables demonstrate the importance of EU (MS + Commission) assistance to the MEDA countries. Globally it provides roughly half of all ODA to the MEDA area. By country the EU provides more than 75% of total assistance to all the Maghreb countries and to Turkey. In the Mashreq countries the EU is also the dominant donor in Syria, whereas the US is by far the major donor in Egypt and Jordan. The West Bank & Gaza Strip and Lebanon benefit from considerable EU assistance but also from substantial US and multilateral support.



## 3. Answers to the Evaluation Questions

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This section summarises the major findings and analysis, with the aim of answering the Evaluation Questions. The findings are based on the documentary analysis, the 130 interviews with the different categories of stakeholders, the four field visits, statistical analysis, etc.<sup>17</sup>. The supporting material is laid out in the annexes (see section 1.1).

### 3.1 Evaluation Question 1: appropriateness of the MEDA II Regulation to the Barcelona process

***EQ1: To what extent have the Commission's interventions been designed in the framework of the objectives and principles of the Barcelona process and the rules of the MEDA II Regulation?***

The MEDA II Regulation is the main financial instrument at the disposal of the Commission for supporting the Barcelona process. The question therefore verifies that the interventions of the Commission not only fit within the Barcelona process but constitute strategic contributions to its main objectives. The question is largely one of relevance and aims at assessing how far the Commission strategies and programmes support the objectives of the Barcelona process and take appropriate account of the various dimensions of the process.

The answer to the question is based on three judgement criteria

- J.1.1 Strategy and programming documents show explicitly the links between each of the proposed strategic interventions and one or more of the three objectives of the Barcelona process.*
- J.1.2 Strategy and programming documents refer to and support the efforts of the partners to achieve one or more of the three objectives of the Barcelona process.*
- J.1.3 Strategy and programming documents aim at maximising regional cooperation.*

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<sup>17</sup> Volume II Methodology explains in detail the methodological approach of this evaluation and the use of evaluation tools.

### Answer to EQ 1 on adequacy to the Barcelona process and MEDA II Regulation

The Barcelona process, formalised through AA and the institutional set up of the regional cooperation, places financial cooperation implemented under the MEDA II Regulation within a politically driven process that does not exist in other regions. However, it took place in a difficult context of regional tensions that limited the willingness of the partners to work together.

All interventions analysed in this evaluation clearly relate to the Barcelona process and adequately fit within its objectives and directions. However, the identification process for interventions does not demonstrate that proposed measures are strategic priorities aimed at alleviating the internal and regional constraints that are the major impediments to the realisation of the Barcelona objectives. The demands for support from the MPC are more driven by their domestic policies and reforms.

The second pillar of Barcelona is undoubtedly a driving force since national policies aim increasingly at opening-up of the economies and are concerned with the competitiveness of domestic enterprises, notably *vis-à-vis* the EU that is a major trade partner. Sensitive issues such as *inter alia* Civil Society, human rights and the situation of women have not been high on the agenda of the partners and it has proved difficult for the Commission to engage in dialogue. However, the Commission has attempted to tackle such issues through the Ministerial Conferences and various fora of exchanges between the EU and Mediterranean countries held under the umbrella of the regional cooperation and to include them in its intervention portfolio as much as possible, and indeed has succeeded in doing so.

#### *A cooperation framed in a politically driven process*

The cooperation of the Commission with the MPC has two characteristics that give it a singularity and specific characteristics *vis-à-vis* other regions of the world:

- It aims at realisation of the objectives of the Barcelona process (or Euromed Partnership) laid out in the Barcelona Declaration (see chapter 2.1) and of the ENP. The Barcelona Process is a **politically driven** process aiming at establishing a partnership at **the level of the Mediterranean Basin**. It provides a unique framework for deepening political dialogue, enabling Euromed partners to strive towards establishment of a peaceful, secure and stable Euromed region underpinned by sustainable development, rule of law, democracy and human rights so as to achieve peace, economic prosperity, and inter-cultural exchanges. This regional political dimension of the process does not exist in any of the other cooperation agreements concluded with partner countries (e.g. ACP, ENP East countries, ALA countries). It clearly creates a framework for a multilateral partnership and constitutes a regional forum for addressing collectively issues of common concern.
- It is formalised :
  - At multilateral/regional level through Ministerial conferences, the Euromed Committee and Euromed working groups that promote dialogue between the EU and the MPC. Under this multilateral dimension all participant countries have a seat around the table, including the Palestinian Authority. The EU is generally represented by both Member States and the European Commission. Bringing all Mediterranean Countries around the same table and having them discuss practical



issues is certainly a major success and a significant step in attempting to create a Mediterranean region.

- At bilateral level in a set of **Association Agreements** that provide for specific arrangements. They have a similar structure and are intended to promote the following:
  - regular dialogue on political and security matters, providing an appropriate framework conducive to developing close relations between the parties;
  - trade, with gradual liberalisation of trade in goods, services and capital;
  - social, cultural and human dialogue.

### *Political dialogue – Policy dialogue: what is the difference?*

Dialogue is at the root of the cooperation policy of the Commission with third countries. The nature and intensity of the dialogue are crucial dimensions of the quality of the partnership and a major determinant of the success of the cooperation entered into with the partners.

**Political dialogue** is conducted between the partners by interlocutors that represent their respective populations. Its purpose is to agree on issues of common interest with a view to setting common objectives and the political directions of the reforms necessary to achieve them. It encompasses purely political issues such as *inter alia* conflict resolution, democracy and rule of law, and migration, but also economic issues such as participation in the multilateral trading system, negotiation of access to markets, and others.

**Policy dialogue** is more instrumental. It is conducted at an operational level between the administrative and technical services of the partner administrations and is aimed at identification of and agreement on the policy measures that need to be implemented in particular fields in order to move in the prescribed political directions and achieve their intended objectives. It mainly takes place in the spheres of economic and social policies.

Although the political dialogue is higher-level given that it takes place in the context of the sovereignty of each participant, one cannot speak of a strict hierarchy between the two types of dialogue. The policy dialogue will often have implications at the political level and interaction is indispensable.

Liberalisation is an example that illustrates the distinction. The decision to move a country from an administered to a market economy is political. It can be adopted by a country outside the cooperation framework; it can also be part of a political agreement, as in the AA concluded between the EU and the MPC. The practical policies to be implemented (adaptation of exchange rate policy, tariff dismantlement, privatisation, etc.) are the object of the policy dialogue between administrations specialised in these different issues. Clearly these administrations have to refer to their political authorities but the policy dialogue does not call into question the directions agreed within the political dialogue.

The AA have a quasi-equivalent in the ENP East countries, namely the Partnership and Cooperation Agreements (PCA) but are not paralleled in the ACP or other cooperation regions. They create a framework for undertaking political and policy dialogue independently of and prior to financial assistance from the Commission, whereas in the ACP and ALA regions the financial assistance is the main point of entry for policy dialogue.

These characteristics of the cooperation with the MEDA countries are important because they offer the Commission leverage and opportunities that it lacks in other parts of the world and which is not available to non-EU donors. In particular they give the Commission

a legitimacy which enables it to discuss the political direction and policy substance of reforms prior to and outside the framework of the financial assistance provided to undertake them. This has major implications for cooperation with the MPC. In other regions the financial assistance is a means of negotiating and supporting reforms and of acquiring a right to engage in policy dialogue. In the MEDA Region financial assistance is, at least in theory, a way of supporting reforms that are politically backed up by both partners. In that context it is the encompassing political dialogue, not the provision of financial assistance, which provides the legitimacy and direction for the policy dialogue on the more technical issues.

Therefore the country and regional strategies that prepare the ground for the assistance programmes funded by the MEDA II budget line are encompassed in and subordinated to the broader political dialogue of the Barcelona process, which should impart to them a particular strength.

### ***A cooperation implemented in a constraining regional and political context***

As mentioned earlier (section 2.2) regional conflicts and tensions have been a considerable obstacle to the implementation of MEDA II and limited the willingness of the MPCs to cooperate together. In this difficult context, the Commission's regional cooperation in the MEDA area has been used more as a platform of dialogue than for solving common regional issues.

Given their wide diversity in terms of economic development and weaknesses regarding governance, democratisation and political freedom fields, the MPC tended to be more responsive to efforts supporting their own domestic economic reform programmes than to activities directed to regional cooperation and sensitive issues such as human rights, good governance and gender.

### ***The Commission has attempted to cover all aspects of the Barcelona process***

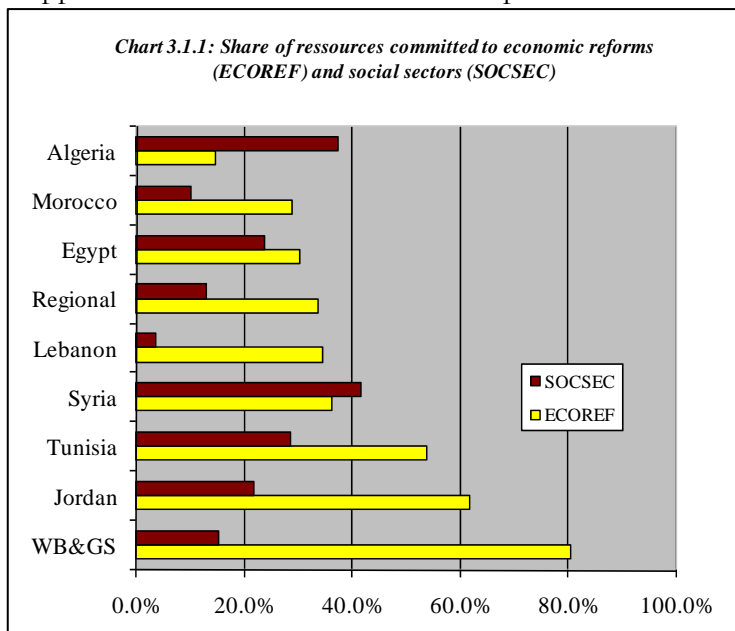
In order to support the partner countries in meeting their commitments under the Barcelona process, a set of specific programmes, the so-called *Support to the Association Agreement Programme* (SAAP), has been designed and implemented in most MEDA countries. Under the MEDA II Regulation, eight programmes supporting the AA have been implemented to a total amount of €122m. The beneficiary countries are Algeria (€10m), Egypt (€25m), Jordan (€35m), Lebanon (€12m), Morocco (€20m), and Tunisia (€20m)<sup>18</sup>. These programmes are principally designed to assist the partner countries in adapting and modernising their legal and regulatory framework, enhancing the institutional capacity of the State administrations, and taking forward the trade liberalisation effort. Implementation is geared to adaptation of the economies and institutions with the aim of ensuring that the future FTA will permit development of a fruitful economic partnership between the EU and each MPC<sup>19</sup>.

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<sup>18</sup> See Annex 3

<sup>19</sup> See Annex 6 (7\_E\_SAA and 12\_L\_AA)

The major focus of the MEDA II budget line is on the *second Barcelona pillar (economic prosperity and preparation for the FTA)* that is also the main focus of the MEDA II Regulation. As indicated in annex 3 this has absorbed in the region 39% of total Commission support. Support for economic reforms and for private sector development and trade accounts for at



least around 30% in all countries except Algeria (see chart 3.1.1). In this area the partners' demands are closely guided by the Association Agreements since it is the countries' aim to be ready to face competition from EU enterprises as liberalisation of their economies progresses. *The social sectors* (education and health) have in overall terms been the second most important (19% of total MEDA II commitments), but the first in certain countries (Algeria, Syria).

Source: Annex 3 – Inventory of MEDA II interventions

Substantial efforts directed to pillars 1 and 3 of Barcelona, notably in the fields of Civil Society, human rights and democratisation, and justice and home affairs, have also been undertaken by the EU at multilateral level and by the Commission at bilateral cooperation level<sup>20</sup>. The Ministerial conferences and various meetings between officials organised under the umbrella of the MEDA regional cooperation in which the EU and Mediterranean countries participate dealt with these aspects. Large bilateral justice programmes have been implemented in support of countries which had embarked on reforms. In these areas dialogue has often proved difficult either because it was related to issues regarded as sovereign (aspects of the reform of the judiciary system) or politically sensitive (gender issues, Civil Society, human rights). The Commission attempted to promote progress in these fields but could not always reach agreement with the partners. To maintain its capacity for dialogue in those areas where the partnership was fruitful (mainly economic and social sectors) the Commission tended either to take, at least temporarily, a low profile on politically sensitive issues, or to intervene through channelling its funds via agencies such as the UNDP with more experience and neutrality, or to make use of other budget lines such as the EIDHR which allow bypassing of governments<sup>21</sup>.

<sup>20</sup> See Annex 3, 6, 7 and 11

<sup>21</sup> See Annex 6, 7 and 11

***The Commission strategies took account of the various dimensions of the Barcelona process but did not clearly demonstrate how they would contribute to achieve its main objectives.***

With the resources of MEDA II the Commission's approach to the objective of establishing a partnership at the level of the Mediterranean Basin has been twofold. The bilateral cooperation aimed at strengthening the links of each partner country with the EU and promoting institutional governance modes copied from or compatible with those of the EU countries. The underlying view is that this will contribute to the creation of an area where the links of each partner with the EU and the approximation of institutional patterns will gradually create a platform for economic and functional regional cooperation. The regional cooperation has banked on the multilateral Euromed partnership and focused on strengthening regional networks and platforms of discussion and exchanges on areas of mutual interest.

Bilateral cooperation strategies clearly refer to and fit within the Barcelona process<sup>22</sup>. In all the interventions examined the Barcelona process is clearly referenced as the umbrella under which the cooperation takes place. Reference to one or several Barcelona objectives is clearly made in the programming documents and the interventions are in line with the strategy documents (CSP/NIP). However this linkage remains largely nominal and the programming documents do not demonstrate how they will achieve the process objectives<sup>23</sup>.

Several reasons explain this limitation:

- There are cases where the principles underpinning the Barcelona process are difficult to apply. The cooperation with West Bank & Gaza Strip is clearly dominated by humanitarian and crisis concerns that do not allow a strategic approach to the Barcelona objectives. Political tensions, and differences between countries and groups of countries within the MPC in terms of culture and political and economic systems, also contribute to lowering the operational weight of the Barcelona objectives in the programming of financial support.
- National priorities and, therefore, the demands from the partner for support are generally determined by domestic policy considerations and reforms and not by the Barcelona process. It is only, and then only to a certain extent, in the development of the private sector and the opening-up of the economies to international trade that there is convergence with and mutual support for the Barcelona and national objectives. This is a striking difference with what has been observed in candidate countries where the prospect of adhesion constitutes a powerful incentive for structural reforms and the adoption of the "acquis communautaire".

It is worth noting that for some countries (Algeria), although the CSP is in principle a document established in partnership, it is nonetheless not endorsed by the partner government. On the other hand the NIP, which emanates from the CSP, is always ratified by the partner government. Such cases reveal that there is agreement on specific interventions but not on the overall objectives of the cooperation.

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<sup>22</sup> See Annex 7 (Indicators related to JC 1.1 and JC 1.2) and Annex 11

<sup>23</sup> See Annex 7 (Indicators related to JC 1.1 and JC 1.2) and Annex 11

- The strategic content of the CSP is generally limited because of the difficulty of drafting a document that is simultaneously selective (that is focusing on a limited number of sectors) and yet sufficiently open to allow flexibility over the whole programming period. CSPs identify priority areas of interventions linked to the overall objectives of Barcelona and the AA. However they do not analyse how and to what extent the resources proposed are expected to contribute, over the period of their deployment, to the reduction of the internal constraints.
- Generally bilateral interventions advocate the potential benefits of regional cooperation but few practical activities are planned in the CSP/NIP to develop regional networks, or functional cooperation at the level of the region or groups of countries.

Regional programmes are based on a common identification by the partners from the North and the South of the Mediterranean basin. An agreement is first reached at a technical level among the EU and Mediterranean partners and programme decisions are then taken during the Ministerial Conferences. However, each individual country has its own priorities and it is therefore difficult to find a common denominator at regional level. Moreover, regional programmes benefited from limited resources. As a result, the issues at stake at the level of the region to achieve the goals of the Barcelona process have not been fully tackled.

### 3.2 Evaluation question 2: response to the needs of the partners and ownership

***EQ2 To what extent are the Commission's bilateral and regional strategies and supported programmes reflecting the priorities and the needs of the MPC and to what extent are they locally and regionally owned?***

The question looks at relevance but from an angle different from that in question 1. Here the focus is on relevance in terms of response to the needs (local and regional) of the partners. It examines ownership, which can be expected to develop when interventions respond adequately to partner needs. The question therefore addresses efficiency and sustainability as ownership is a key condition for satisfaction of these two criteria.

Answering the question is based on four judgement criteria:

- J.2.1 *The selection of interventions is based on a shared analysis of the needs of the beneficiary MPC.*
- J.2.2 *The strategy documents verify that bilateral interventions selected in response to strategic needs are also priorities of the partner governments.*
- J.2.3 *The Commission's programmed and/or implemented interventions at regional level are consistent with those programmed and/or implemented at bilateral level.*
- J.2.4 *Commission's regional/multicountry interventions reflect common priorities and shared MPC ownership.*

**Answer to EQ 2 on response to the needs of the partners and ownership**

Nearly all bilateral interventions examined in this evaluation are responses to partner demands and are embedded in its political priorities. The quality of the analysis underlying the selection of interventions is difficult to assess owing to limited institutional memory. Some evidence, however, is emerging: most interventions have been prepared through studies, joint seminars and workshops; budget support interventions, particularly those addressing structural reforms and reform of the public finance systems, benefited from deeper and continued analysis during the implementation process.

Local ownership of country strategies is generally limited but there is always consensus on the main directions of the NIPs. Within this broad consensus on the choice of sectors and themes of intervention there are sometimes divergences on the exact nature of the needs and the appropriate responses to them. At intervention level, when the policy dialogue has not led to a shared diagnosis, divergences of view of needs and of how to address them occur, with negative consequences for implementation. Otherwise ownership is generally strong, particularly for interventions targeted on reforms that are part of the governmental priorities. This is generally the case with BS interventions but also with specific interventions including some in sensitive areas such as human rights.

Whereas bilateral interventions reflect the priorities of the countries where they are implemented, regional programmes rather reflect areas where a common interest could be found between the MPC. The difficult political situation and the tensions between several MPC as well as their limited economic and functional integration proved an impediment to the formulation of common regional priorities. In this context, and also in view of the discrepancy between the regional resources available and those that would be needed to resolve the major regional issues, the Commission aimed at using the regional programme to stimulate a dialogue and establish networks both between individual MPC and also between MPC and the EU. This approach benefited from adhesion and support at high political level in the MPC. It permitted the bringing together in discussion fora of countries that would otherwise not have spoken to each other. It was a prerequisite for paving the way for the 2007-2013 regional strategy that is much more focused on essential regional issues. However, although there was a high level of MPC involvement at the identification stage, implementation suffered from a lack of ownership in a number of cases when the regional programmes were not considered as addressing the national priorities for the countries in which they were implemented.

### ***Bilateral interventions generally respond to partners' priorities***

Overall the Commission's assistance is largely demand-driven and there is abundant evidence that the general direction of interventions reflects the priorities of the partners. This is the case when an intervention supports a political agreement (e.g. support to the AA) or reforms initiated by the partner government.<sup>24</sup>

The fact that a programme is retained in the NIP does not always mean that it addresses a strategic need (meaning relieving a constraint or contributing to a building block on the way to the CSP objectives) nor that there is a shared view of the nature of the needs. As mentioned during discussion of EQ1 the inclusion of an intervention in a NIP reflects a common diagnosis of the relevance of the intervention sector, but not necessarily agreement on the design of the intervention.

The case of Algeria illustrates divergences of vision that may occur at intervention level in relation to the analysis of needs and the nature of the support needed. In several sectors (transport, justice) the Commission identified the need to strengthen the partner's capacity to formulate its sector strategies and policies and to align itself with governance and management modes coherent with the European equivalents. On its side the partner considered that it needed technical strengthening and transfer of professional know-how but no institutional strengthening involving dialogue on its sector policies.

Such situations suggest a lack of technical analysis conducted in partnership at the identification stage, and there is little documentary evidence of such analysis apart from in certain budget support interventions (see below); but there is also a lack of policy dialogue<sup>25</sup>. The consequences are serious at implementation stage as it then appears that overambitious programmes have been designed which cannot possibly be implemented within the deadlines, or that differing views between the Commission and the partner on what and how to implement are hampering implementation, or both.

Lack of convergence of views on needs and responses is often observed, even in the preparation of some budget support interventions, although the better quality of the policy dialogue in these operations alleviates the problem. An example is the difficulty in negotiating a number of conditions of the BS interventions (FAS IV and higher education) in Tunisia. In particular the elaboration of a MTEF for the higher education sector was at first heavily resisted by the Ministry of Finance, but continued dialogue with both the Ministry of Finance and the Ministry of Higher Education, Scientific Research and Technology led to convincing implementation and recognition by all parties that this was a justified requirement.

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<sup>24</sup> For example, the FAS IV in Tunisia supports reforms embedded within the National Economic Plan and the presidential Programme; Higher Education in Tunisia, Justice in Algeria are similar examples; PARAP in Morocco supports a major axis of Morocco's economic and social development plan; the health sector reform in Egypt responds to a clearly expressed demand for enhancement of social development; trade-related assistance in Lebanon addresses a theme at the top of the governmental agenda; the sector reform programme in Jordan was consonant with Government policy; the programme supporting human rights and good governance in Jordan rests on priorities set out in the political agenda of the Government of Jordan.

<sup>25</sup> See Annex 7 (Indicators related to JC 2.1) and Annex 11

***There is evidence of analysis and consultation conducted at the stage of the identification of the needs and the preparation of the response, but the access to the related documentation is often difficult.***

Bilateral programming documents generally refer to the existence of analytical studies, identification missions and other preparatory work such as seminars and participatory workshops<sup>26</sup>. This is the case *inter alia* with the Syria VET, Egypt Children at Risk, Algeria NGO, WB&GS Relief, and Algeria Transport interventions. However, the essential foundations for the interventions are often difficult to access. For instance, they were not in evidence in important projects such as Algeria Transport, Egypt TEP, Egypt Health. There is a lack of institutional memory resulting from a number of factors: decentralisation, high turnover of Commission staff at both headquarters and Delegations, absence of systematic filing of preparatory documents. It is of course an issue for the evaluators but, more important, it is a source of difficulty at implementation stage. For example it is very difficult to identify from the available documentation how the matrix of conditions governing the health sector programme in Egypt was developed: as a consequence there is a lack of information allowing flexible adaptation of the programme in the face of changing circumstances or non-realisation of certain assumptions. In many cases the absence of this reference material imposed a limitation on monitoring and impeded flexible reallocation of resources.

There is a common identification of the regional programmes which takes place through a dialogue between the parties concerned at senior official level and at Ministerial level. The Commission Delegations and partners in the field are consulted at the programme identification stage.

***Higher level and greater depth of preparation for most budget support interventions***

There is evidence of a deeper and more technical analysis underlying most budget support interventions. For example, the sector reform project in Jordan was prepared in a Commission Staff Working Paper that is a good example of analytical preparatory work. The support for fiscal reform in Morocco was carefully prepared through technical inputs from the Bretton Woods Institutions, the Commission and the partner. This also applies to the FAS IV in Tunisia.

Several factors contribute to the superior preparation of most budget support operations:

- many are prepared and implemented in coordination with the IMF and the World Bank.; this is generally the case with support targeted for reforms of the public finance system or formulation and implementation of macro-economic and structural policies; the technical expertise of these institutions is then shared with the partner and the Commission through exchange of documents, joint identification missions and informal discussions;
- since these interventions are often supporting important political priorities, the involvement of the partner's governmental institutions is generally effective;

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<sup>26</sup> See Annex 7 (Indicators related to JC 2.1)



- the fact that the matrix of conditions and indicators is negotiated obliges the partner government to conduct its own analysis and share it to support its arguments;
- there has been significant development of the quality control mechanisms governing the preparation and release of budget support by the Commission; for the more recent interventions the Office Quality Support Group (oQSG) of the Commission has established templates of checklists that have to be completed at the various stages;
- budget support is a continuous process accompanied by a policy dialogue that covers not only preparation but also the whole period of implementation. For complex reforms successive budget support operations are often required. Unlike successive projects in the same sector that may suffer from interruptions and radical changes of management, successive budget support operations are conducted under the same budget management and implementation of one phase is fully intertwined with preparation of the next. The successive FAS interventions in Tunisia are an illustration.

### ***High level of ownership of most bilateral interventions***

Although in general ownership of country strategies is limited, ownership of the NIP and of the individual interventions has generally proved strong<sup>27</sup>. When their implementation was not affected by political troubles (as in Lebanon), the programmes to support implementation of the AA benefited from considerable interest since *via* the twinning modality they allowed (see also question 11) organisation of much-appreciated technical assistance from EU institutions for MPC institutions. Algeria is a notable exception since it has chosen not to fully activate the ENP.

Strong ownership is also generally the case in BS, and in interventions targeted on the second pillar of Barcelona and on social sectors since, as explained above, they are aligned with key governmental priorities.

The difficulty of intervening in sensitive issues such as *inter alia* Civil Society and gender issues has been highlighted under EQ1. Where an agreement to conduct such an intervention could be reached, it benefited from strong support from the local partners and strong local ownership (e.g. girls education initiative in the Egypt Children At Risk intervention, support to Civil Society in the Algeria ONG II project).

***Regional interventions have aimed at stimulating dialogue and establishment of networks around themes of common interest to the MPC. Their identification has been the object of high level consensus among the MPC. At implementation level ownership was limited when/if they were not perceived as a response to national priorities. In general regional and national interventions in the same field had a certain complementarity but were not designed to be mutually supportive<sup>28</sup>.***

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<sup>27</sup> For instance, some MPC might not endorse a CSP but all endorse the NIP. See Annex 7 (Indicators related to JC 2.2) and Annex 11.

<sup>28</sup> See Annex 7 (Indicators related to JC 2.3 and 2.4) and Annex 11.

Regional cooperation is difficult for political (notably the Israeli-Palestinian conflict and other regional tensions and conflicts) and economic reasons (existence of many obstacles to functional and economic integration between MPC). In this context the regional strategy of the Commission under MEDA II focused mainly on economic and socio-cultural cooperation and aimed at creating and sustaining regional dialogue and networks between individual MPCs and between them and the EU. Regional programmes were prepared at sector level and decided between the EU and Mediterranean countries during Ministerial conferences. For instance, the MEDSTAT programme was prepared with the directors of the statistical institutes of the MPC and the EU.

Regional programmes identified under this process are related to themes and fields of concern or interest to all countries of the region. Their limited resources and their “common denominators” nature does not permit them to find solution for the most pressing regional challenges , and they may not correspond to national short term priorities.

Although regional programmes reflect demands shared by the regional partners and resulting from consensual views and agreements reached in high level regional meetings, they often suffer from only moderate ownership of their implementation at country level. Their design is prepared by the Commission Services in Brussels in a dialogue with the parties concerned in various regional and sector committees. At that stage involvement and ownership are substantial. At the end of this preparation process, identification fiches are sent to the Commission Delegations in the MPC with a request to submit them to the national authorities for comment. There is generally little reaction.

At implementation level interest in regional projects, and hence ownership, is only important when one or more MPC have a particular stake in them and are hosting the management structure of the programme. This is the case, for example, with the Mashreq Arab Gas Market where the implementation structure is based in Syria, or with the Regional Centre of Excellence in Renewable Energy managed in Egypt.

A substantial share of regional projects consists of a broad financial envelope disbursed through calls for proposals. They provide through a competitive mechanism funding for initiatives meeting predetermined eligibility criteria, including a requirement to involve several Mediterranean partners (North and South).

The Heritage programme illustrates an aspect of the issue of ownership of such programmes. It was undoubtedly a welcome initiative and numerous international conferences confirmed the willingness of the Mediterranean partners to favour regional action in this domain. In practice all calls for proposals were won by groups of institutions led by a partner from the North. Whereas the programme developed highly-appreciated activities, the partners from the South considered they could not fully express themselves in the programme. When the activities were terminated, some regional networks involving the participants remained in place but in general there were no regional or national structures to take over.

The regional SMAP implemented a series of pilot initiatives in different countries. Some of these activities exploited successfully environmental institutional networks. For instance, under SMAP II a project to manage solid waste in the Mashreq and Maghreb countries has developed a regional network of countries having benefited from the World Bank METAP<sup>29</sup> programme. The projects dealing with the integrated management of the coastal zones were connected to institutional and research networks, in particular the Regional Center of Activities of the Action Plan for the Mediterranean such as the Plan Bleu and the Coastal Management Centre of Split. In general however, the trend between the stakeholders has been more to deal with their project purpose rather than to grasp the benefits of cooperation with others countries. Efforts are undertaken to tackle this issue within the projects.

There also appears to be a lack of mutual strengthening between some Commission-supported bilateral and regional programmes in the same field. For instance, the bilateral transport programme in Algeria and the regional transport programme had no common interface and even sharing of information proved difficult. Similarly, the regional justice project and the bilateral justice project are being conducted without linkages to strengthen one by the other and sufficient exchange of information. The consequence is that the institutional structures built or strengthened under the national programmes do not make use of the achievements of the regional programmes.

### 3.3 Evaluation question 3 on effectiveness and impact of PSD and trade interventions

***EQ3: To what extent have the Commission's interventions to support private sector development and trade contributed to improving growth and competitiveness?***

The question is one of effectiveness and impact and relates to materialisation of the objectives of the second pillar: constructing a zone of shared prosperity. It assesses the efforts of the Commission to promote an enabling environment for trade and private sector development, in particular in support of the reform of the regulatory framework, and progress towards trade liberalisation, regional integration and access to EU markets.

The answer to the question is based on the following series of judgement criteria:

- J.3.1 The Commission's interventions to support private sector development and trade have contributed to the creation of an enabling environment for trade oriented activities.*
- J.3.2 Trade liberalisation has effectively progressed in the MEDA Region*
- J.3.3 Regional integration among the MPCs economies has progressed*
- J.3.4 Access to the EU market has been facilitated and has improved*

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<sup>29</sup> Mediterranean Environmental Technical Assistance Programme developed by the World Bank with the financial assistance of the European Commission.

*J.3.5 Programmes/projects targeted to industrial modernisation, trade capacity building and private sector development have resulted in improved competitiveness and growth performance of the targeted sectors and enterprises*

### Answer to EQ 3 on effectiveness and impact of PSD and trade interventions

The largest share of MEDA II resources has been allocated to supporting economic reforms. With a view to preparing the MPC for the establishment of a Euro-Mediterranean Free Trade Area by 2010, the objective has been to develop and strengthen competitive market MPC economies and to integrate them into the world economy by encouraging their regional integration and their trade links with the EU.

A variety of instruments has been used: budget support to promote and accompany systemic reforms, technical assistance programmes and twinning to strengthen institutional capacity, and transfer of know-how to SMEs, professional associations, trade-facilitating institutions, and others. Resources have also been made available by the Commission to the EIB to be used as risk capital to develop the financial sector's capacity to finance SMEs. Political dialogue on trade and liberalisation as well as significant loans provided by the EIB own resources have complemented the use of MEDA II resources. These efforts have produced results. Many useful reforms have been stimulated and accelerated; most programmes have delivered their expected outputs with substantial advantages for the direct beneficiaries. Positive moves have been observed in all MPC in terms of economic stability, competitiveness and trade.

However, the convergence of the living standards, the significant breakthrough of exports from the MPC to the EU and the intensification of intra-regional trade that would be necessary to reach the objective of shared prosperity (2d Pillar of Barcelona) have not taken place at the expected pace notwithstanding the increased financial resources and the faster disbursement of MEDA II. In terms of trade the region remains one of the least integrated in the world; its international trade is progressing but more with the rest of the world than with the EU, and a majority of MPC are losing international market shares. The main explanatory factors behind these trends are the lack of export diversification of many MPC economies and, therefore, the absence of complementarity between their economies, and a slow pace of economic and political reforms that limited their competitiveness.

The Euromed partnership and the support of the MEDA II interventions have provided incentives and means to reform and liberalise the economies of the MPC. However, with the exception of Turkey, they could not offer potential EU membership and the ultimate goal of free trade with the EU was probably not sufficient to boost reforms.

### ***MEDA II allocated substantial resources to the 3 key objectives directed to the establishment of the FTA in 2010***

The Commission's approach, in line with Annex II of the MEDA II Regulation, focused on a set of reforms aiming at creating favourable conditions for the three objectives directed to the establishment of the FTA in 2010:

- Competitiveness;
- Opening and insertion into the world economy;

- Regional integration at the level of the Mediterranean basin (among MPC and with the EU).

In this context, several categories of interventions have been implemented:

- The Association Agreements and their implementation have stimulated the trade and private sector reforms. It is difficult to establish whether the AA generated the interest in reform programmes or whether it developed in parallel, but there are clear signs that the AAs have put a pressure on the beneficiaries to undertake reforms to open their economies and strengthen their competitiveness.
- A major proportion of the resources provided has been dedicated to systemic economic reforms<sup>30</sup> (Tunisia, Jordan, Lebanon, Morocco) with a view to improving *the legal and regulatory environment of business and trade activities*. These interventions have been carefully tuned to the specific country specifications, their priorities and their capacity to implement the reforms. The most ambitious programmes were implemented in Tunisia (with the successive structural adjustment facilities), Morocco (reform of the fiscal system and of public administration), and in Jordan (Sector Reform Facility) since in these countries the reforms supported by the Commission were also mainstreamed in the national plans<sup>31</sup>. Budget support has been the preferred mode of intervention but programmes to support implementation of the Association Agreements, including twinning activities, and some specific components of large TA programmes have also pursued this goal. The total amount allocated to support for economic reforms during the period was €1.99bn. These interventions are also a significant component of total Commission support to the countries targeted (e.g. FAS IV represents 40% of support to Tunisia during the period 2004-2006). In countries where such systemic reforms could not be considered, the effort was concentrated on specific sector reforms (social sectors, trade and private sector development, water, trade, transport) with BS and TA.
- Specific programmes directly targeted private sector development. These interventions amounted to €504.3m over the evaluation period and took mostly the form of large technical assistance programmes and twinning activities targeted on capacity-building in public (customs, ministerial departments, etc) and private institutions<sup>32</sup>. They consisted of projects in support of SMEs and industry<sup>33</sup>; trade related assistance<sup>34</sup>; support for the

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<sup>30</sup> See Annex 3

<sup>31</sup> See Annex 7 (Indicators related to JC 3.1)

<sup>32</sup> See Annex 3

<sup>33</sup> Examples.: Business centres in Egypt, Jordan, Morocco, Syria, Tunisia; industrial modernisation programmes in Egypt, Lebanon and Tunisia, etc.

<sup>34</sup> Examples: TEP in Egypt, Quality promotion support programme in Lebanon.

financial sector and the financing of enterprises<sup>35</sup>; and projects to support privatisation and attract foreign direct investment<sup>36</sup>.

- Of the funds provided by the Commission to the EIB, the Risk Capital Facility with an envelope of €200m for the period 2001-2006 allowed the EIB to support the private sector through the acquisition of equity or quasi-equity funds in private companies or in investment funds, and through local currency loans to micro-finance institutions<sup>37</sup>.

The Technical Assistance Support Fund of the FEMIP, representing about €105m over the MEDA II period, was used to improve the preparation, management and monitoring of investment projects funded with loans from EIB's own resources or to accompany interventions funded with the RCF. A proportion of these loans was in support of the private sector, making use of the TA facility<sup>38</sup>.

The third category of funds made available to the EIB by the Commission is the interest rate subsidy; it is exclusively applicable to environment-related loans. A considerable proportion of the support for the development of the productive sectors and for the integration of the MPC into the world market has been provided through instruments other than the MEDA Regulation. Although they are not covered by this evaluation, two such instruments need to be mentioned because of their magnitude and their complementarity in supporting the objectives of Barcelona:

- (i) The **Euromed II mandate** was conferred on the EIB by the Members States for provision of loans from the bank's own resources to contribute to development of the private sector and infrastructure of the MPC. This financial facility amounted to €6.52bn over the period 2000-2006. EIB loans targeted on the private sector and trade were provided direct to private corporate bodies and financial intermediaries with a view to strengthening their capacity to finance SMEs<sup>39</sup>.
- (ii) **Non-financial cooperation** was conducted principally in accordance with the first pillar of Barcelona and organised through implementation of the Association Agreements, and was the platform on which the political dialogue on trade policy (tariff dismantlement, bilateral and regional trade agreements) and economic liberalisation took place. It is an essential component of the cooperation programme and is the framework for the bilateral policy dialogue on specific reforms (see section 3.1).

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<sup>35</sup> Examples: Support to micro-credit in Morocco, support for guarantee institutions in Morocco and Algeria, credit lines for employment in Morocco.

<sup>36</sup> Examples: industrial restructuring in Algeria, support for Ministry of Privatisation in Morocco, support for promoting foreign investment in Tunisia

<sup>37</sup> See Annex 6 (21\_R\_FEMIP)

<sup>38</sup> Examples: feasibility study on development of new options for private sector investment and TA for credit facility, both linked to an EIB SME support loan in Syria; TA to financial sector in Egypt, TA for the development of technopoles in Tunisia.

<sup>39</sup> Examples are the loans Entreprises Tunisiennes PG III and IV (respectively €150m and €120m) designed to strengthen the financial sector, the SME fund in Syria (€40m), the loan to Byblos Bank GL Lebanon (€60m).

***These MEDA II interventions contributed to strengthening economic stabilisation and opening the MPC economies through 1° successful stimulation of the establishment of the FTA and 2° positive intervention results aimed at macroeconomic reforms and development of trade and the private sector.***

*1° Gradual implementation of the AA has permitted significant moves towards the establishment of the FTA*

The interventions analysed in the previous paragraphs are meant to prepare and support the implementation of the Association Agreements with regard to the reforms needed for establishment and profitable engagement in the free trade area as scheduled for 2010. A key focus of the interventions in the trade sector has been directed to the reduction of non-tariff barriers and trade facilitation. In parallel trade negotiations aiming at liberalising trade relations among MPC, and between MPC and the European Union and other groups of countries, are taking place.

This combined approach, political negotiations and financial cooperation, has contributed to development of a dynamic trend, the main markers of which are summarised in the following text box.

#### ***Major steps on the road towards the establishment of the FTA***

The establishment of the FTA has moved along two lines: the liberalisation of trade with the EU and the negotiation of trade arrangement among MPC and with other donors.

Regarding trade relations with the EU:

- All Association Agreements have been ratified and entered into force with the exception of the Syrian AA of which the signature is still pending. This entails free access to the EU market for all industrial products of the MPC and duty free entry for about 80% of agricultural products.
- At the Palermo Trade Ministerial meeting (2003), the Euromed Ministers endorsed a new Protocol on rules of origins which allows extension of the pan-European system of cumulation of origin to the Mediterranean countries. This ensures that a product produced in more than one country in the region benefits from preferential access to the EU or to other Mediterranean markets, something prevented by the EU's existing rules of origin.
- The Istanbul Trade Ministerial meeting (2004) adopted the Framework Protocol on services. Negotiations on trade in services were launched in Marakesh (2006). These advances should contribute to improving trade in services and attracting EU investments in the region.
- Some liberalisation of agricultural trade between the EU and Southern Mediterranean countries has been agreed.

Regarding trade agreements among MPC and with other countries

- A number of bilateral FTAs have been concluded between Southern Mediterranean countries (Israel and Jordan, Morocco and Turkey, Syria and Turkey; negotiations are underway between Turkey and several Mediterranean countries).
- The Greater Arab Free Trade Area (GAFTA) came into force in January 2005 with the objective of achieving an integrated Arab economic bloc that can compete internationally. All MEDA-8 countries except Algeria are members.
- The Agadir Agreement, a FTA between Egypt, Jordan, Morocco and Tunisia, was signed in 2004 and came into force in March 2007.

The Commission assistance under MEDA II has proactively accompanied this move in supporting and stimulating structural reforms necessary to help the MPC open up their economies and grasp the benefits of the prospective FTA.

2° *The Commission's supported interventions have achieved positive results*

A distinction must be made between BS interventions, mainly designed to support systemic macro-economic or sector reforms, and other programmes and projects generally targeted more on specific capacity-building.

The support for reforms, notably with intensive recourse to budget support in the countries where it was possible, has been an interesting development and there is abundant evidence that it has effectively promoted changes. Disbursement of the successive tranches of the *budget support interventions* is conditional on fulfilment of the conditions included in the matrices negotiated with the partners at the outset of the operations. In the overwhelming majority of cases the conditions are verified by process indicators closely and periodically monitored by the Commission and other donors participating in the support<sup>40</sup>. As shown in annex 5 and in the fiches of annex 6 relating to BS interventions, nearly all conditions have been implemented, although the process sometimes took longer than expected. This leads to the conclusion *that BS reforms that aimed at promoting significant reforms affecting the business environment and the development of productive and trade activities have indeed successfully achieved that goal*. The field visits and interviews with the partners, other donors, Delegations and other stakeholders, as well as the findings of the available final evaluations, confirm this view.

However, due to the complexity of the reforms supported, to the time needed to achieve their outcomes, and to the difficulty of attributing these outcomes to Commission support, , the monitoring of BS interventions was based on the verification of the adoption of the reforms rather than on their results. It is therefore difficult to assess the extent to which the reforms undertaken produced their expected outcomes and impacts but there are examples of several interventions pointing in that direction. Among them are the following:

- The support provided to the macro-economic policy in Tunisia *via* the successive SAF and, particularly, the SAF IV, which contributed to producing tangible advances. Three are worth noting<sup>41</sup>:
  - The resilience of the public finance and the macro-financial aggregates to external shocks has been considerably strengthened through the reforms supported by the SAF. Whereas a return to sustainable deficits cannot be guaranteed in the face of the particularly severe external shocks and their impact on the oil and food subsidies, useful improvements have been made possible thanks to a reduction in public debt and to various reforms which enhanced mobilisation of resources and management of expenditures (e.g. introduction of MTEF). The liberalisation of internal competition had favourable effects on the control of inflation. These

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<sup>40</sup> More than 85% of the indicators included in the matrices of conditions attached to the BS interventions are process indicators.

<sup>41</sup> See Annex 6 (18\_T\_FAS IV), Annex 7(Indicators related to JC 6.5 and JC 6.6) and Annex 11 (Tunisia)



reforms have contributed to improving international credibility and access to financial markets.

- The gradual evolution away from a regime under which most activities required *ex ante* authorisation towards the 2007 law, which established economic freedom as the general rule and authorisations as the exception, has been promoted and accelerated by the FAS. This has produced tangible benefits acknowledged by the operators, although the situation is still far from perfect.
- The reform of the competition system has produced visible results. Whereas 5-6 years ago a domestic textile product would have been immediately recognised as of inferior quality compared to an imported product, nowadays the quality of locally-produced textile consumer goods is indistinguishable from that of foreign goods.

The text box in the section addressing Evaluation Question 6 further describes significant successful reforms to which BS support interventions contributed.

- The combined support of the TEP A, B and C interventions in Egypt has produced effective results in terms of trade facilitation and working of the Customs services.
- Activities to support export oriented SMEs (for example the SEBC programme in Syria, components of TEP A in Egypt, integrated SME support programme in Lebanon) have been implemented in nearly all MPC) and have helped many enterprises to engage successfully in international trade.

No general conclusion can be drawn for TA and twinning projects and programmes but most interventions analysed (cf. annex 6) point to satisfactory delivery of expected outputs, although with no clear evidence on the outcomes. Analysis of ROM reports (annex 8) confirms that projects supporting economic reforms, private sector development and trade were mostly effective. 90% of such projects (41 monitored) were ranked **a** or **b**, i.e. very good or good, by the monitors of this criterion. This is the highest percentage of all aggregate sectors. On impact 80% of monitored projects were marked **a** or **b**. When weighting the marks obtained with the magnitude of the resources allocated (table 4 of annex 8), projects related to the economy are also among the best performers in terms of effectiveness.

The *Risk Capital Facility*<sup>42</sup> has been successfully exploited by the EIB for financing promising private sector initiatives while developing and strengthening financial sector institutions and their capacity to finance SME. The participation of the EIB as the main investor or co-investor contributed to improving the standards of governance of the beneficiaries, increasing their attractiveness for other investors. It is worth noting that more than 50% of RCF operations are targeted on multi-country initiatives.

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<sup>42</sup> See also annex 6, fiche 21\_R\_FEMIP

***Developing the non-bank financial sector in the region with the risk capital facility:  
Maghreb Leasing Algérie***

Leasing is the process of acquiring equipment without buying it outright. It is leased from a company for a period of time for a fee. Leasing institutions are common in advanced market economies but are still at the development stage in several MPC. Strengthening and expansion of this non-bank segment of the financial sector is important for SMEs with difficult access to bank credit through lack of sufficient collateral.

The Tunisian Leasing company, TLG, the leader in this sector and considered mature in Tunisia, was the promoter of the Algerian project. It had a long relationship with the EIB and had previously benefited from a participatory loan. The creation of Maghreb Leasing Algérie (MLA) required some of its own resources corresponding to the working capital for the first year of activity. In view of the difficulty of finding this sort of financing on the Algerian Market, the EIB provided to MLA a €10m participatory loan. The EIB loan gave confidence to Tunisian and European financial institutions which joined TLG as shareholders of MLA.

MLA started operations in May 2006 using first its own resources and the EIB loan. It could obtain credits from Algerian and foreign banks. At the end of its first full year of activity (2007) MLA recorded a positive net result, had concluded 422 leasing operations for €57m and was the second leasing operator in Algeria with a 25% market share. It is currently preparing the launch of a first issue of bonds on the local capital market to secure the growth of its activities.

The creation of MLA illustrates how the EIB has used the Risk Capital Facility to aid creation of a new leasing company in Algeria while respecting market mechanisms and stimulating transfer of know-how and financial cooperation between MEDA countries.

The funds allocated by the Commission to the RCF under MEDA II were entirely contracted by the EIB within the n+1 constraint, meaning that financial agreements were signed by the Bank with external counterparts for the total amount of resources available under the RCF. The disbursement rate of the contracted funds is lower<sup>43</sup> because it depends on a number of factors: the capacity of the partners to meet the requirements of the EIB in terms of financial governance, the timing of their needs of the successive tranches of the capital resources, etc. This modality is important because local banks tend to be risk adverse, notably because of their high percentage of non-performing loans. In this context the RCF was a valuable contribution to support the private sector and the financial intermediaries while encouraging them to take entrepreneurial risks. However, the use of the RCF funds by the EIB is based on the identification of promising individual deals. This banker's approach is not directly articulated to the programming of the Commission and is perceived by the latter as a default of coordination that limits the contribution of EIB RCF interventions to the objectives of the cooperation defined in the Commission strategy documents. The macroeconomic impact of this facility remains difficult to perceive due to the limited amount of the RCF and therefore to its marginal contribution to the development of the private and financial sector in the region.

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<sup>43</sup> For the MEDA II risk capital operations identified in annex 12, 47% of the funds contracted were disbursed on 31/12/2007.

***As a result MEDA II contributed to strengthening economic stabilisation and opening up of the MPC economies, but the MPC are not, with exceptions, involved in a dynamic convergence with the EU nor in a significantly closer regional integration.***

***Macroeconomic stability*** has improved in most MPC<sup>44</sup>. Factors such as real growth of GDP per capital, inflation rates, fiscal balances, current account balances, public debts have evolved favourably. GDP growth and income per capita have significantly improved in the period 2000-2006 compared to the late 1990. Similarly average inflation that was still around 15% in 1995 has been curbed and maintained under 5% since 2002. Current accounts balances have improved but largely due to the gas driven improvements in Algeria. There is evidence that Commission interventions in support of major structural reforms have contributed to these developments that are essential to supporting and reaping the benefits of trade openness, but it is impossible to demonstrate. It must also be observed that the economic performance of the MPC still lags behind that of other developing countries. For instance, whereas average GDP growth in the MPC has been sustained over 2000-2006 and above 4% in the last three years of the period it, it is lower than that of all developing countries (about 6% over the same period and only 75% of that of other Eastern (9.4%) and Southern Asian countries (8.6%)<sup>45</sup>.

Whereas non-negligible advances have been observed, the contextual analyses of annexes 4, 13 and 14 show that progress towards the central objectives of shared prosperity and economic integration of the MPC with each other and with the EU remain moderate.

The par capita income of the MPC remains with few exceptions (Israel) significantly lower than that of the Southern EU MS.

In terms of *competitiveness* the analysis of total factor productivity<sup>46</sup> shows that significant constraints to growth subsist in the region, notwithstanding the fact that major reforms of the macro-economic framework, trade policies and the regulatory framework have been undertaken. .

Moreover, some tariff reforms have been accompanied by non-tariff measures that reduced their effectiveness as shown by the slow progress in the reduction of total trade restrictions (tariff and non-tariff measures) compared to that achieved with tariff measures alone.

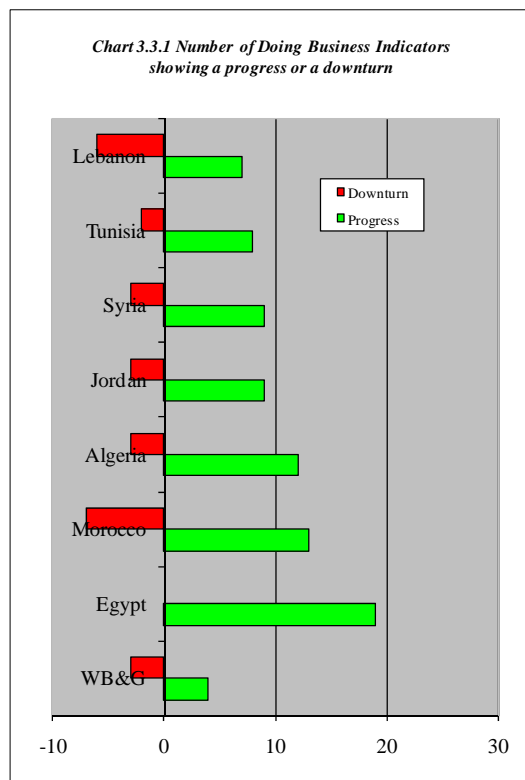
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<sup>44</sup> See for instance Saleh M. Souli: The Euro-Mediterranean Partnership Ten Years On: Reassessing Readiness and Prospects. 2006

<sup>45</sup> Dumont, B.: *Macroeconomic Aspects of the Euro-Med Partnership*, XXIV Malta Seminar., April 2008.

<sup>46</sup> See section 2.2 of annex 2

Progress in the business environment has been highly variable across the MPC. Chart 3.3.1 summarises the trend in the Doing Business indicators selected in annex 13. In green are the number of indicators for which positive progress can be observed in 2008 compared to either 2006 or 2004; the bars in red indicate the number of downturns. Chart 3.3.1 shows that the best MPC performer is Egypt followed by Morocco and Algeria. The chart shows that whereas progress has taken place in all MPC, in many of them progresses have been mitigated by regressive moves; Egypt is the only exception.



Source: World Bank. Doing Business in 2008.

Chart 3.3.2. Ease of doing business, rank in 2008 on 178 countries

	1st quintile	2nd quintile	3rd quintile	4th quintile	5th quintile
Algeria				125	
Egypt				126	
Jordan			80		
Lebanon			85		
Morocco				129	
Syria				137	
Tunisia			88		
Turkey		57			

Source: World Bank. Doing Business in 2008.

These reforms, even in the fastest reformers as Egypt, have not been sufficient to position the MPC as countries comparing favourably in terms of business environment by international standards. Chart 3.3.2 shows among 178 countries benchmarked by the World Bank only Turkey is positioned in the second quintile. Three countries, Jordan, Lebanon and Tunisia are in the third quintile, whereas Algeria, Egypt, Morocco and Syria are in the fourth quintile.

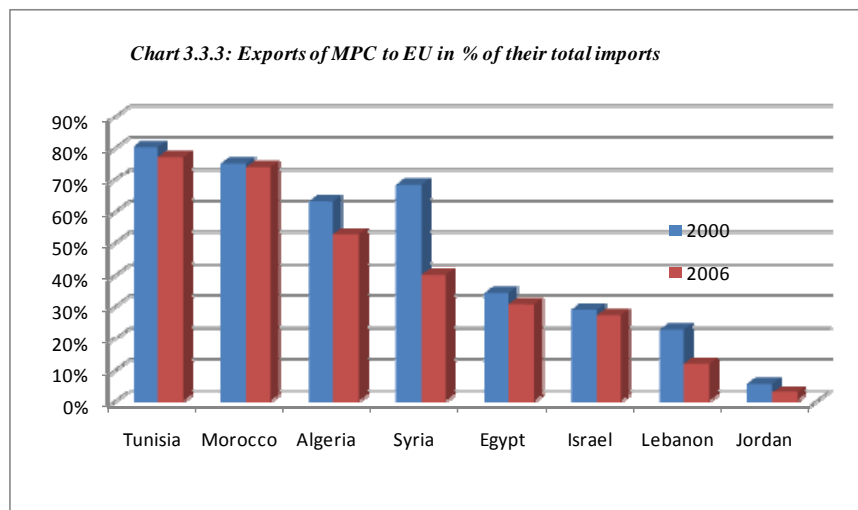
Thus with the exception of Turkey all MPC have a business environment that does not make them attractive for investors and is an impediment to their competitiveness.

Inward *foreign direct investment* (see section 2.4 of annex 2) has significantly progressed in the MPC but has been accompanied by a declining share of FDI originating from the EU.

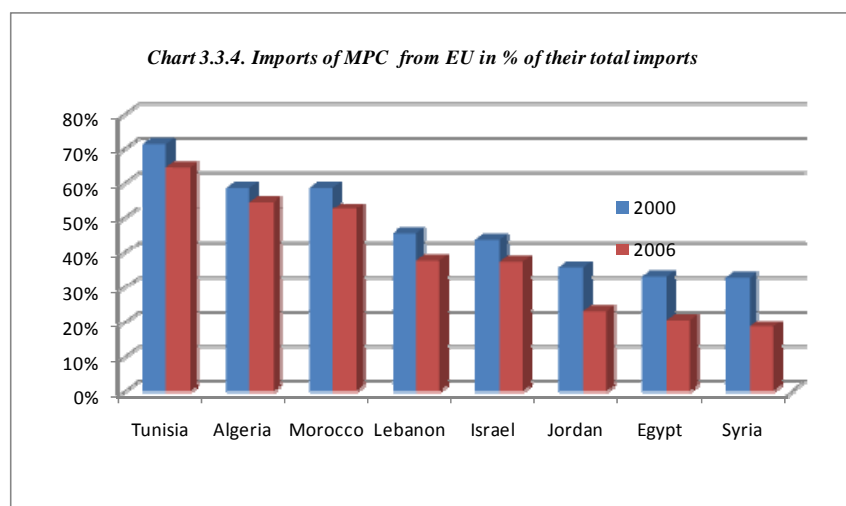
Annex 14 analyses the trend in the *international trade* of the MPC with special attention to *their trade with the EU*, and their *intra-regional trade*, since these are important indicators along the major objective of an integrated economic area. The EU is a major trade

partner for all MPC as evidenced in charts 3.3.3 and 3.3.4. Four MPC are directing 40% or more of their total exports to the EU. It is however striking that for all MPC, the share of their exports to the EU has declined in 2006 compared to 2000.

For imports a similar picture emerges but in general the relative reduction of imports has exceeded that of exports implying an improvement in the trade balances with the EU and a lesser economic dependence, but also a lower trade integration.



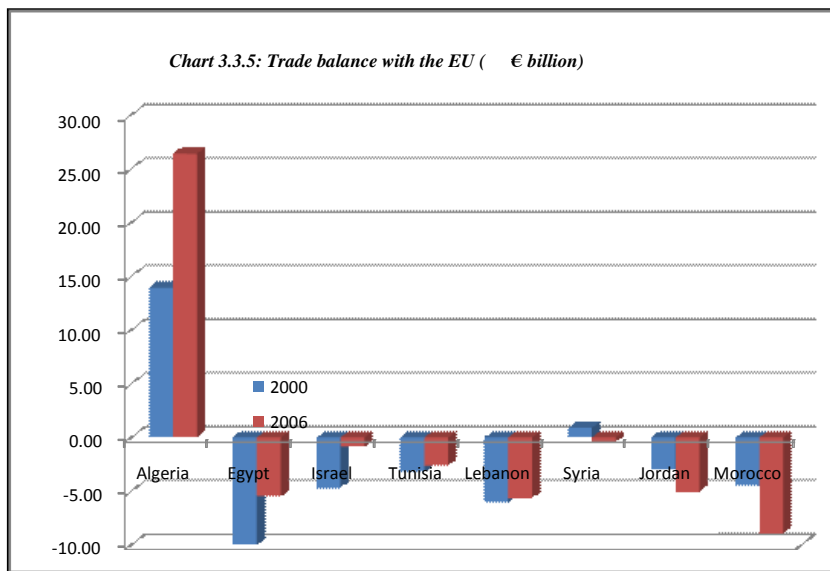
Source: International Monetary Fund, Direction of Trade Statistics (DOTS) Database



Source: International Monetary Fund, Direction of Trade Statistics (DOTS) Database

Over the period 2000-2006 exports of the MEDA-10 (without WB&GS) countries to the EU have grown at an average annual rate of 9% whereas the rate was 4% for the imports of MEDA-10 from the EU, thus implying a substantial reduction in the trade deficit of the MEDA-10 countries with the EU.

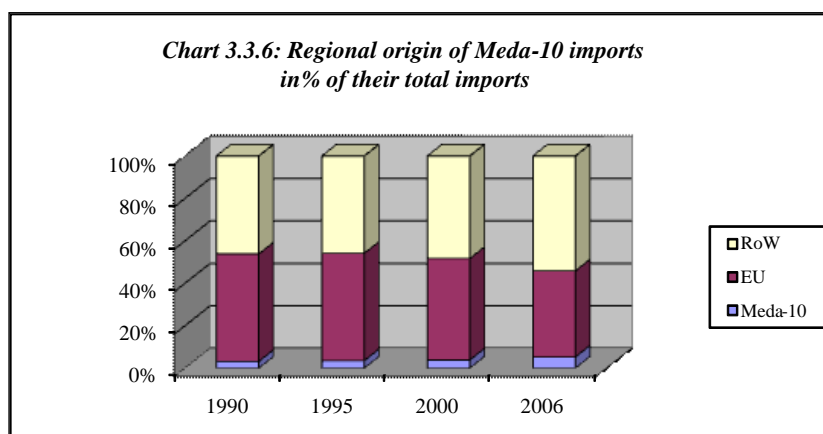
Chart 3.3.5 shows the evolution of the trade balance of the MPC with the EU. Leaving aside Algeria whose surplus on the EU exploded thanks to rising hydrocarbon prices, four countries have reduced their trade deficit with the EU: Egypt, Israel, Tunisia and Lebanon. Morocco, whose trade with the EU is important has a rising deficit with the EU, as well as Jordan whose trade flows with the EU are relatively less important.



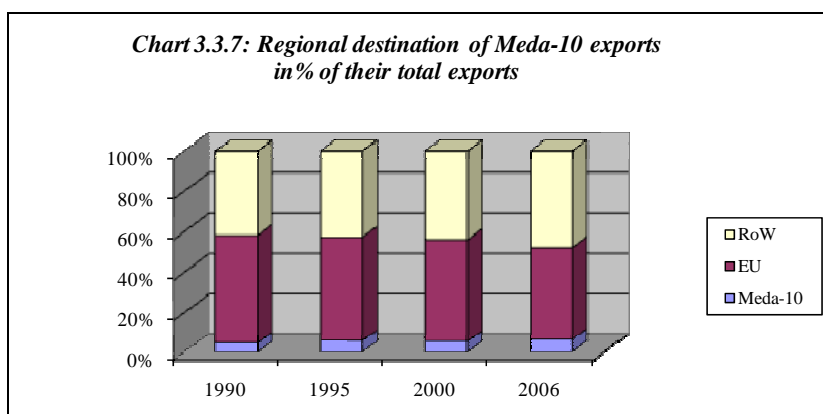
Source: International Monetary Fund, Direction of Trade Statistics (DOTS) Database

Regarding the total international trade of the MPC:

- All MPC have experienced growth of their international trade but they are losing global market shares except in four cases (Jordan, Lebanon, Egypt and Turkey).
- For all MPC, and particularly for those expanding their international trade more rapidly, the expansion takes place primarily in non-EU markets (See charts 3.3.6 and 3.3.7)

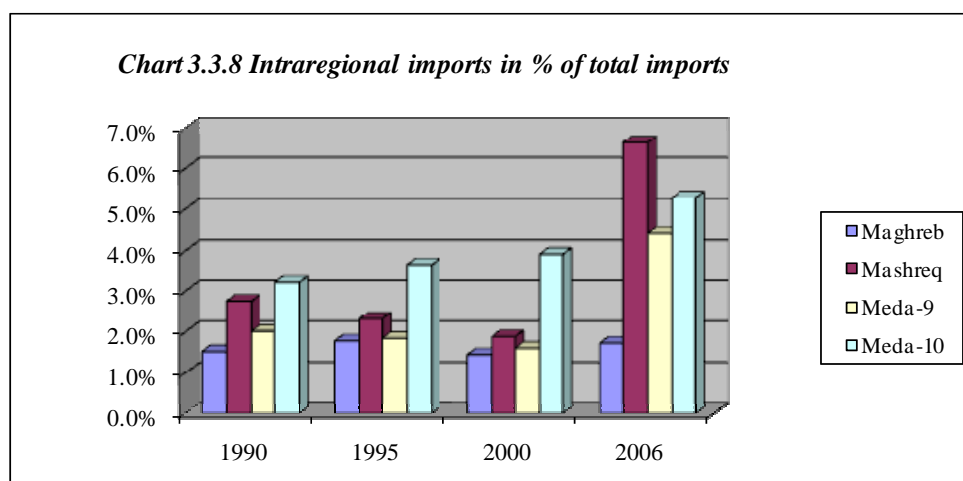


Source: International Monetary Fund, Direction of Trade Statistics (DOTS) Database



Source: International Monetary Fund, Direction of Trade Statistics (DOTS) Database

As far as regional integration is concerned, MPC appear one of the least integrated regional groups in the world with intra-regional trade barely above 5% of their total trade (Meda-10) (see chart 3.3.8). Only the Mashreq group seems to have engaged in increased intra-regional trade but even in that case intra-regional trade is lower than in most other regional trade arrangements.



Source: International Monetary Fund, Direction of Trade Statistics (DOTS) Database

Although being an important indicator merchandise trade is not the only manifestation of regional integration. Trade in services, foreign direct investments, and emigrant workers' remittances are also significant factors of economic integration<sup>47</sup>.

A recent study on trade in services<sup>48</sup> between the EU and the MPC shows that it is increasing gradually and faster than trade in goods. Tourism and business services are the main components with the MPC having a growing positive balance on the first of these items whereas the EU has an important surplus on the second one.

<sup>47</sup> See annex 2.

<sup>48</sup> Eurostat: Economy and Finance, Statistics in focus, 106/2008

The growth of foreign direct investment (FDI) in the MPC has significantly strengthened over the period 2000-2006. The larger share is coming from the Gulf countries which reinvested large financial surplus linked to rising oil prices. Their investments took place mainly in the banking and real estates sector. In relative terms FDI from the EU have declined but European investors remained the most important ones in the manufacturing and SME sectors that are crucial for the development of the productive basis and the diversifications of the MPC economies.

A significant number of emigrant workers from the MPC are working in the EU and in the Gulf countries. Their transfers (remittances) have been growing at a rapid pace and constitute an important source of external financing of their home countries.

This brief overview shows that whereas economic integration between the MPC and between the MPC and the EU remains limited in terms of trade, there are positive signs that the opening and liberalisation of the MPC is accompanied by closer economic links with their neighbouring countries.

Overall, the MPC have engaged successfully in important structural reforms and started to open significantly their economies. The contribution of the AAs and the resulting negotiated tariff dismantlement proved determinant in this respect. However, progress towards an area of prosperity and integrated trade still faces many difficulties and the dynamic convergence with the EU economies needed to achieve this goal does not take place yet. Several factors may explain this disappointing outcome:

- Although the resources to support the Barcelona process have considerably increased under MEDA II, both as a result of increased commitments and more rapid disbursement, they remain limited compared to the magnitude of the problems to resolve.
- The wide variety of situations in terms of economic development and economic regimes, and the lack of complementarities between the economies, are not favourable factors. Neither are the political context and regional tensions.
- Exogenous shocks provoked by international conflict and regional tensions made it harder to implement structural reforms and to deepen regional integration.

These factors are reflected in the relative slowness in moving ahead with association agreements. As pointed in an IMF study: “With some combination of unstable macroeconomic conditions, high external debt, heavy reliance on trade taxes, low initial trade openness, excessive regulation, and weak social safety nets, some partner countries may not have perceived strong gains from rapidly pursuing free trade with the EU, and even less from liberalizing trade within the region.”<sup>49</sup>

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<sup>49</sup> Saleh M. Souli: The Euro-Mediterranean Partnership Ten Years On: Reassessing Readiness and Prospects. 2006



Notwithstanding these difficulties, the Euromed partnership and the support from the MEDA II interventions have provided incentives to reform and contributed to liberalising the economies of the MPC. The integration goals via the Barcelona Process and the Neighbourhood Policy are ambitious and will require further major effort to achieve them.

### 3.4 Evaluation question 4 on improved livelihood of the poor

#### ***EQ4 To what extent have the Commission's interventions improved the livelihoods of the targeted beneficiaries, in particular the poor?***

Poverty reduction is an overarching objective applying to all the economic and development cooperation activities of the European Union. The fact that MPC are medium income countries does not dispense with the need for cooperation programmes to focus on poverty issues, although it may require that the issue be addressed in ways other than would apply in countries where extreme poverty is dominant.

The judgement criteria associated with this question are the following:

- 1° *the extent to which the Commission has targeted the vulnerable and the poor, either in designing specific programmes/projects to address their particular needs (JC 4.1) and/or in factoring in its other interventions activities aimed at poverty reduction and protecting the poor (JC.4.2);*
- 2° *the contribution of the Commission's interventions to the employability and economic opportunities for the poor (JC.4.3);*
- 3° *the contribution of the Commission's interventions to improving the place of the poor in the society verified by the capacity of the Civil Society to participate in the design and monitoring of social services (JC.4.4) and the access of the poor to basic services (JC.4.5)*

#### **Answer to EQ 4 on effectiveness and impact on improved livelihood of the poor**

Given that a majority of MPC are medium-income countries with relatively sophisticated social systems, there is a general perception in the region that poverty reduction should not be the main focus of cooperation. There is recognition of the wide differences between rural and urban areas and the existence of vulnerable groups (refugees, children...), and the Commission has developed some specific activities to address certain groups or areas. Overall there has been a consensus between the Commission and its partners that efforts should be concentrated on strengthening the economy and the social delivery mechanisms and on generating income and employment opportunities in a general way rather than targeting specific populations.

Support for the macroeconomic and structural reforms has contributed to improving the macro-financial equilibria of the partners and the business environment. The major interventions (BS and TA) in support of sector reforms (social sectors, water, justice) have contributed to strengthening institutional and managerial capacity and there are reasons to assume that this is leading to better service delivery, including delivery to the poor, but no instruments to verify this result have been put in place. The few projects that have targeted specific groups have produced positive results.

The Commission has engaged into projects involving Civil Society organisations (CSO) and raise their capacity to interact with the government. Where such interventions were possible they have contributed to improved professionalism of the CSO.

Finally, it is important to keep in mind that substantial assistance to the MPC is also funded from non MEDA budget lines (humanitarian assistance, assistance to the Palestinian refugees, food aid, etc.) and is largely targeted to the poor.

***Poverty reduction is not the core priority of the MPC's development policies or of their requests for cooperation***

With the exception of Israel, a high-income country, all MPC covered by this evaluation are medium-income countries. There are however large differences in annual income per head, from \$1,271 in WB&GS to \$19,878 in Israel in 2006 (see Table A2.2 of annex 2). Besides the wide range of *per capita* incomes there are important differences within the countries and significant proportions of the populations remain below the poverty line (See table A2.8 of annex 2), particularly in rural areas. Internal, regional and international conflicts and terrorist activities have generated situations of poverty and large, vulnerable refugee populations.

While there is recognition of these facts, poverty reduction is not perceived as the most important priority of development policy. The MPC are part of the medium group in the Human Development Index computed by UNDP and they have developed operational social security and social protection mechanisms. Tunisia, for instance, has succeeded in bringing the proportion of its population below the poverty line to 13.9% in rural areas and 3.6% in urban areas.

A majority of Commission interventions aimed at strengthening the economic context and institutional capacity in diverse sectors but did not specifically target the poor.

In such situations the demands for cooperation addressed to the Commission by the countries concerned were seldom directly linked to poverty reduction<sup>50</sup>. The main demands were for activities that strengthened competitiveness and the growth potential of the economies or underpinned reforms to improve the operations of key sectors providing social services (education, health) and public goods (water, justice).

The Commission has responded with large structural adjustment type BS interventions (FAS IV in Tunisia, economic sector reform in Jordan, tax reform and public administration reform in Morocco) and TA or a combination of BS and TA to support private sector and trade development (TEP A, B and C in Egypt, industrialisation modernisation programmes and SME support programmes in various countries, etc.).

These activities stimulated reforms and produced results and notably they strengthened the resilience of the economies in the face of external shocks. This was analysed under EQ3. Generally, no specific "pro poor" targeting was included in the design of these interventions and no provision was made for mitigating the effects of some reforms that might adversely affect certain sections of the population<sup>51</sup>. The improved economic performance to which these activities contributed has probably been beneficial insofar as it created opportunities for employment and income but there is no evidence that they benefited or protected the poor.

Similarly large BS interventions and sector programmes were aimed at institutional strengthening (education, health, water, justice). These programmes targeted institutions, not populations. With few exceptions (e.g. most vocational training projects had a special focus on non-skilled labour) they did not include components or activities focused on the poor or

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<sup>50</sup> See Annex 7 (Indicators related to JC 4.1)

<sup>51</sup> See Annex 7 (Indicators related to JC 4.2)

vulnerable groups. The results of these interventions are discussed in the answers to EQs 5, 6 and 7. They generally improved the managerial capacity of the institutions targeted but there is no possibility of assessing their impact on the poor.

Only a few activities targeted specific poor populations<sup>52</sup>. They were conducted in the field of rural development in targeted regions (e.g. PADSEL in Algeria, the South Sinai development project in Egypt), or for the benefit of a vulnerable group (e.g. Children at risk in Egypt, and most vocational education programmes). These activities were conducted in such a way as to maximise a participatory approach involving the beneficiaries. It is not possible to generalise as to their results but some achieved good results, albeit on a limited scale. In Egypt the Children at Risk project contributed to improved access to quality education for rural girls and improved protection for girls against female genital mutilations<sup>53</sup>.

With few exceptions the Civil Society, which is very weak in the region, has not been involved in the design of interventions<sup>54</sup>. Participation of Civil Society organisations in the delivery of social services and in reflecting the voices of the poor is a sensitive issue in many MPC.

### 3.5 Evaluation Question 5 on justice and home affairs, human rights, and civil society

***EQ5 To what extent have the Commission's interventions contributed to improved good governance in the fields of the administration of justice and the police, respect for human rights and participation of Civil Society in the development process?***

The question focuses on three clusters of governance: **i**<sup>o</sup> reinforcement of the rule of law and administration of justice, **ii**<sup>o</sup> promotion and protection of human rights, and **iii**<sup>o</sup> enhancement of the role of Civil Society and building up its capacity (the public finance dimension of governance is addressed in EQ6). The question mainly addresses effectiveness and impact and seeks to verify the extent to which Commission interventions targeting these governance issues supported the objective of constructing a common area of peace and stability. It assesses the rationale for intervening in these areas, the type of support provided by the Commission, and the progress of the MPC in these areas as a result of Commission support.

The answer to the question is based on three groups of judgement criteria related respectively to

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<sup>52</sup> It must be remembered that substantial assistance is provided to the Palestinian refugees via the funding of UNWRA by the Commission ; this is outside the scope of this evaluation, as is assistance funded from other budget lines such as food aid.

<sup>53</sup> See Annex 7 (Indicators related to JC 4.5)

<sup>54</sup> See Annex 7 (Indicators related to JC 4.4)

- i° the efforts of the Commission to address these aspects of governance (JC.5.1) and to accompany reforms of the judicial systems (JC.5.2)*
- ii° the results of the supported reforms in terms of governance of the judicial system (JC.5.3), benefits for the targeted populations (JC.5.4) and capacity of the poor to express their needs (JC.5.5)*
- iii° the progress achieved in terms of respect of the human rights in the MPC (JC. 5.6)*

#### Answer to EQ 5 on justice and home affairs, human rights, and civil society

The Commission made significant efforts to implement programmes in the sensitive fields of justice and home affairs, human rights and democratisation, and Civil Society. Interventions were aimed at supporting ongoing national reforms of the judiciary systems and at developing the institutional and administrative capacities of the justice administration. In the two remaining fields they targeted the strengthening of national institutions and NGOs through capacity-building.

In these areas the policy dialogue cannot exist if it is not supported by an effective political dialogue. Indeed, the policy dialogue in these fields proved difficult but the Commission succeeded in obtaining the agreement of some partners for a series of interventions. The amounts committed, representing 4% of total MEDA II commitments, are still negligible compared to the support provided to economic reforms and social areas, but this theme is also supported from other Commission budget lines.

The expected results in terms of reform of the judiciary systems have not yet materialised, mostly due to political conditionality which is often not accepted by the partner country. Conversely, the delivery of training, seminars and equipment also provided for by these programmes has been successful.

The few linkages at implementation stage between bilateral and regional programmes supporting the justice field has substantially limited the potential impact of the Commission support since the achievement of regional programmes could not benefit bilateral programmes and vice versa.

Civil Society organisations and national institutions benefited from significant strengthening which enhanced their capacities and favoured their development.

#### ***The Commission made substantial efforts to address these sensitive governance issues***

In its strategy and programming documents for each MPC, the Commission presented the situation and progress achieved in the field of human rights, democratisation and the rule of law, and its support strategy and interventions in the three afore-mentioned sectors.

The Commission indeed addressed the fields of democratisation and human rights, Civil Society and justice and home affairs<sup>55</sup> *via* a series of interventions that represent 5% of total MEDA II commitments over the period (€238m)<sup>56</sup>.

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<sup>55</sup> See Annex 7 (Indicators related to JC 5.1)

- **Justice and home affairs** is the most important component with about €142m. The interventions were designed to accompany national reforms already entered into by the MPC governments. Activities in the justice sector were mainly related to the development of institutional and administrative capacities, and included training of judges, setting up of a judicial Euromed training network, and exchange of information and experience. In the police sector, the border police was an important target (notably in Morocco and Algeria); institutional building, training and equipment were the inputs provided in this area.
- **Human rights and democratisation:** the Commission interventions were mainly directed to the building and strengthening of national human rights institutions (e.g. the National Centre for Human Rights in Jordan), and support to the media and to women's and children's rights (e.g. Children At Risk in Egypt).

**Support to the Civil Society**<sup>57</sup>: many calls for proposal have involved the civil society and stimulated activities aimed at promoting the role of Civil Society in the process of social development. They involved capacity-building of NGOs and national institutions (e.g. the "Agence de Développement Social" of the Ministry of Employment and National Solidarity in Algeria) and funds for the financing of projects selected on the basis of calls for proposals (AFKAR I and II programmes in Lebanon). In certain countries (e.g. Egypt) the Commission support targeted vulnerable and marginal groups. The Commission's interventions have not only targeted the civil society *stricto sensu* but also included local collectivities working outside the capital towns and addressing the needs of the local populations. Non MEDA II interventions and thematic budget lines have also been mobilised to this end. Generally, it proved extremely difficult for the Commission to intervene in these areas owing to their politically sensitive nature (Civil Society and human rights) and to the fact that they are sovereign domains (justice and home affairs)<sup>58</sup>. Examples include the justice programme in Algeria. Some partners even expressed strong resistance (justice and media programmes in Tunisia) or even asked for a complete redesign of the programmes (security and rule of law in Lebanon). In a context of a difficult policy dialogue with the partners, the Commission often preferred to leave interventions to the UNDP. These issues are also the object of funding *via* other budget lines, in particular the EIDHR.

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<sup>56</sup> See Annex 3

<sup>57</sup> Civil Society is composed of the totality of voluntary civic and social organisations and institutions that form the basis of a functioning society as opposed to the force-backed structures of a State (regardless of that State's political system) and commercial institutions.

<sup>58</sup> See Annex 7 (Indicators related to JC 5.2) and Annex 11.

***Supporting the Civil Society from MEDA I to MEDA II: an example of learning by doing***

One of the objectives of the MEDA Regulation (art 2) is to promote *Good Governance ...by supporting key institutions and key protagonists in civil society such as local authorities, rural and village groups, mutual aid associations, trade unions, the media and business organisations, and by assisting in the improvement of the capacity of the public administration to develop policies and manage their implementation.*<sup>59</sup>

In the previous MEDA I programme the Commission support had mainly targeted Civil Society actors, especially NGOs, through specific programmes managed by the Delegations, and through the European initiative for Democracy and Human rights (EIDHR). These initiatives mainly focused on providing direct technical and financial help to NGOs to implement their projects. One of the main “lessons learnt” was that **support to government bodies and strengthening the consultation between authorities and Civil Societies is essential to the overall improvement of participatory approaches and democratisation.** It was necessary to build capacities within governmental institutions to interact and move towards a more constructive and complementary cooperation between both actors, in order to achieve sustainable development.

As a result, **the strategy was changed under MEDA II:** democracy assistance is focused on capacity-building over the long term, by strengthening both public institutions and Civil Society, with the aim of enhancing participation, representation, transparency and accountability. The approach is twofold: there is no longer any direct funding of NGO & CSO projects, EC financial support being channelled through funding of (most often social) programmes managed and monitored by large governmental institutions:

- a) Capacities were strengthened within governmental institutions, agencies or line ministries to facilitate a more constructive and complementary cooperation with Civil Society,
- b) Specific funds or grant facilities were set up within these large institutions for a Civil Society programme, usually implemented through a call for proposals and funding of specific projects by the selected CSOs. Generally the programmes aim at organisational development of local NGOs (capacity-building in project management and accounting procedures) as well as institutional development (networking and creating platforms). Examples are Egypt’s Children At Risk and Algeria’s ONG II.

In countries where the dialogue on human rights and political issues is very sensitive and difficult, support to **human rights and advocacy organisations** is mainly channelled through the EIDHR programme directly to the local CSOs or indirectly via international NGOs.

***The reform of the judiciary systems has been slower than expected and bilateral and regional support did not fully strengthen each other***

In the field of justice and home affairs, Commission interventions generally delivered their expected results in terms of equipment and training. However, the reform of the judiciary systems that they were also supporting proved slower and more difficult to achieve (e.g. justice programme in Algeria)<sup>60</sup>. The reasons are often the refusal by the partners of political conditionality in a sovereign domain and the high turnover of technical assistance. Similarly, the regional programme Euromed Justice I produced its expected results in terms of

<sup>59</sup> EC Communication COM (2003) 294 , Strategic guidelines – Reinvigorating EU actions on human rights and democratisation with Mediterranean partners

<sup>60</sup> See Annex 7 (Indicators related to JC 5.2 and JC 5.3) and Annex 11

exchange of information, training and seminars, drawing together judges and magistrates with a strong emphasis on post-9/11 security issues. Bilateral and regional interventions in the field of justice have been designed in order to avoid duplication. Some complementarity has been achieved in the sense that at regional level specialised professional training has been provided on issues that would have proved more difficult to tackle at bilateral level, such as the right to a fair trial and access to justice. However, this did not have a spill-over on the implementation of the bilateral programmes because it did not involve the same actors and limited information was circulated between the teams implementing regional and bilateral programmes.

***Recent progress in the field of respect for human rights and fundamental freedoms has been observed***

The contextual analysis (see annex 2) points to progress in recent years in the area of democratisation and human rights. Many recent political developments in the Arab region seem to indicate an incipient opening-up to democratisation (e.g. elections, constitutional reforms). For example, in Egypt a National Council for human rights and an ombudsman service at the national council for women have been created. These positive developments are also stressed in the Progress Reports prepared by the Commission within the framework of the ENP Action Plans. At the same time the rapid rise of moderate and reformist Islamic movements as well as political extremism (Islamism) has put severe pressure on political regimes in the region and sometimes slowed down progress towards more political openness and pluralism.

Although some progress has been made, reasons for concern persist. According to data provided by the US State Department<sup>61</sup>, the individual human rights situation in the MPCs has not much improved over the period 2000-2006 and in 2006 was still a source of concern. Most governments continue to commit serious human rights abuses and significant problems in Governments' human rights records remain.

It is likely that Commission interventions contributed to the positive developments mentioned but it is not possible to attribute them to the MEDA II support. Moreover, the expectations of human rights organisations relating to the creation of a dialogue and networks between MEDA partners and with the benefit of the MEDA umbrella were not fulfilled.

***Civil society organisations have been strengthened but they do not increasingly participate in the development process***

In line with the recent two-fold approach adopted by the Commission for supporting Civil Society (see box above), Commission interventions allowed enhancement of the capacities of both national institutions or agencies and NGOs to formulate and prepare projects (NGO II in Algeria, Children At Risk in Egypt, and AFKAR I and II programmes in Lebanon which supported NGO projects in the field of rule of law and civil rights). This was helped by the national contexts in which CSOs are evolving: for example the recent controlled opening-up of Civil Society which allows more cooperation between NGOs and authorities (Algeria) or the few restrictions imposed on CSOs (Lebanon). The impact of this increased capacity of NGOs on the populations is however seldom measured and is very difficult to assess.

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<sup>61</sup> US Department of State, 2006 Country Reports on Human Rights Practices, <http://www.state.gov/g/drl/rls/hrrpt/2000/nea/>, <http://www.state.gov/g/drl/rls/hrrpt/2006/>

As regards the increasing participation of CSOs in the development process, no major improvement can be observed. For instance, the analysis of selected interventions related to the development of CSOs (Annexes 6 and 7) shows that in Egypt, Civil Society is not involved in the development of the Anti Poverty Strategy and EU-Egypt relationships are regarded by the Egyptian authorities as a government-to-government relationship in which Civil Society plays no part. Similarly, the Commission has not systematically involved CSOs in its interventions - in either design or implementation - which do not target directly this field.

### 3.6 Evaluation Question 6 on budget support

***EQ6 To what extent did the increased use of budget support as an instrument to support reforms contribute to improving public finance governance and increasing the cost-effectiveness of interventions targeted on public finance and social sector reforms?***

The increased provision of financial assistance in the form of budget support represents an important change in the approach of the Commission's assistance under MEDA II *vis-à-vis* MEDA I. Hence this specific question analyses the implications of this shift. The answer to the question is based on judgement criteria that assess:

- *The preparation of BS operations, i.e. the quality of the policy dialogue with the partner.*
- *The outcomes and sustainability of BS interventions in terms of functioning economic governance in the areas concerned and improved benefits for the targeted populations*

#### Answer to EQ 6 on budget support

Support to reforms using the BS modality has been increasingly used by the Commission in four MPC countries where it amounted to more than 50% of the total support provided under MEDA II. It supported macro-economic (i.e. structural adjustment type reforms or reforms of the fiscal system) and sector reforms (social sectors, water, public administration) that were priorities and initiatives of the partner.

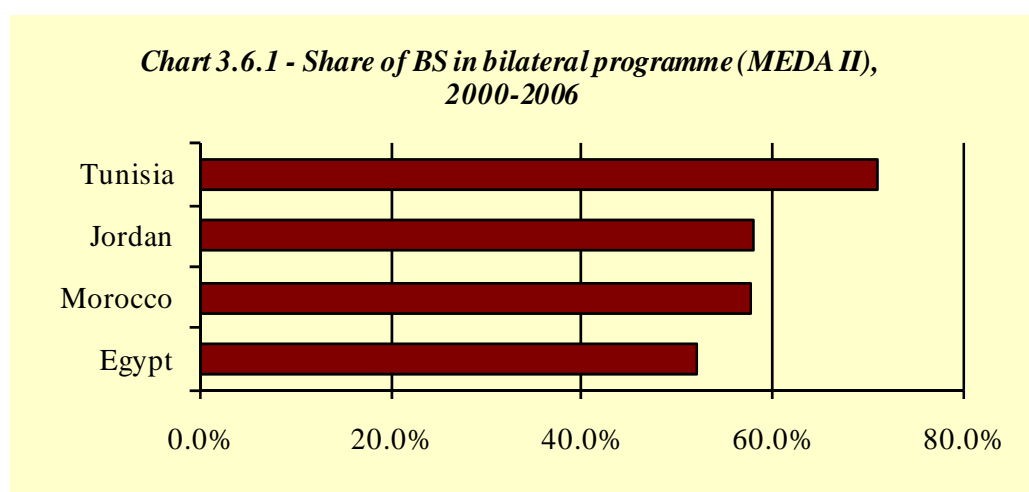
The preparation and implementation of BS interventions gave the Commission the opportunity to complement the *political dialogue* it had with the partner in the context of the AA with a *policy dialogue* on specific reforms which were high priorities for the partners, and of which the direction and content were considered by the Commission to be of mutual interest.

The implementation of BS interventions has been based on conditions negotiated and agreed with the partner and the other donors involved in the support. These conditions related generally to the adoption of successive steps of the reform process and were verified on the basis of modalities of confirmation that were also agreed beforehand.

BS interventions proved effective in stimulating and accelerating the reforms they supported, simplifying the management of assistance on the partner side and creating a climate favourable to continuous dialogue on reforms. There is clear evidence that BS interventions, particularly those targeted at systemic reforms, have contributed to important changes in the institutional and governance patterns of the beneficiary countries. The shift of the Commission's assistance towards BS has been generally appreciated by the partners because of its integration into their own reform process.



### ***Magnitude and nature of the BS interventions in MEDA II***



*Source: Annex 3 – Inventory of MEDA II interventions*

Over the evaluation period 29 budget support (GBS and SBS) interventions were initiated to a total commitment of €1.76bn, or 53% of bilateral<sup>62</sup> MEDA II support (see Annex 3). These interventions supported macroeconomic reforms and economic institutional support, education, health, infrastructure (notably water) and private sector development. They were implemented in four countries<sup>63</sup>: Egypt, Jordan, Morocco and Tunisia. In those countries BS represents more than 50% of the total cooperation programmes funded under MEDA II (cf. Chart 3.6.2). Annex 5 provides a description and the main characteristics of the budget support interventions that were also among the selection of 25 interventions.

#### ***Preparation and implementation of BS interventions and policy dialogue***

The MPC have characteristics<sup>64</sup> that create a specific context for the design and implementation of BS, viz:

- They are generally medium-income countries, and the financial assistance provided through the BS represents a small fraction of their budget. For instance, BS targeted on the higher education sector represents roughly 1-1.2% of total government expenditure on education in Tunisia, while BS in the field of health represents 3% of government health expenditures in Egypt.

<sup>62</sup> Excluding Turkey.

<sup>63</sup> West Bank & Gaza Strip BS interventions are not considered in this evaluation.

<sup>64</sup> The Commission has drafted guidelines on how to prepare and implement budget support. These guidelines, that are not prescriptive, were developed with a view principally to supporting poverty reduction strategies in low-income countries. In the Meda region these guidelines are not applicable. Two eligibility criteria, spelled out in Annex II of Regulation MEDA II, must be satisfied for providing budget support in the area: (1°) a reform programme approved by the Bretton Woods Institutions, or a programme regarded as analogous; (2°) account must be taken of the macro economic situation of the country and of the level of sectoral reforms with a view of preparing a free trade area with the European Community.

- The amounts are not negligible and are appreciated, but their magnitude does not make them crucial to the partners who could generally conduct their economic and social development programmes without them. The Commission is therefore not in a position to “buy” its participation in the formulation and implementation of the reforms. This is compounded by the fact that in several MPC the Commission is not the most important donor (notably the case in Jordan).. Some MPC have fairly well elaborated PFM systems which they regard as working well, and they do not appreciate being asked to submit them to assessments such as the PEFA<sup>65</sup>.
- Compared to other cooperation regions, the MPC tend to have relatively well-defined policies and priorities and an institutional capacity to implement them. Medium-term objectives and reforms to achieve them are the object of presidential or government programmes that are explicit and clearly understood, and are provided with the instructions and means for moving in the prescribed directions.

Given these characteristics and the eligibility conditions imposed by the MEDA II Regulation:

BS accompanied reforms that were high priorities for the partner and elaborated on its own initiative. They mostly related to economic reforms linked to the second pillar of Barcelona (structural adjustment reforms, trade related reforms), social reforms and improvements in water and sanitation systems. The partner’s strong initiative in the reforms guaranteed ownership but made questioning of their content more difficult. Tunisia is an example of a country with a highly articulate administration that does not easily accept discussion of its working practices. However, the strong ownership of the reforms and the fact that they were in areas of mutual interest led to constructive and positive dialogue on their content and the policies for implementing them. It took place through *negotiation* of matrices of conditionalities that gave rise to extensive and continuous preparatory work. For a number of BS interventions several donors contributed to the same reform programme and conducted joint preparation and assessment missions as well as a single dialogue with the partner<sup>66</sup>. In these coordinated exercises the WB brought considerable technical expertise. The Commission’s comparative advantage was the political credibility its support gave to the reforms, particularly in countries with important links with the EU.

The negotiation dimension promoted an in-depth policy dialogue at both the identification and preparation stages of the interventions but also during implementation. However, the higher political content imparted by the negotiation aspect of conditionalities may also explain the fact that non-governmental stakeholders were less involved in the preparation of BS interventions than in traditional programmes. The private sector operators notably expressed concerns about their limited involvement in the BS programmes linked to major economic reforms.

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<sup>65</sup> Although PEFA exists since 2001 and the MEDA region has been an important beneficiary of BS, the first PEFA was conducted in 2007 for Jordan.

<sup>66</sup> For instance, WB and AfDB in the FAS IV in Tunisia, the reforms of the tax system, the water sector and the public administration in Morocco

### ***Implementation and monitoring of BS interventions***

As BS has been used to promote, encourage and support systemic macro-economic and sector reforms, their monitoring by the Commission has been focused on accompanying the reform process undertaken by the partner and verifying the adoption of its successive steps. This was done by negotiating with the partner and in coordination with the other donors involved, in advance of the provision of the Budget support, a matrix of conditions. Among these conditions some are regarded as conditions for disbursement. Their fulfilment is required to allow the disbursement of the financial tranche of the budget support to which they were associated. To avoid misunderstandings, modalities of confirmation were agreed and used to verify whether or no a disbursement condition is satisfied. For example, in the case of the macroeconomic support FAS IV in Tunisia<sup>67</sup> a condition of disbursement of the first tranche was to create markets open to competition. A number of required actions were identified (introduce the administrative and financial autonomy of the Council of Competition, provide for the consultation of the Council prior any legal or regulatory action that could have an impact on competition, create the possibility for the council to refer a matter to itself). The modality of confirmation to verify the implementation of these reforms was the submission by the Government of a proposal of law on these issues.

There are several arguments supporting this approach:

- the partners in the MPC are not willing to make commitments on the results of complex reforms; such results take time to materialise and are difficult to attribute to a particular intervention;
- negotiated conditionalities provide credibility to the partner's policies; politically unpopular measures are more easily advocated by the governments if they are supported by the donors and regarded as essential for upgrading governance to international standards;
- the publicity of the conditions and of the associated disbursement of the BS generates a visibility that is an additional incentive for governments to stay in line with the negotiated conditions;
- whereas for basic development policies, in sectors like health and education for instance, indicators of outcomes rather than verification of the process are appropriate and relatively standard (enrolment ratios, coverage of vaccination etc...) it is questionable whether relevant indicators evolving and verifiable over short periods can measure the results of complex policies intended to strengthen the overall competitiveness of an economy and improve its stability or resilience to external shocks.

### ***Results and impacts of support to reforms interventions using the BS modality.***

Most of these interventions have succeeded in *deepening, influencing and/or accelerating the reforms* on which they were targeted. This is evidenced by the disbursement of the successive

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<sup>67</sup> See Annexes 5 and 6.

tranches and the associated disbursement files that verify the fulfilment of the conditionalities agreed upon (cf. annex 5). Nearly all conditions have been completely fulfilled and only in very few cases conditions were only partially fulfilled.

The implementation of BS interventions to support reforms has usually been successful, especially when the Commission followed up closely the evolution of the reforms and maintained a continuous dialogue with the partner authorities and the other donors involved in the BS. It is worth noting that the most difficult measures to implement in the macro-economic and water sectors, and that were generally not fully implemented, were those relating to the reforms of tariffs and subsidies and aspects of governance in the banking and financial sector. In some cases conditions had to be adapted with the different parties to take into account political realities, consequences of non-anticipated external shocks, or over-optimistic estimations of the time needed by the institutions to prepare and adopt some reforms.

### *Bringing about change with budget support<sup>68</sup>*

Unlike traditional technical assistance programmes that provide resources to conduct predetermined activities aimed at achieving specified objectives within a defined time-period and budget, BS interventions transfer financial resources to the budget of the beneficiary to be used in accordance with its PFM to implement mutually agreed policies. BS is appropriate for stimulating and accompanying changes and reform policies.

Since BS financial resources are merged with and constitute only a fraction (small in the MPC) of those of the recipient countries it is not possible to establish a direct link between the Commission assistance and a particular result. However, in the MPC it can be observed that BS accompanied policies that introduced important changes in regulatory frameworks, macroeconomic policies, and governance modes. The following are a few examples that illustrate the changes brought by policies supported with Commission BS :

- Morocco: support to the public administration reform<sup>69</sup>. The reform of the administration is a high priority of the government. It aims at transforming a heavy public administration with strong feudal traditions into a modern administration with sound and transparent budgetary and human resources management. The fact that BS allowed a constructive dialogue on a sensitive sovereign issue is already a major achievement. The main results so far are the implementation of a set of internal reform improving, among others, the regulatory framework and the control of the recruitment. A voluntary retirement programme has been set up and went beyond target contributing to a significant reduction in the number of public sector workers.
- Tunisia: the “Programme de modernisation de l’enseignement supérieur”<sup>70</sup> is set within the global framework of the national human resources development of the country. It contributed to reinforcement of the capacities of the higher education system and has been fully appropriated by the authorities. Indicators show an improved global performance of the sector: number of students and teachers, diversification of sectors, development of universities.

<sup>68</sup> See also other examples in the analysis of Evaluation Question 3.

<sup>69</sup> See Annex 6 (14\_M\_PubAd)

<sup>70</sup> See Annex 6 (17\_T\_Educ)

- Jordan: sector reform facility. This BS is supporting the Government reform programme aimed at enhancing private sector, trade, investment and growth. The supported policies aimed at stabilising the macroeconomic framework (reform of the tax system), modernisation of the financial sector, and development of an enabling framework for businesses, particularly in the export sector. Although attribution is not possible, improvements are visible on the macroeconomic front (higher growth, significant reduction in the public debt) and there is evidence of improved penetration of Jordan exports on international markets but this breakthrough did not take place on the EU market..

The TEP in Egypt, FAS IV in Tunisia, cooperation in the water sector in Egypt and Morocco, in higher education in Tunisia, and in sector reform in Jordan, were all interventions that led to the adoption of important reforms and substantial improvements in the management capacity of the respective institutions.

Commission budget support, through the continued high-level policy dialogue it maintained with the beneficiary, accelerated numerous programmes. There are also cases where it helped in the adoption of reforms that would otherwise have been internally blocked if the whole context of BS had not given their promoters the arguments and political credibility to promote them.

Overall BS interventions have been appreciated by the partners. They helped them conduct reforms they were themselves determined to implement and allowed them to make appropriate decisions. BS has changed the nature of the policy dialogue and given the Commission a say in the direction and implementation of the reform process more than was the case with traditional TA programmes. The opinion of the beneficiaries is, however, that the latter remain necessary, particularly in sectors such as water.

### 3.7 Evaluation Question 7 on effectiveness and impact of interventions in the water sector

#### ***EQ7 To what extent have the MEDA interventions for infrastructure provision in the water sector delivered quantified economic and social benefits, supported national institutional capacity and furthered cross-border cooperation?***

Scarcity and quality of water are a major issue for the MPC. According to a World Bank study<sup>71</sup> the Middle East and North Africa region<sup>72</sup> accounts for 5% of the world population but only 1% of the world's renewable water resources. In this context water management is a central issue for the countries and for the region. It is a developmental and environmental problem but also a potential source of conflict if not properly managed. This question assesses the extent to which Commission-supported infrastructure and institutional developments in the water sector have facilitated development of productive and income-

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<sup>71</sup> World Bank: *From scarcity to security :averting a water crisis in the Middle East and North Africa*, Washington, 2004.

<sup>72</sup> In the World Bank terminology the MENA regions comprises **Algeria**, Barhrein, Djibouti, Iran, Iraq, **Israel**, **Jordan**, Kuwait, **Lebanon**, Libya, **Morocco**, Oman, **WB&GS**, Qatar, Saudi Arabia, **Syria**, **Tunisia**, United Arab Emirates, Yemen. (In bold : Meda-8)

generating activities, extended equitable access to resources, and promoted regional economic integration. The answer to the question is based on the validation of five judgement criteria.

*J.7.1 Commission interventions for infrastructure provisions (water) increased significantly access to and quality of services provided by the MPCs to their populations.*

*J.7.2 Commission interventions for infrastructure provisions promoted an integrated sector approach at national level and cross-border cooperation between MPCs.*

*J.7.3 Commission interventions for infrastructure have improved the capacity of the relevant sector institutions in the MPCs.*

*J.7.4 Interest rate subsidies and/or TA funded out of EC resources managed by EIB have allowed a significant increase in the provision of infrastructure in the MPC.*

*J.7.5 Results achieved by Commission support are maintained after the end of its direct support.*

#### **Answer to EQ 7 on effectiveness and impact of interventions in the water sector**

Support to the water sector has not been primarily intended to widen coverage or extend physical networks towards targeted populations (infrastructure was covered by EIB and other lenders) but rather to improve institutional governance and management capacities.

It was provided through traditional TA programmes and through BS interventions. In the latter case the approach was meant to review or redirect in a comprehensive way the water sector policies.

The beneficiaries and the stakeholders expressed a positive appreciation of the results, as confirmed by the ROM reports. The quality of the technical assistance furthered a real transfer of professional and managerial know-how. The TA facility made available by the Commission to the EIB permitted improvements in the preparation and management of the infrastructure projects.

Overall the targeted institutions implemented a number of reforms and changes of practice that improved their institutional capacity and should result in better services for their customers. However, whereas the reform process has been closely monitored, no tools have been developed to measure its effects on the beneficiary populations.

Some major sector policy reforms (tariffs, subsidisation) proved very difficult to achieve. They required political decisions on sensitive issues and were often outside the reach of the institutions that were implementing the projects. For this reason, BS interventions supported by a strong policy dialogue were regarded as the most appropriate tool and were used to this end. Progress was achieved but much more slowly than expected.

Although water is an important regional issue, the regional and cross-border dimension was very limited. The regional dimension was limited to activities pertaining to exchange of information and some cross-border training but not to applications. These regional programmes achieved so far limited results.

*The Commission's approach to the sector was targeted on the improvement of institutional and managerial capacities rather than extension of infrastructure.*

Interventions in the water sector represent approximately 10% of total MEDA II commitments (see Annex 3). Table 3.7 gives details of the amounts committed by country and chart 3.7 shows the share of water interventions in the total MEDA II resources committed to each country.

	Water				All sectors
	TA	B S	Int.Subs	Total	
Algeria	20.00			20.00	338.8
Egypt	64.00	80.00	37.70	181.70	592.5
Jordan	7.00			7.00	331.8
Lebanon	5.00		18.00	23.00	132.7
Morocco	31.94	120.00	10.00	161.94	982.0
WB&GS					522.4
Syria	8.00		5.00	13.00	179.8
Tunisia	8.50		15.60	24.10	517.5
Turkey (<2002)	77.40		16.06	93.46	551.5
Sub-total bilateral	221.84	200.00	102.36	524.19	4,149.1
Regional	42.16			42.16	904.4
<b>MEDA II Regulation</b>				<b>566.35</b>	<b>5,053.5</b>

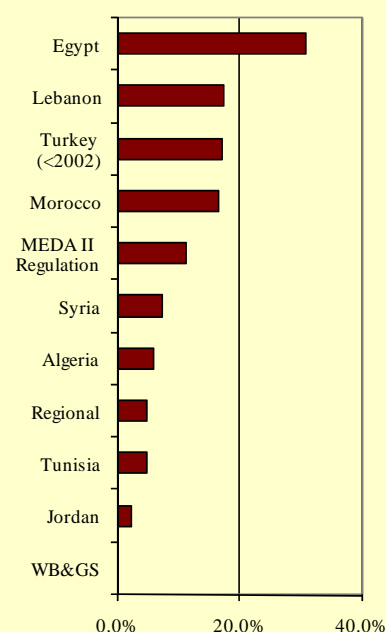
Source: Annex 3

Most interventions were of “soft” support to strengthen the institutional and managerial capacity of the administrations in charge of the sector rather than hard capital structures, with the exception of pilot projects<sup>73</sup>. Different financing modalities were used. The larger programmes aimed at comprehensive reforms of the sector policies in Egypt and Morocco were supported with sector budget support intervention. The technical assistance projects covered a variety of activities essentially aimed at providing institutional support and management tools.

Thus the overall objective of these interventions was not to improve directly access to national water resources for targeted populations but rather to foster their management and financial viability and, as a consequence, develop an enabling environment and opportunities for economic activities in rural and urban areas<sup>74</sup>. However, some projects involved more direct targeting: the South Sinai Development Programme in Egypt has a component of €21.5m for infrastructure projects such as village water supply, wastewater system improvements in selected towns, water tankers and tanks for rural communities.

A substantial fraction (about 20%) of support to the sector has taken the form of interest rate subsidies linked to the EIB loans previously mentioned. Such interest rates subsidies are offered on loans, under certain conditions, in the environment and natural resources sectors. The support, which may not exceed 3%, is usually half the interest rate charged by the EIB. It is budgeted over the entire duration of the loan. Such support substantially increases the

**Chart 3.7 Share of water interventions in total MEDA II commitments 2000-2006**



<sup>73</sup> It is worth noting that that a number of EIB loans, funded with the Bank's own resources under the Euromed II mandate, have financed or co-financed hard investments in the sector. Examples are the sanitation of the Sebou basin in Morocco (€40m), the South Lebanon and the Greater Beirut Waste Water projects (respectively €45m and €60m), the wastewater collection network and treatments plants of the “Office National d'Assainissement” of Tunisia (€40m) or the Damascus Rural Water and Sanitation project in Syria (€45m).

<sup>74</sup> See Annex 7 (Indicators related to JC 7.1)

attractiveness of EIB loans and is therefore likely to have a leverage effect on investment in the sector concerned (see also EQ10).

***The interventions improved the functioning and governance of the institutions supported but their effect on the sector policies remains limited.***

The analysis of ROM reports (annex 8) shows that overall the water sector interventions have been implemented successfully. Out of 40 programmes more than 70% have received an **a** or **b** mark (very good or good) on all evaluation criteria, and more than 85% received that mark for impact and sustainability.

Overall, interventions in the sector have contributed to clear improvements in the management of the institutions responsible for the distribution and quality of water. Reforming sector policies *via* BS interventions had specific advantages:

- The BS formulation stage provided a clear overview and analysis of the water sector's institutional capacity and its links with the macro-economic framework.
- BS interventions contributed to significant adaptation of the regulatory framework and strengthening of institutional capacities. However, financial sustainability and tariff adaptation remain stumbling blocks (e.g. structural adjustment programme for the water sector in Morocco) and proved the most difficult disbursement conditions to satisfy.
- It may be observed that issues like tariffs and subsidies that are crucial for the reform of the sector are generally not under the responsibility of the institutions (sector utilities) that are implementing most interventions in the water sector. For this reason, in that sector, BS proved superior to TA because it allowed a comprehensive policy dialogue with all stakeholders and decision-makers. BS programmes involved comprehensive reforms intended to affect directly or indirectly a large part of the population. Verification of the disbursement conditions permits the conclusion that the BS interventions contributed to the materialisation of many important reforms and institutional improvements. However, the absence of real indicators of results precludes an assessment of whether the benefits of these improvements have been passed on to the populations and enterprises using the services of the water companies.

The quality of the TA provided in this sector was generally appreciated by the beneficiaries. In particular the TA associated with the EIB loans and provided by the bank is regarded as very professional and contributed to improved management of the investment projects. In the environment and water sector the projects addressed by the EIB lending operations were complex and called for very specific expertise on areas such as tariff design, adjustment to EU environmental regulations and healthy forms for the re-utilisation of wastewater. The TA made available under FEMIP was strongly welcomed and in many cases even a condition *sine qua non* for the successful implementation of the overall project.

The managerial and technical aspects of the interventions have been well owned by the water companies in charge of implementation and beneficiaries. The more political aspects of the reforms, such as the reorganisation of the tariff schemes, were beyond the scope of the implementing companies and the willingness to engage into them proved much more difficult and less accepted by the partners.

Large TA programmes, like the €20m programme for water resources management in Algeria, proved more difficult to implement. They face a fundamental contradiction when they aim at promoting changes in sector policies: they are less well adapted to that purpose than BS interventions but are conducted in the form of TA programmes precisely because BS is not possible owing to a lack of financial justification or absence of willingness of the



partner to conduct a policy dialogue, or both. The short period within which they must be conducted, under the N+3 rule, further complicates their implementation (see also EQ11).

The sustainability prospects of most water sector interventions are quite encouraging as the evidence from the ROM reports and field visit interviews suggests. Water and sanitation management efficiency should be strongly enhanced when all reforms are in place and applied. Progress is already evident. Dissemination of information and training contributed to greater awareness (SMAP programme) of sustainable water and sanitation procedures. However, budgetary sustainability remains the crucial issue in the major sector reforms and is politically extremely sensitive. For several TA programmes the benefits for the local communities and the relevant stakeholders will be visible only after pilot plants are operating, that is close to or after project completion.

***Support to the water sector has entailed only limited focus on regional issues.***

Most regional programmes in the water sector which were operated through calls for proposals implicated several partner countries from the North and the South of the Mediterranean Sea. They aimed at putting in place similar activities in several countries of the area which mainly focused on : capacity-building of local partners in terms of facilities and human resources, knowledge on the social and institutional aspects of the irrigation management in the area through the development of guidelines and documentation, and promotion of exchange of know-how and technology among institutions (e.g. the Water Sector Cooperation EMWIS/SEMIDE programme, MEDA Water). The implementation of the activities brought direct benefits in the countries where they were implemented : for instance, 120 villages were supplied with drinking water and sanitation and with new techniques and technologies for wastewater reuse (see annex 6 -23\_R\_Water-). Their main regional benefits were the creation of North-South networks on subjects like drought management, irrigation technology, wastewater treatment, etc. where the exchange and availability of information is a key aspect. For instance, numerous well-documented websites (MEDA Water and those for each Programme) have been elaborated.

Otherwise, the modalities of implementation of water projects have seldom favoured cross-border cooperation<sup>75</sup>. This is in part due to political difficulties - for example the SMAP organised cooperation between Jordan and Lebanon but not Israel - or institutional difficulties (e.g. water in Egypt needs to be coordinated with Sudan which is not a MEDA country). There has been no development of cross-border infrastructure, only pilot projects exchanging results between countries.

The Middle East Peace Process project is a rare exception with a component (the Water data bank) designed to address, in cooperation between Israel, Jordan and WB&GS, the problem of reuse of treated wastewater. It succeeded in establishing a platform where all parties can communicate, exchange professional experience, and developed capability in this essential field.

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<sup>75</sup> See Annex 7 (Indicators related to JC 7.2)

### 3.8 Evaluation question 8 on cross-cutting issues

**EQ8** *To what extent were cross-cutting issues related to environment and gender taken into account into the design and implementation of Commission interventions and how far has this resulted in improved integration of these issues in the policies of the supported MPC?*

The question verifies that the pursuit of the Barcelona process overall objectives has been conducted in the respect of the principles assigned by the Treaty to the Commission's external cooperation. It verifies to what extent the issues of environment and gender have been inscribed in the bilateral and regional cooperation objectives and assesses the results achieved in these areas. The question concerns the criteria of relevance, effectiveness and cross cutting issues.

The answer to the question is based on six judgement criteria

- J.8.1 *Strategy documents of the Commission under the MEDA II regulation take environment and gender issues into account.*
- J.8.2 *The Commission's interventions in the MEDA region are designed and implemented so as to promote cross-cutting issues.*
- J.8.3 *The Commission's interventions in the MEDA countries/region are designed and implemented so as to stimulate regional cooperation in the management and promotion of cross-cutting issues.*
- J.8.4 *The Commission's interventions in the MEDA region have increased the awareness of the partners about these issues.*

#### Answer to EQ 8 on cross-cutting issues

Cross-cutting issues, recognised as critical per se and key for economic and social development, received attention in the Commission's programming documents. The nature of the problems in the field of environment and gender and especially the solutions to offer are however not the object of an in-depth analysis. As a result, the latter are proposed at the level of the interventions rather than at a more strategic and transversal level.

A few specific interventions both at bilateral and regional levels addressed cross-cutting issues: environment issues were addressed in the natural resources and water programmes for environment, whereas gender issues received attention through interventions in the field of human rights, civil society and agriculture for gender.

Specific interventions targeting gender and environment produced results in terms of awareness of the public authorities and awareness raising of the populations. As a consequence of the Commission's support, the awareness of environmental challenges has been strengthened in Tunisia and gender received increased attention in the Egyptian legislation.

***Cross-cutting issues received some attention in the Commission's strategy documents***

Cross-cutting issues are recognised as important per se and also as key elements of economic and social developments in the Commission's strategy documents (CSP/NIP). Gender being a sensitive issue at the cornerstone of Islamic society, the dialogue between the Commission and the MPC is extremely limited and the Commission therefore keeps a low profile.

The analysis related to gender and environment in the CSP is variable: from a simple reference (e.g. gender in the CSP for Syria) to a more comprehensive analysis which identifies the main challenges (e.g. environment in the CSP for Lebanon and Morocco). Generally, the nature of the problems in the field of environment and gender and especially the solutions to offer are not the object of an in-depth analysis. Indeed, the proposed responses to the issues are found at the level of programming documents for each intervention directly targeting these issues rather than being the object of an overall strategy. Moreover, the analysis related to these issues does not seem to be conducted in partnership with the beneficiaries.

***Regional cooperation in the management and promotion of cross-cutting issues has not been sufficiently stimulated***

The regional dimension of gender and environment is absent from the Commission's programming documents and interventions<sup>76</sup>. Whereas environmental matters concern several MPC, they have not been tackled regionally. Indeed regional programmes targeting the environment such as the SMAP have been implemented bilaterally between the Commission and each MPC (see also EQ 2 and 7). However, under the new ENPI programming an impulse has been given to target environmental issues at the regional level, notably to support the implementation of the Horizon 2020 road map for the de-pollution of the Mediterranean, as adopted by the EMP Environment Ministers on 20 November 2006 in Cairo.

***Cross-cutting issues have mostly been addressed through specific interventions that produced results in terms of increased awareness of the partners about gender and environment***

Gender and environment have been mainly tackled through a few specific interventions, both bilateral and regional, and received little attention in other interventions<sup>77</sup>. It shows that the cross-cutting dimension is not yet fully taken by the Commission's support under MEDA II. However, environmental issues are tackled by other thematic budget lines, such as LIFE third countries. Under MEDA II, environmental issues have mainly been addressed through natural resources and water programmes while gender has been promoted via

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<sup>76</sup> See Annex 7 (Indicators related to JC 8.3)

<sup>77</sup> See Annex 7 (Indicators related to JC 8.2)

programmes in the field of human rights, civil society and agriculture. Environmental programmes usually include indicators to measure outcomes, but the indicators are mostly qualitative. In the case of water programmes, indicators do not assess which categories of population benefit from the support. As regards gender, only a limited number of interventions include indicators to measure the outcomes of the interventions.

Direct interventions which addressed cross-cutting issues have produced results in terms of awareness of the public authorities and awareness raising of the populations. For instance, the Commission strengthened the awareness of environmental challenges in Tunisia via the regional SMAP. The activities of the programme financed research, documentation and information networks. However, their use by the authorities has not been factored in the programme design and therefore the usefulness of the results is limited. Still some positive points emerge from national experiences that have been gradually shared (e.g. SMAP/METAP<sup>78</sup> with the experience of ANGED<sup>79</sup>). In Egypt, the Commission targeted specific groups which suffer from gender related problems (girls' education and FGM), and as a result, increased the attention of gender issues in government policies (e.g. recent law criminalised FGM by medical staff).

### ***Likely contribution of the Commission to these positive evolutions***

Generally, the governmental policies of the MPC pay increased attention to gender and environment, showing that their awareness for cross-cutting issues is improving. Most MPC ratified international conventions related to gender and environment and mention these issues in their governmental texts. On the issue of gender, important shortcomings remain in the MEDA area as women are marginalised in economic and political structures and broadly discriminated against in law and custom.

The contribution of the Commission support to these evolutions is likely but limited as other factors played a more significant role. The increased level of education in general and proportion of girls in tertiary education are at the origin of an increased attention to gender. UNDP activities have an overwhelming importance in gender related matters. This is largely due the continuous work conducted by UNDP on the Arab Human Development Report. It raised the awareness about the gender issues and contributed to building UNDP's experience and credibility in this area.

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<sup>78</sup> METAP : Mediterranean Environment Technical Assistance Program

<sup>79</sup> ANGED : Agence Nationale de Gestion des Déchets en Tunisie

### 3.9 Evaluation Question 9 on sustainability

***EQ9 To what extent are the institutions supported, and the results achieved by the EC assistance, likely to be sustained without further Commission support?***

The question verifies whether sustainability was factored into the design of the interventions (pre-assessment of the capacity of the beneficiary to pursue the activities after the conclusion of Commission support, formal agreements with the beneficiary to that end), that the ownership of Commission interventions has been ensured mainly through training and involvement of the beneficiaries at all stages of the project cycle and, for interventions that are completed, that they are maintained and continue to provide their benefits. The question addresses the sustainability and efficiency criteria.

The answer to the question is based on three judgement criteria:

*J.9.1 The sustainability of Commission interventions has been addressed at the design stage.*

*J.9.2 The ownership of Commission-funded facilities has been ensured.*

*J.9.3 National authorities continue to provide support to maintain the results achieved by Commission interventions.*

It should be noted that important elements of sustainability are also dealt with in other Evaluation Questions, particularly EQ6 on budget support and EQ11 on implementation efficiency. The answer to the question that is provided below therefore draws on more than just the above judgement criteria.

#### Answer to EQ 9 on sustainability

Commission interventions in the MEDA area are embedded in the beneficiary governments' policies and are therefore fully owned by beneficiary governments. This strongly reflected the strength of the administrative structures of the MPC which allowed them to design and implement their policies.

Budget support interventions have been particularly favourable to ownership and sustainability. They supported reforms often initiated by the partner and embedded as priorities in its political programme. These reforms benefited from a major financial effort of the MPC and, therefore were well appropriated; the supplementary resources of BS interventions were welcome but not the main incentive. BS interventions also favoured continuous involvement of both donors and partners and induced a policy dialogue on the reforms supported. They reinforced the capacity of the institutions supported, thereby allowing them to use and benefit from the management and evaluation tools introduced.

However, the sustainability of the policies supported by BS interventions will depend on their acceptability by the population. The elements of fragility of specific MPC economies threaten the political acceptability of the government development model if welfare conditions cannot be maintained (e.g. Tunisia).

Many large traditional TA programmes proved over-dimensioned and suffered from a lack of ownership. Their overambitious design, in terms both of size and of objectives, and the absence of the definition of an exit strategy, have been major impediments. Neither has

their management through PIU/PAO guaranteed their viability.

Regional programmes were designed with limited local involvement and were not conducive to appropriation of their results during implementation by Mediterranean partners.

Twinning, although recently introduced and still not very used under MEDA II, seems promising in terms of sustainability insofar as it benefits from good ownership and is likely to generate a cooperation between institutions that survives the physical presence of the technical assistance.

***Several aspects affect positively the sustainability of the institutions supported and results achieved...***

The relative strength of the administrative structures of the beneficiary countries is a factor of sustainability in itself since it allows donors to embed their interventions in the priorities of the MPC governments. This is especially true in Maghreb countries where the administration has the capacity to design and implement its policies. The reforms of the public administration and fiscal systems in Morocco are illustrations.

As they support governments' needs and policies, most bilateral programmes are fully owned by beneficiary governments (see also EQ2). In MEDA countries the existence of a project already implies a degree of ownership in the sense that it implies acceptance of its content by the partner. This is particularly true in sensitive fields such as Civil Society, human rights and justice.

In the case of BS interventions, several factors entailed stronger ownership and sustainability than applied to traditional TA programmes (see also EQs 6 and 11). First, the important budgetary involvement of the partners in BS interventions increased their ownership by the beneficiaries. Indeed, national authorities usually put in much more budgetary resources than the amount provided by the Commission in support of their reforms. The move from traditional TA programmes to BS interventions also fostered continuity of the policies and induced a policy dialogue on the reforms supported. Third, technical assistance to strengthen the institutional capacity of the partner was provided when required, either within the BS intervention (e.g. higher education in Tunisia) or as a complementary programme (e.g. Egyptian TEP A that provides TA whereas TEP B provides BS).

Awareness raising and training (information, awareness, capacity training) have been features of most interventions, and have definitely reinforced the sustainability of the interventions<sup>80</sup>. As an illustration, the institutional strengthening provided to the MESRST (Ministère de l'Enseignement Supérieur, de la Recherche Scientifique et de la Technologie en Tunisie) and the Universities through the TA component of the higher education BS intervention in Tunisia permitted appropriation of the MTEF by the beneficiaries.

Twinning and TAIEX are instruments that became available in the MEDA area only in the later period of MEDA II and therefore cannot yet be assessed from the point of view of

<sup>80</sup> See Annex 7 (Indicators related to JC 9.2)

their sustainability. However, twinning seems promising insofar as it favours the development of institutional cooperation that can survive the project itself. Twinning projects in Egypt and Tunisia indicate favourable prospects in this respect.<sup>81</sup>

***...while others affect them negatively***

The policies supported by BS interventions have not always been fully endorsed by the majority of stakeholders with the risk that they do not benefit from sufficient budget resources to ensure their continuation. This reflects the case of the Moroccan BS in the water sector where the policies it supported remained questioned by part of the local establishment<sup>82</sup>.

More important, the sustainability of the policies supported by BS interventions will depend on their acceptability by the population. In that respect, human rights and democratisation issues are key issues. The Tunisian case perfectly illustrates this point: the Tunisian economy exhibits several elements of fragility – oil and cereal subsidies, a significant percentage of non-performing loans and a low domestic private investment rate - which threaten the political acceptability of the Government development model if welfare conditions cannot be maintained<sup>83</sup>.

Large TA programmes do not include sufficient provision for sustainability from the design stage<sup>84</sup>. Indeed, exit strategies are usually not defined during preparatory phases. In the few feasibility studies available for these programmes, the absorption capacity is often affirmed but with little justification. Moreover, the design of overambitious TA programmes, in terms both of size and of objectives, constrains sustainability. There is no real evidence that the activities envisaged in these programmes can be completed and consolidated within their time span and can achieved policy reforms. The significant slippages experienced during implementation of these programmes prevented their full deployment and consolidation and as a consequence their integration into permanent administrative mechanisms is weakened. For most of the programmes there is no clear evidence of a take-over by the national authorities following their termination. The difficulties of integration into the local administrations of most PIU/PAO built as temporary parallel structures within the Ministries exacerbate this issue (e.g. justice and transport programmes in Algeria).

As indicated in the discussion of Evaluation Question 2, the regional programmes, generally identified at a high political level and benefiting from a regional consensus, do not, with some exceptions, respond to first key priorities of the countries in which they are implemented. They are managed from Brussels and, in many cases, their design has not planned for the take over of their results during implementation by Mediterranean partners who did not find their place (e.g. Heritage II, SMAP)<sup>85</sup>.

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<sup>81</sup> See Annex 11

<sup>82</sup> See Annex 7 (Indicators related to JC 9.3)

<sup>83</sup> See Annex 11

<sup>84</sup> Annex 7, (Indicators related to JC 9.1)

<sup>85</sup> See Annex 7 (Indicators related to JC 9.3)

### 3.10 Evaluation Question 10 on coherence, coordination and complementarity

***EQ10 To what extent have the Commission strategies and programmes been designed and implemented in coherence with EU policies or in coordination and complementarity with the EIB, Member States and other donors?***

The question relates to the 3Cs : (i) the coherence of Commission strategies under MEDA II with EU policies , (ii) coordination between the Commission and the EU Member States and other donors (iii) and complementarities with the interventions of the EIB. The question assesses to what extent coordination with MS, EIB and other donors has taken place, at design and implementation levels, and whether it has improved the effectiveness and efficiency of interventions by allowing better complementarity and coverage of support, and reduced transaction costs for the beneficiary. The internal consistency of the regional and bilateral approach of the Commission and its value added is assessed under EQ2.

The answer to the question is based on three judgement criteria:

- J.10.1 The Commission's interventions are designed and implemented with a view to taking advantage of EU policies in the same field, or to mitigating their negative consequences.*
- J.10.2 Interventions programmed under the Commission's support to the MEDA countries/region are coordinated with the range of other donors' interventions.*
- J.10.3 Commission interventions take advantage of the Community dimension and add value to the assistance from MS and other EU institutions.*

It should be noted that important elements of the 3Cs are also dealt with in other EQs, particularly EQ6 on budget support and EQ11 on efficiency of implementation. The answer to the question given below therefore draws on more than just the above judgement criteria.



### Answer to EQ 10 on coherence, coordination and complementarity

The political character of the Barcelona process confers special characteristics on the Commission's cooperation with the MPC. The Association Agreements and the Action Plans, respectively negotiated under Barcelona and the ENP, were designed in coherence with EU policies whereas the MEDA II Regulation is intended to support their implementation. The coherence between what is imposed by the AA and EU policies is therefore an issue outside the MEDA II Regulation.

Coordination between the Commission and EU MS took place within the various *fora* established by the MEDA regional cooperation (ministerial, senior official, and working group levels). Regarding the MEDA bilateral cooperation it varied across countries. Whereas effective donor coordination mechanisms have been elaborated and are used in Egypt, WB&GS and Morocco, in the other countries visited by this evaluation it generally proved limited to some exchanges of information both at design and implementation stages, but has recently improved and is increasingly in line with the principles of the Paris Declaration. In BS interventions coordination between the Commission and Bretton Woods Institutions has been strong, the World Bank and the Commission bringing their own comparative advantages, respectively technical expertise and political credibility. Coordination between the Commission and the EIB also proved rather formal at the programming stage whereas the EIB, EU MS development agencies and BWI developed closer cooperation at implementation stage. The government partners generally preferred to maintain bilateral relations with each donor and did not push further the recent development of donor coordination mechanisms in which they fulfilled their leading role unevenly.

Community value added was taken into account by Commission interventions in a number of aspects. The blending of Commission and EIB instruments, especially risk capital facility operations and interest subsidies, and the use of the twinning modality, reinforced the Community dimension.

#### ***Association Agreements provide coherence with EU policies<sup>86</sup>***

A specific characteristic of the cooperation between the Commission and the MEDA countries is the fact that it is embedded within a political process, the Barcelona process, which takes concrete shape in the Association Agreements signed with each partner country. Once an AA is ratified it serves as a framework for the cooperation (and the formulation of the CSP) and as the yardstick to assess the progress of the cooperation. This has been strengthened with the formulation of Action Plans in the context of the ENP. It ensures the internal coherence of the bilateral programmes.

The AA and downstream ENP Action Plans are negotiated so as to be in coherence with EU policies. They are drafted with a view to promoting the approximation and harmonisation of institutional and legal frameworks of the MPC with the best EU practices

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<sup>86</sup> See Annex 7 (Indicators related to JC 10.1)

so as to achieve higher integration of the economies and societies on both sides of the Mediterranean. The MEDA II Regulation is meant to support the implementation of AAs and APs and aims at increasing the approximation of EU institutional and legal practices.

The various technical subcommittees established under the AA create a valuable framework for sector dialogue and ensure consistency between sector-policy issues and cooperation. The committee addressing liberalisation has given the Commission a point of entry as an interactive partner into the liberalisation process. It constitutes a major asset, unavailable for instance to the World Bank, in the form of a political linkage to support and accompany its assistance. In no other region is there an equivalent balance of aid and political agreement that is mutually supporting. Political agreements can be invoked when providing aid (e.g. as regards conditions) and aid can be directed to supporting reforms in line with the political agreements. The Commission developed its BS making use of this important asset. It has used budget support to complement the political dialogue it had with the partner in the context of the AA with a policy dialogue on specific reforms that were high on the agenda of the partner.

***Joint participation of the Commission and the MS in the political dialogue accompanying the AA and the identification of the regional programme does not translate into a strong coordination at implementation level.***

At the outset of MEDA II, guidelines on Commission-EU MS coordination<sup>87</sup> have been validated during the MED committee. Moreover, at headquarter level (Luxembourg process), regular meetings of the directors of ECFIN, RELEX, IMF, WB and EIB are devoted to strategic issues.

The EU MS, the Commission and the MPC regularly meet at ministerial, senior official, and working group levels to discuss and define the regional cooperation programmes. These various fora constitute common platforms which contribute to facilitating convergence between the actions of the EU MS and those of the Commission. The issue of complementarity between Commission and EU MS regional programmes is not at stake as EU MS do not finance significant regional projects in the Mediterranean.

As regards MEDA II bilateral cooperation, coordination between the Commission and EU MS is varying at both design and implementing stages. Whereas available information points to effective donor coordination mechanisms in Egypt, Morocco and WB&GS, in the other countries visited, EU MS are generally associated with the NIP preparation, but there is little coordination when moving from the NIP to programmes. Coordination is limited to some exchange of information on on-going and intended activities but there is little coordination at programme level regarding the types of activities and their implementation<sup>88</sup>. One reason arises from the fact that development cooperation is a shared EU responsibility and there is therefore no clear delineation of the respective scope of action of the Commission and MS. In line with the application of the Paris Declaration principles, coordination has recently been improving and increased efforts are being made not to duplicate programmes. In

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<sup>87</sup> European Commission, Commission decision concerning MEDA guidelines on the specific arrangements for on-the-spot coordination in the field of external assistance to Mediterranean partner countries, 17/05/2001.

<sup>88</sup> See Annex 11

specific countries such as Egypt there is strong coordination with bilateral donors (including the US). As an illustration, the TEPs were designed to be complementary to those implemented by USAID. The coordination with Gulf agencies, which are significant players in the area, has been very narrow.

The coordination between the Commission and the EIB takes place at headquarters within the framework of the Luxembourg process, at programming level through the MED committee, and is well developed in specific cases in the field. The fact that the EIB does not have a programmatic approach precludes both entities from deciding on what should be supported with loans and what with grants. This has negatively impacted on the complementarity of their respective measures. Coordination between the EIB, the EU MS development agencies and the BWI is quite effective. As an illustration, the creation of Maghreb Leasing Algeria resulted from an EIB loan from its own resources and private bank credits guaranteed by the IFC and Proparco, the last-mentioned being the AFD subsidiary devoted to financing private sector development in developing and emerging countries.

***BS interventions conducted with other multilateral institutions (Bretton Woods and/or the AfDB) benefit from a strong coordination<sup>89</sup>.***

For example, the BS reform of the fiscal system in Morocco has been prepared in close cooperation with the IMF and is being implemented in coordination with the IMF, the World Bank and the AfDB. In Tunisia, the macroeconomic support (successive SAF) has been closely coordinated with World Bank loans and AfDB support. The management of the three supports is based on the same reference documents, the letter of development policy of the Government of Tunisia, the proceedings of the negotiations of the BS, and the matrix of conditional measures. The WB brought technical comparative advantage whereas the Commission brought political credibility (see also EQ6). This previously concerted approach was highly appreciated by the partners. In higher education in Tunisia, the Commission support is complementary to that of the WB.

***Coordination also depends on the partner's attitude.***

Donor coordination mechanisms are quite recent in MPC. Their degree of development and the involvement of the partner governments vary from country to country<sup>90</sup>. In Algeria, there is no “chef de file” by sector whereas thematic working groups emerged in Lebanon and Tunisia between 2006 and 2008. Beneficiary governments usually expressed a preference for bilateral cooperation and a reluctance to encourage donor coordination (e.g. Algeria, Lebanon), BS interventions apart (e.g. Tunisia). The unwillingness of the government to share the results of the coordinating function it is exercising with the whole community of donors (as in Tunisia) or the absence of central coordination resulting from the instability of the political situation and the difficulties encountered by the government in coordinating the various ministries which urged it to negotiate bilaterally with donors (e.g. Lebanon), are some reasons.

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<sup>89</sup> See Annex 7 (Indicators related to JC 10.2)

<sup>90</sup> See Annex 11

### ***Commission interventions take advantage of the Community dimension***

The implementation of interventions financed by MEDA II takes advantage of the European dimension in a number of respects.

First, the blending of Commission and EIB instruments is an element of Community value added<sup>91</sup>. By making resources available to the EIB within the framework of the risk capital facility, the Commission (i) bears a risk on risk capital that could not be borne by the EIB without breaching its governance rules and allows the EIB to address an essential constraint on the development of the private sector, and (ii) promotes organisation of networking among professional associations. Indeed, the approach of the EIB involves long-term contacts and establishment of networks with financial institutions in the EU, MS agencies such as AFD and KfW, and financial institutions and operators in the MPC. Synergies also exist between Commission interventions and interest subsidies financed by the Commission on EIB lending to MPC. Commission interventions in the water sector have been complemented by investments in the same area which benefited from EIB concessional loans. Coordination with the EIB is ensured at the level of the country strategies and NIPs and by the fact that EIB use of the funds made available by the Commission must be approved. In the field, the establishment of EIB local permanent representations has permitted to strengthen and conduct on a continued basis the dialogue with both the partners and the Delegations. Delegation staff, however, indicated that they would like to be involved at an earlier stage (even before the elaboration of terms of reference) for specific large operations<sup>92</sup>.

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<sup>91</sup> See Annex 7 (Indicators related to JC 10.3)

<sup>92</sup> This remark was formulated in relation with large TA accompanying an EIB health sector loan in Morocco.

***Interest subsidies to facilitate complementarity between EIB loans and Commission's capacity-building efforts in the field of environment and natural resources. Is there a leverage effect and who is the beneficiary?***

Under the MEDA II Regulation, interest subsidies have been granted in the MPC on EIB loans from its own resources in the environment and natural resources sectors. The purpose of the subsidy is to reduce the cost of borrowing for the beneficiary. It amounts to half the interest rate charged by the EIB but may not exceed 3%. It is budgeted over the entire duration of the loan. The subsidy is provided for environmental projects because they yield a high return to the society (and in many cases also to the donor) through the production of global public goods (safe water, clean air) whereas the return to the investor who bears the cost may be more limited and therefore may reduce its incentive to undertake the investment under market financing mechanisms. The Commission's interest subsidy is meant to correct that market failure. Many environment projects and Commission Sector BS have been conducted in parallel with EIB loans in the sector. The extent to which the interest subsidy facility achieves its function of bridging the gap between provision of development assistance and recourse to capital markets depends on fulfilment of at least one of the following two conditions:

- The interest subsidy had a leverage effect, that is it allowed the raising of more capital funds than the amount subsidised; this is a complex issue that would require a "without" scenario. Indeed it is likely that without the subsidy either the loan would not have been contracted or a smaller investment would have been decided, but it is impossible to verify this. However, on the assumption that the interest subsidy allowed an investment that would not otherwise have taken place, the leverage effect would be equivalent to the amount benefiting from the subsidy as the EIB would not finance more than 50% of the investment.
- The financial advantage provided by the subsidy trickles down to the intended final beneficiary of the investment. The first effect of the subsidy is to reduce the cost of the investment to the borrower. In a market where financial institutions are competing this places the EIB in a more favourable position without reduction of its intermediation margin. It is therefore important to ensure that the reduction of the cost is passed on by the borrower to the final beneficiaries either through lowering their user charges (with public utilities) or through providing them with a better service. This information has not been systematically collected for the projects benefiting from interest subsidies and it is therefore not possible to ascertain that this did in fact occur.

### 3.11 Evaluation question 11 on efficiency of implementation

***EQ11 To what extent are the implementation modalities ensuring swift and cost-effective implementation of the Commission-supported interventions?***

The question focuses on the efficiency of implementation of interventions carried out under the MEDA II Regulation. It assesses the involvement of the beneficiaries in the interventions, the extent to which interventions have been carried out in a timely manner and within their allocated budget, and the existence and use of information provided by ROM and evaluation reports.

The answer to the question is based on two sets of judgement criteria relating to:

- i° involvement of the partner/beneficiary institutions in the design and implementation of interventions (JC.11.1 and JC11.2) and the extent to which the institutional framework was supportive (JC.11.3)*
- ii° conformity of implementation and disbursements with planned budget and schedules (JC. 11.4 and JC.11.5)*
- iii° use and usefulness of information provided by monitoring and evaluation (JC.11.6 and JC.11.7)*

It should be noted that important elements of efficiency are also addressed by other Evaluation Questions, particularly EQ6 on budget support and EQ10 on coordination. The answer to the question provided below therefore draws on more than just the above judgement criteria. c

### Answer to EQ 11 on efficiency of implementation

Disbursement rates have significantly increased under MEDA II compared to MEDA I. This reflects improvements in the absorptive capacity of the beneficiaries, implementation mechanisms and Commission procedures. In that respect the devolution of programme management responsibilities to the Delegations and the increased use of BS as an instrument to support reforms played an important role.

The Commission used a comprehensive set of instruments to finance various interventions when the conditions associated with budget support and the objective of alignment with the “acquis communautaire” were accepted by the partner. Over the years there has been a growing attempt to ensure that different instruments, such as BS, TA and more recently twinning, are mutually supporting and contributing to the same goals.

Globally, the increased use of budget support can be considered as positive in terms of efficiency. Indeed, BS favoured stronger ownership and involvement than under traditional TA programmes and gave rise to policy dialogue on the reforms supported. Conversely, large TA programmes experienced difficulties which led to massive decommitments in exceptional cases. The twinning modality presents promising prospects and has been generally well appreciated by the partners despite the length of time needed for its preparation.

The criteria for using development cooperation modalities, in particular grants and loans, and the definition of the conditions upon which the Commission accepts to provide an interest subsidy on EIB loans in the environment and natural resources sector have not been sufficiently clear to achieve an optimal blend of instruments to finance private sector and infrastructure.

### ***Disbursements rates are quite higher under MEDA II vis-à-vis MEDA I***

As evidenced by the figures in table 3.11 the ratio of payments to commitments has been significantly superior, for all countries and for the programme as a whole, under MEDA II than under MEDA I. This indicates an important improvement in the absorptive capacity of the beneficiaries, in implementation mechanisms and in Commission procedures.

The growing proportion of budget support clearly contributed to the improvement in the rates of disbursement as evidenced by the fact that the four beneficiaries of budget support (Egypt, Jordan, Morocco and Tunisia) are exhibiting the highest disbursement rates<sup>93</sup>. It must also be pointed out that overall non-budget-support interventions under MEDA II have a disbursement rate of 51.2%, which demonstrates that implementation progress has also been very significant in these programmes. Finally, the devolution of programme management tasks and responsibilities to Delegations from 2000 increased the cost-effectiveness of the implementation of the interventions.

**Table 3.11.1 MEDA I and II Programmes Commitments and Payments**

	MEDA I (1995-1999)			MEDA II (2000-2006)		
	Commitments Million €	Payments Million €	Payments in % of Commitments	Commitments Million €	Payments <sup>(1)</sup> Million €	Payments in % of Commitments
Algeria	164.0	30.2	18.4%	338.8	66.3	19.6%
Egypt	686.0	157.0	22.9%	592.5	342.3	57.8%
Jordan	254.0	108.4	42.7%	331.8	200.2	60.4%
Lebanon	182.0	1.2	0.7%	132.7	45.6	34.4%
Morocco	660.0	127.5	19.3%	982.0	576.2	58.7%
Syria	101.0	0.0	0.0%	179.8	84.7	47.1%
Tunisia	428.0	168.0	39.3%	517.5	282.5	54.6%
West Bank & Gaza Strip	111.0	59.0	53.2%	522.4	498.0	95.3%
<b>Total Bilateral (without Turkey)</b>	<b>2,586.0</b>	<b>651.3</b>	<b>25.2%</b>	<b>3,597.6</b>	<b>2,095.8</b>	<b>58.3%</b>
Turkey (<2002)	<i>n.a</i>	<i>n.a</i>	<i>n.a</i>	551.5	455.6	82.6%
<b>Total Bilateral of which budget support</b>	<b>2,586.0</b>	<b>651.3</b>	<b>25.2%</b>	<b>4,149.1</b>	<b>2,551.4</b>	<b>61.5%</b>
<b>Regional Co-operation</b>	<b>471.0</b>	<b>222.5</b>	<b>47.2%</b>	<b>904.4</b>	<b>627.1</b>	<b>69.3%</b>
<b>TOTAL</b>	<b>3,057.0</b>	<b>873.8</b>	<b>28.6%</b>	<b>5,053.5</b>	<b>3,178.5</b>	<b>62.9%</b>

<sup>(1)</sup> Payments under MEDA II relate exclusively to funds committed under MEDA II

Sources: MEDA I: European Commission, Barcelona Process 10 Years On, November 2005  
MEDA II: Inventory of annex 3

***Beneficiaries have been generally involved at design and implementation level but absorption capacity has often constrained implementation.***

Generally, beneficiaries have been involved in the design of Commission interventions (see also EQ9). This does not necessarily mean the partners adhere to the strategic objectives (e.g. the Algerian authorities signed the NIP but not the CSP). In the case of BS interventions, beneficiary involvement is significant as the matrix of conditions is subject to

<sup>93</sup> Assistance to West Bank & Gaza Strip should not be entered into this comparison for it is of a different nature.

negotiation between donors and partners. In that respect one should note that it has sometimes been necessary to convince the beneficiary to adopt the BS approach (e.g. higher education programme in Tunisia). Consultation with other stakeholders is however less frequent: CSOs and private sector institutional organisations are seldom associated with the design of the interventions when they are not the direct beneficiary.

During implementation of bilateral programmes there is evidence of strong involvement and ownership by the partners<sup>94</sup>. When the recipient administrations are well structured and administrated and their political programmes are clear (Tunisia, Morocco), involvement and ownership is even stronger. Programmes often face insufficient institutional clarity of roles on the recipient's side and this complicates their implementation and ownership. The financial involvement of the beneficiary in implementation is heavy in several BS operations whereas it is more limited in large TA programmes (provision of premises and the project director).

For regional programmes the involvement of national structures is less extensive. For instance, in most interventions based on calls for proposals the leading partner was an organisation from the North of the Mediterranean. This was favourable to transfer of know how and professional expertise but it also generated the perception by the partners of the South that they were used as a “faire valoir” and not on an equal footing with those of the North.

One should note that, despite the mention of the conduct of capacity assessments in nearly all programme documents, their consequences for the programmes have not been clearly drawn. As a result few programmes, apart from BS interventions, include provision to mitigate insufficient absorption capacity, which in turn constrains their implementation.

### ***A complementary set of instruments has been used***

Over the evaluation period several instruments have been used to finance MEDA II interventions: traditional technical assistance programmes, budget support, twinning, and EIB use of Commission funds through technical assistance, risk capital facility, and interest subsidies<sup>95</sup>. Among the countries visited by this evaluation the whole package of modalities has been used in a complementary manner to finance different types of interventions in Tunisia and Egypt. In Algeria, the conditionalities associated with budget support and the objective of alignment with the “acquis communautaire” associated with twinning have been refused under MEDA II and only the remaining instruments could be used<sup>96</sup>.

The various instruments present both strong and less strong aspects in terms of efficiency. The following table presents the main “pros and cons” associated with each instrument while the remainder of the section provides a more detailed explanation.

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<sup>94</sup> See Annex 7 (Indicators related to JC 11.2)

<sup>95</sup> See Volume II for a description of the aid modalities.

<sup>96</sup> It must be noted that the position of the Algerian government has evolved and is currently more open to budget support and twinning.



**Table 3.11.2 Strong and less strong aspects of efficiency per financial modality**

<b>Financial Modality</b>	<b>Strong aspects of efficiency</b>	<b>Less strong aspects of efficiency</b>
<b>Traditional TA programmes</b>	Permits to recruit specialised TA	Long preparatory and starting phases
		Discontinuity between interventions
		High staff turn-over
		Lack of ownership / Poor institutional integration
		Discrepancy between the absorption capacity of the partners and the size of the programmes which led in some cases to large decommitments
<b>Budget support</b>	Continuity between interventions	Tends to give priority to contacts and negotiations with macro-financial authorities (ministry of finance, prime ministry, central bank) at the expense of those with line ministries.
	Swift disbursements	
	Strong involvement and ownership of the partners	
	Easiest management of aid on the partner side	
	Policy dialogue on the reforms supported	
	Strengthens the institutional capacity of the partners	
<b>Twinning</b>	Transfer of institutional know-how which survives the intervention	Lengthy procedures resulting in long preparatory phases
	High commitment of the experts	Limited to public institutions
<b>EIB Risk Capital Facility</b>	Improves the governance and management capacities of the partners	
	Respects market mechanisms	
	Promotes multi-country initiatives	
<b>Interest subsidies on EIB loans in environment and natural resources</b>	Permits investments that would not take place without that incentives and are useful for the collectivity.	Gives an advantage to EIB on competitor banks and may evict these from projects they would have been able to finance

***The increased use of BS instead of traditional technical assistance programmes may be considered as globally positive in terms of efficiency***

In four MEDA countries, the Commission financed its interventions through the budget support modality, to the extent of 54% of Commission aid to Egypt and 76% of that to Tunisia (see also EQ6). Several factors point to positive results from this move. BS allowed swifter implementation and better continuity in Commission support than did traditional programmes. Indeed, BS interventions generally do not suffer from major delays between the decision to release the tranche and the effective payment. Implementation of one BS intervention phase is also fully intertwined with the preparation of the next phase (as with the successive SAF in Tunisia) allowing continuity in support and favouring the setting-up of complex reforms. BS has also been a significant factor of ownership in the sense that government partners showed stronger involvement than in traditional programmes (as in

Tunisia). This mainly results from the fact that BS interventions usually support part of a more global nationally owned reform and are therefore accompanied by strong financial involvement of the beneficiary. Moreover, BS proved effective in inducing policy dialogue on the reforms supported at all stages of the project cycle and in promoting structural reforms (Tunisia and Morocco). BS operations also offer the advantage of strengthening the institutional capacity of beneficiary ministries (e.g. the management and evaluation capacities of the MESRST in Tunisia). Generally, the move to BS has been highly appreciated by the partners.

These positive results have to be nuanced. First, the rationality behind the choice of the instrument (BS vs TA) has not always been sufficiently explained. This entailed diminished results when BS is used to finance what was conceived as a TA programme. Second, the monitoring of BS interventions focused on the process and the adoption of reforms more than on the assessment that once implemented they had achieved their intended outcomes. . However, the use of BS took place in a context of partnership involving a continuity in the dialogue that goes beyond the duration of a single intervention and includes a joint assessment of the impact of the reforms. Third, in certain cases, language issues created difficulties. For instance, for the Health SPSP in Egypt, some conditions contained in the matrix were difficult to understand in English and appeared still more difficult to understand in their Arabic translation

***The institutional set-up of in particular large TA programmes was often inadequate***

Large TA programmes (€20m and more) intended to contract the full commitment over three years (D+3 rule) have most of the time exhibited significant slippages in implementation<sup>97</sup>. This reveals a potential contradiction between large-scale TA programmes and the D+3 rule.

The starting phase of these programmes often proved time-consuming (e.g. the Algerian transport and NGO II programmes and the Syrian VET programme). The following factors usually prevent the programme from finding a normal “cruising speed”: weaknesses in design, difficulty in setting up the PIUs/PMUs and in identification and recruitment of the appropriate technical experts, frequent changes of experts, divergence of views between the PIU/PMU and Delegation, and others. These delays in the starting phase reduce the effective implementation period and have a demotivating effect on the beneficiary, which hampers the success of the programmes.

The limited absorption capacity of the beneficiary institutions and ministries with respect to the size of the proposed programmes further constrains implementation. This particularly reflects the Algerian case where the problem led several times to massive decommitments<sup>98</sup>. Large TA programmes have been used with the aim of generating policy changes not accepted by the partner and probably out of reach of TA programmes (e.g justice programme).

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<sup>97</sup> See Annex 7 (Indicators related to JC 11.4) and Annex 11

<sup>98</sup> See Annex 11

### ***The twinning modality presents promising results***

The twinning modality has been used under MEDA II since 2004 in Egypt, Lebanon, Morocco and Tunisia in the framework of programmes supporting implementation of the AA<sup>99</sup>. Unlike EU MS twinning which focuses on training and mobilisation of expertise, the Commission twinning aims at achieving closer institutional practices. This dimension is refused by some partners (e.g. Algeria), preventing the Commission from using this modality<sup>100</sup>. In countries where twinning has been used, it has been well perceived both by the beneficiaries and by the Commission. It allowed a transfer of know-how from institution to institution which survived after the end of the programme, which is not the case with traditional individual TA. Furthermore, the commitment of the experts proved to be generally higher than under traditional programmes.

The modality also presents limits. The procedures entail longer preparatory phases than under classical TA programmes. This is a constraint in post-conflict countries where there is a need for rapid measures. Twinning is also limited to public institutions, thereby reducing the range of potential beneficiaries and impeding efficient choice of partner. This applies to public utilities (notably water) which are increasingly privatised in the EU countries with the result that the relevant expertise becomes more difficult to find in the public sector.

### ***The EIB use of Commission funds has generally been efficient***

The funds allocated by the Commission to the RCF have been entirely committed under MEDA II in view of a large demand. Disbursement, however, is slower because it depends on such factors as the capacity of the partners to meet the requirements of the EIB in terms of financial governance, or the timing of their needs of the successive tranches of capital resources. The provision of risk capital by the EIB contributed to improving the standards of governance of the beneficiaries, increasing their attractiveness to other investors. More than 50% of RCF operations are targeting multi-country initiatives, thus encouraging cross border cooperation between financial and private sector operators.

From 2003 the Commission has made grant resources available for enabling the FEMIP to support TA operations in the MPC. Until the end of 2005, 110 TA operations (excluding Turkey) with a total volume of about €105m were allocated, out of which more than 50% has been approved by the Commission. All technical assistance operations are linked to EIB investment projects. They are covering project preparation, implementation and management as well as initiatives contributing towards economic reform, development of local financial markets and privatisation. Many projects potentially sound and corresponding to the EIB's institutional mandate would not meet the Bank standards and therefore could not be supported without considerable preparatory analysis and technical assistance on such issues as environmental conditions, institution-building, policy conditionality, transferring skills or improving corporate governance. In the water sector, (cf. EQ 7) this type of TA proved highly valuable to the beneficiaries and effectiveness of the investment. A 2007

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<sup>99</sup> See Annex 3

<sup>100</sup> See Annex 11

evaluation of the FEMIP support fund found that in a majority of cases individual TA operations are acceptable or better.

Interest subsidies in environment and natural resources interventions are justified for addressing market failures and for facilitating investments the return of which would be insufficiently attractive for the investor whereas it is important for the community. Their efficiency is difficult to assess because it is impossible to demonstrate that an investment would not have taken place without the subsidy. In such cases the real beneficiary may be either the EIB which becomes more attractive than the competitor financing institutions, or the partner institutions to which fringe benefits accrue. The efficiency of the interest subsidy is clear, however, when the loan is made to a public utility that passes the benefits on to its customers in tariff reductions or in better services.

Overall, available information, from this evaluation and from the recent evaluation of the Commission's aid delivery through the development banks and EIB<sup>101</sup> demonstrate satisfactory attainment of results for the risk capital operations, and for interest rates subsidies and TA on EIB loans. This was essentially linked to the EIB expertise in managing these instruments. Beneficiaries generally confirmed that interest rate subsidies and TA on EIB loans offered a more flexible and comprehensive response to their needs. The main problems encountered have been a low disbursement rate for the interest rate subsidy facility.

***A lack of clarity and consistency has not permitted an optimal blend in the use of development instruments for supporting private sector development***

The absence of clear and common criteria in the use of instruments by the Commission on the one hand, and by the EU MS development agencies and EIB on the other, did not permit a fully consistent approach to similar problems.

Indeed, the Commission supports the development of the private sector with development financing modalities such as grants where the rules of some EU MS agencies and the EIB impose loans. Similarly, several environment projects have been funded with Commission grants (e.g. an €80m water and sanitation programme in Egypt) whereas these projects have an economic return and could have benefited from an EIB subsidised loan.

***Limited use of ROM and evaluation reports***

ROM and evaluation missions are conducted in the field and provide information compiled in reports. There is however no evidence that the information provided by the MR is used, in particular by the beneficiaries who have no systematic access to these reports<sup>102</sup>. The recommendations of evaluation reports (mid-term and end of term) are usually taken on board. Many programmes have not been the object of an evaluation (either on-going or *ex post*).

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<sup>101</sup> Evaluation of the Commission's Aid Delivery through the Development Banks and EIB

<sup>102</sup> See Annex 7 (Indicators related to JC11.6)

From an analysis of the ROM reports of the MEDA area (see annex 8), it is noticeable that lower marks are attributed for efficiency than for any other criterion (whether or not the results are weighted by the size of the projects). The country context plays an important role. For instance, the information provided above explains why programmes conducted in Algeria turn in a significantly lower performance in terms of efficiency. From a sector point of view, agricultural projects are those with the lowest ROM marks. Some very large infrastructure projects have suffered from a low efficiency rating.



## 4 Conclusions

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The Conclusions are based on the answers to the Evaluation Questions. First an overall assessment provides a summarised appreciation of the Commission's cooperation under MEDA II. A set of specific Conclusions is then presented in three groups.

- 1° Conclusions on the appropriateness of the MEDA II cooperation modalities to the Barcelona objectives.
- 2° Conclusions on the results, impact and sustainability of the Commission interventions.
- 3° Conclusions on the instruments adopted to finance the Commission interventions.

The Recommendations based on these conclusions are presented in Chapter 5.

### 4.1 Overall assessment

***A combination of internal Commission reforms, an increase in financial resources, a diversification of instruments, and a more strategic approach, improved efficiency and effectiveness compared to MEDA I.***

Over the MEDA II period the resources provided by the Regulation have increased compared to MEDA I and the EIB was able to increase its operations in the region considerably under its Mediterranean mandate and the FEMIP.

Disbursement rates of MEDA II interventions also significantly improved as compared to MEDA I. In that respect, the reform of the management of external assistance and improvements in Commission implementation mechanisms played a significant role. The consistency and quality of programming was enhanced with the set-up of the iQSG. The devolution of programme management responsibilities to the Delegations facilitated an enhanced role in the policy dialogue underlying and accompanying preparation and implementation of interventions.

Under the MEDA II Regulation the Commission has implemented a wide range of interventions with the main focus on economic and social reforms; but also substantial efforts were made in justice, governance and rule of law. The increased use of BS also proved positive as it favoured stronger ownership and permitted the Commission to participate in the formulation and implementation of the reforms supported. In that respect the Commission, so as to ensure a positive outcome, had to devote considerable effort in advance to explaining to the partner the implications of the use of this modality and to convince it of its advantages. Twinning became available and was used under MEDA II<sup>103</sup>.

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<sup>103</sup> TAIEX has been extended to the Mediterranean countries but practically no TAIEX intervention was conducted before 2006 (See annex 3, Inventory)

The implementation of MEDA II was paralleled and supported by political negotiations and dialogue under the AA. The regional cooperation permitted maintenance of a high-level political dialogue involving all the MPC, a non-negligible achievement given the tense context. Support to the MPC was also provided from other Commission budget lines. The complementarity between these different instruments strengthened the effectiveness and efficiency of the Commission's interventions.

***The Commission's interventions contributed to visible results, particularly in the field of economic and social reforms....***

MEDA II interventions have produced important results and a majority of the interventions examined in this evaluation have delivered their expected outputs. Comprehensive macroeconomic and sector reforms have been supported in several countries. They benefited from the Commission's political credibility and were accelerated thanks to Commission support. In particular, the important shift to BS in four countries has led the Commission to support complex systemic reforms undertaken by these countries and contributed to significant changes. In sensitive fields such as gender, justice and human rights the Commission could not always intervene to the extent envisaged but efforts were nonetheless pursued, even with reluctant partners.

The support was most of the time directed to reforms initiated by the partner country itself, or jointly elaborated by the partners and the Commission, through a policy dialogue during preparation of and accompanying the interventions. This approach ensured ownership and has been a clear success factor.

The goal of establishing a FTA at the horizon of 2010 has been pursued through the political dialogue and trade negotiations, accompanied and supported by the financial assistance provided in the field of economic and social reforms. Macroeconomic stability has significantly improved and encouraging progresses have been made in such fields as macro tariffs, rules of origin, trade liberalisation, competition, and others, and trade agreements have been concluded between MPC and with third countries.

***... but did not succeed in achieving the the major objectives of the Barcelona process.***

The evaluation provided evidence of positive achievements, particularly in the economic and social areas, but showed that the dynamics of a convergence of the MPC economies with those of the EU that is a requirement to achieve the area of shared prosperity (2<sup>nd</sup> pillar of Barcelona) has not yet fully born its fruits. It also highlighted the fact that progress of many MPC, in terms of growth, competitiveness, and liberalisation, although important in some cases, was not sufficient to position the MPC favourably in comparison with other middle-income economies.

Two sets of factors have contributed to this outcome. The first was outside the control of the Commission, and included conflicts and instability in the region, international developments (notably Iraq) and their repercussions on the MPC, and the political reluctance of some MPC to go along the Barcelona road. The second related to the fact that the Barcelona objectives were not the first priorities of the partners, with the exception of those



aspects aimed at increasing their economic competitiveness and performance. The benefits of free trade have not been perceived by all MPC as a sufficient incentive, as accession had been for the East European countries, to leverage reforms and convergence. Moreover, the regional dimension mostly focused on exchanges of information, training and networking on themes of common interest. This approach could not resolve major regional constraints but contributed to building the prerequisites for the more strategic and focused regional cooperation set out in the 2007-2010 regional programme.

#### 4.2 Appropriateness of the MEDA II cooperation modalities to the Barcelona objectives

From the point of view of the contribution of MEDA II to the Barcelona process, three conclusions emerge. The Commission cooperation took place in a unique political framework and faced an extremely difficult context due to the diversity of local situations and the regional tensions (conclusion 1). Many positive activities have been conducted, but progress on the three main objectives of Barcelona has been limited (conclusion 2). The regional programmes experienced difficulties in stimulating a regional cooperation that addressed crucial regional (conclusion 3).

#### Conclusion 1 - An ambitious partnership in a difficult cooperation context

**The Commission's cooperation under MEDA II aimed at supporting the high-reaching goals of an ambitious partnership. It was implemented under a unique political umbrella but was confronted with a very wide range of individual local situations and an extremely difficult regional context. It offered a pragmatic response which aimed to maintain and strengthen the regional partnership by using the preparation of the regional programme as a platform for continued high-level dialogue between parties that would not otherwise enter into mutual discussion. At bilateral level it sought to respond to specific partner needs and to stimulate and support structural reforms needed for the establishment of the FTA while promoting approximation of EU institutional and governance patterns. The strategic priorities were set by the Commission and the MPCs on economic and social reforms with lower emphasis on basic development issues.**

*Based on: EQ1, EQ2, EQ3, EQ10*

*Leading to recommendations: R1.1, R1.2, R1.4, R1.5*

The Euromed partnership strives for ambitious goals common to all EU and Southern Mediterranean partners. It provides a unique political umbrella for the Commission cooperation. Two elements constituted a major challenge to implementation of the MEDA II Regulation. First, the MPC are an extremely diverse group of countries in terms of political, economic, social and institutional systems and their degree of development. It includes sub-regions with different cultures, countries in conflict, and economic integration is extremely limited. Second, the difficult regional context, in particular the acuteness of the

tensions caused by the Israeli-Palestinian conflict, constituted a major challenge to implementation of the MEDA II Regulation.

In this framework, the Commission's cooperation offered a pragmatic response. It aimed at maintaining and strengthening the partnership while also responding to the specific needs of each partner. On the regional front, high-level political meetings on the formulation of the regional programme permitted maintenance of a dialogue between all parties and highlighting of issues of common interest. The establishment of regional networks aimed at compensating for the relative absence of regional institutions capable of organising functional cooperation in specific matters. On the bilateral side, a set of Association Agreements concluded, under the umbrella of the Barcelona process, between the European Communities and their Member States, on the one hand, and with each MPC on the other hand created a framework for undertaking political dialogue independently and prior to financial assistance from the Commission. This framework proved important for the formulation and implementation of cooperation under the second pillar as gradual liberalisation of the MPC economies was part of the AA concluded between the EU and MPC. It has been particularly well exploited by the Commission in those countries where it funded BS interventions supporting macro-economic reforms. Indeed, the AA gave the Commission the legitimacy and credibility to discuss with the MPC the reforms and actions required by its implementation. The leverage of the AA was more difficult to exploit in the politically-sensitive areas such as human rights and democratisation, justice and Civil Society participation in the development process.

The Commission and the MPCs have made a deliberate choice to stimulate structural economic reforms. This option combined with the need to remain selective given the constraint on the resources implied that basic development aspects which remain acute in certain MPCs received less direct support. Nevertheless, the poor and rural population benefited indirectly from the implementation of the reforms and the better functioning of the institutions.

### **Conclusion 2 – Progress along the 3 pillars of Barcelona remains modest and varies across countries**

**The Commission interventions contributed to progress on the three pillars of Barcelona, in particular the second one on which the bulk of the assistance has been directed. However, these achievements vary across countries and are not sufficient to allow the level of economic convergence and harmonisation of governance with the EU that is inscribed within the Barcelona process.**

*Based on: EQ3, EQ4, EQ5, EQ7, EQ8, EQ9*

*Leading to recommendations: R1.3*

- Reinforcement of political stability and democracy (pillar 1)

The pillar is principally supported by instruments other than MEDA II, in particular the political dialogue within the framework of the regional cooperation and around the

implementation of the AA and some thematic budget lines (EIDHR, support to the Peace Process). Within MEDA II the Commission made efforts to address these sensitive issues with a variety of interventions in the justice, human rights and democratisation fields. They delivered valuable results in terms of training, equipment, institutional capacity-building but could not lead to significant improvements in terms of reform of the judiciary systems and reduction of the freedom and democracy deficits. Progress towards these objectives has mainly been hampered by three factors: **i**° the intifada and the resumption of the Israel-Palestine conflict, which has been a formidable obstacle to Barcelona throughout the whole period; **ii**° the side effect of 09/11/2001 terrorist attack and the focus on security and anti-terrorism measures; and **iii**° the difficulty of conducting a political dialogue on these sensitive issues. In several cases it induced the Commission to channel its funds via UN agencies in order to avoid compromising its dialogue on other issues.

- Socio-economic development, free trade, regional integration (pillar 2)

Interventions contributed to strengthening the resilience of some MPC economies and to improvement of the managerial capacity of public administrations. These structural reforms were essential for preparing the MPC for profitable participation in the future Euro-Mediterranean FTA. However, with the exception of a few MPC in the Mashreq region, progress in terms of international competitiveness and integration into the world economy has been modest so that the level of regional integration between MPC remains among the lowest in the world. Economic relations with Europe are important for most MPC but their opening-up process is more evident in relation to the rest of the world (cf. annexes 2 and 14).

Social indicators score better in the MPC than the average of medium-income countries and have evolved positively during the MEDA II period (cf. annex 2). The Commission did not target its interventions on specific poor population groups but rather on enhancement of the managerial performance of institutions. This contributed to valuable improvements in the sectors supported but no instrument has been put in place to make possible an assessment of the impact on the poor.

- Culture and exchange between Civil Societies (pillar 3)

There have been efforts, via regional and bilateral interventions, to strengthen the capacities of CSOs, and to stimulate cultural exchanges via training, network activities and twinning. Although positive results have been registered, the effects in terms of rapprochement of the populations, both South-North and South-South, remain marginal.

### Conclusion 3 – Difficult stimulation of regional cooperation

Although the regional dimension is at the core of the Barcelona process, the Commission has experienced difficulties in stimulating regional cooperation that addresses crucial regional issues, mainly owing to the difficult political situation. It focused instead on the establishment of a dialogue and of networks in areas of common concern.

The Commission's regional interventions, although discussed and endorsed at a high political level with the partners, suffered more often from low visibility and insufficient ownership at country level due to the fact that they were not directly addressing national issues. Together with the relatively modest magnitude of resources allocated compared to the ambitious regional goals, and, in several cases, the absence of national structures to take over post-programme control, this contributed to low sustainability.

*Based on: EQ1, EQ2, EQ3, EQ7, EQ8, EQ9, EQ11*

*Leading to recommendations: R1.1, R1.6, R1.7, R.1.9*

The three main goals of the Barcelona process: **i)** establishing a common area of peace and stability, **ii)** construction of a zone of shared prosperity, and **iii)** rapprochement between peoples, are all fundamentally regional.

The difficult political situation in the region and the diversity of agendas of each country proved an obstacle to stimulating regional cooperation and common efforts to resolve regional issues. For this reason the Commission concentrated its approach on creating the conditions for the emergence of a political dialogue on regional issues and on establishing regional networks in which all MPC participate and exchange views in areas of common interest emerging from high-level political dialogue between the EU and all MPC. Regional programmes under MEDA II generally addressed issues recognised by the Commission and the MPC as important, and even essential, regional challenges<sup>104</sup>.

Regional programmes are based on a common identification by the partners from the North and the South of the Mediterranean basin. An agreement is first reached at technical level between the EU and Mediterranean partners, then programme decisions are taken during the Ministerial Conferences, thereby reflecting strong ownership of the programmes on the beneficiary side at Ministerial level. However, regional programmes suffered more often from low visibility and insufficient ownership at country level due to the fact that they were

<sup>104</sup> For instance, the SMAP programme addresses such issues as the integrated management of coastal zones, desertification or the mainstreaming of environment in the national policies; the MEDSTAT project aims at an harmonization and an improvement of the statistical systems, an essential input for a better formulation of policies in a number of crucial regional domains such as migrations, transport, trade. Regional programmes in the water, transport, energy and other sectors similarly addressed real regional problems.

not directly addressing national issues. Together with the relatively modest magnitude of resources allocated compared to the ambitious regional goals, and, in several cases, the absence of national structures to take over post-programme control, this contributed to low sustainability.

### 4.3 Results, impact and sustainability of Commission interventions

These Conclusions highlight that the Commission's interventions contributed to positive results (Conclusion 4). They also point to some shortcomings: the threat to acceptability and therefore sustainability of the policies owing to a lack of democracy or observance of human rights (Conclusion 5), limited targeting on poverty reduction (Conclusion 6), and an absence of measurement of outcomes (Conclusion 7).

#### Conclusion 4 – Positive results in economic and social sectors

**MEDA II interventions achieved positive results in terms of institutional strengthening and introduction of good management practices with benefits for economic operators and users of public services. They faced major difficulties in contributing to adoption and enforcement of sensitive core reforms.**

*Based on: EQ3, EQ4, EQ5, EQ6, EQ7*

*Leading to recommendations: R1.1, R1.4, R3.1*

The MEDA II Regulation placed major emphasis on supporting economic and social reforms and sectors. The approach of the Commission has been centred on systematic improvements to the public institutions in charge of macro-economic and sector policies with a view to creating the conditions for future development and rapprochement with the EU. Commission interventions in the economic and social sectors generally supported reforms that produced tangible advances. The increased international credibility and access to financial markets, improved professional know-how, introduction of good practices in the management of public administrative bodies and better macro-economic governance are some illustrations. These positive results benefit both directly and indirectly economic operators and the population segments that make use of improved public services.

However, Commission interventions generally faced significant difficulties at all stages of the project cycle on the politically sensitive reforms to be addressed. Core reforms concern many aspects of liberalisation, utility tariffs, subsidies, reform of the judiciary systems, and banking regulations. During the preparatory phases, the introduction into BS interventions of some or most of the core aspects of the reforms has often been subject to debate on their appropriateness for inclusion and on how they should be included. During implementation these sensitive reforms remained serious stumbling blocks as the preconditions for disbursements were most difficult to meet and generally were either only partially realised or not at all. But even in these cases the Commission's interventions contributed to increased awareness for the need of such reforms and to adoption of steps in their direction, albeit at a slower pace than initially envisaged.

### Conclusion 5 – Democracy and human rights deficits remain important and threaten the sustainability of the results achieved

**The results achieved in the economic and social sectors are in some cases extremely fragile owing to a lack of consolidation of human rights and democratisation issues and the limited involvement of the Civil Society in the development process.**

*Based on: EQ3, EQ5, EQ6, EQ9*

*Leading to recommendations: R1.3*

The Commission support in economic and social areas under MEDA II strengthened MPCs' public institutions and economic governance. It contributed to reinforcement of the resilience of MPC economies to external shocks. At the same time, the Mediterranean partners harbour fragilities which threaten the sustainability of the results achieved and the progress of reforms.

Some MPC policies have accentuated factors of extreme vulnerability to external shocks, in particular:

- the high level of subsidies (mainly on energy and food) in the hope of curbing consumer prices and maintaining the social welfare of the populations;
- very large investment projects in real estate and tourism that have not demonstrated profitability and have contributed to deterioration of the portfolio of many financial institutions.

None of these policies is sustainable and their redirection and the management of their consequences will have a severe impact on standards of living and economic activity that might threaten social and political stability.

In several MPC the unfavourable situation in respect of democratisation and human rights, and the limited involvement of Civil Society in the development process, constrain the acceptability of government policies by large segments of the populations. They do not perceive how they will benefit from changes and reforms over which they have no control.

## Conclusion 6 – Impact on poverty reduction

**MEDA II interventions focused on economic reforms and on strengthening institutions rather than targeted populations. They contributed to improved management of national institutions but there can only be a presumption that this has had an impact on poverty reduction.**

*Based on: EQ3, EQ4, EQ7*

*Leading to recommendations: R1.8, R2.1, R2.2*

The Commission's approach aimed at creating the conditions for improved governance (reinforcement of Civil Society organisations and judiciary systems) and delivery of social services (education, health, water and sanitation) as a precondition for better access for the poor. The Commission interventions have accompanied and contributed to important reforms. The realisation of nearly all conditions for disbursing budget support tranches, the improvement in organisation and management practices in water utilities, and the increase in the professional capacity of NGOs, support the foregoing generally positive observation.

Good functioning of these institutions is important for to giving the poor access to basic services and enabling them to express their needs. But it does not guarantee it. In most cases the interventions supported by the Commission do not include specific targeting of pro-poor or vulnerable groups. Even when they do so the absence of any factoring-in of the effects of the interventions on the poor precludes any measurement. For instance, the increase in the number and quality of NGO responses to calls for proposals demonstrates their improved professional capacity, but the absence of follow-up of the results achieved by NGOs who won contracts precludes the possibility of affirming that they contributed to poverty reduction or to a better recognition of and response to the needs of the poor.

In the case of economic reforms that improved macro-economic management, the resulting strengthening of the economies is certainly a factor favourable to, but not sufficient for, poverty reduction.

### Conclusion 7 – Positive effectiveness at intervention level but difficult assessment of outcomes and impact

**Effectiveness of interventions should be assessed at two levels: 1<sup>o</sup> the degree to which the reforms mutually agreed and supported by the Commission have been formally conducted, and the degree to which the TA programmes and projects have delivered their expected outputs; 2<sup>o</sup> the outcomes and impacts on the beneficiaries. On the first criterion results were positive but there is no clear assessment of the outcomes since most interventions have been designed without factoring-in the means of measuring their effects on the final beneficiaries.**

*Based on: EQ3, EQ4, EQ5, EQ6, EQ7, EQ8, EQ11, Annex 5*

*Leading to recommendations: R1.4, R1.5, R2.3*

The approach of the Commission under MEDA II has been one of strengthening the capacity of the institutions and of supporting development of an enabling regulatory environment for productive activities. There is no doubt that this has contributed to paving the way for better functioning of the State and improved economic and social performance of the MPC.

However, the interventions have generally not factored into their design the means of measuring their effects. This was highlighted in the analysis of BS interventions under EQ6: their monitoring is principally based on the verification of the implementation of successive reform steps but not on the outcomes of these reforms. This approach proved to be appropriate and effective for complex reforms aiming at macroeconomic stability, trade competitiveness and systemic reforms. It made difficult to assess that the intended goals of the reforms were achieved. For instance, verifying that regulations have been passed to eliminate a particular category of fiscal exemption is not sufficient to ensure that the reform has enhanced the neutrality of taxation and improved the conditions for competition. In the case of interventions addressing development issues in the social sectors or in the water sector this approach permits to monitor and assess the improvements of the institutional governance of the agencies of the sector but not the benefits to specific groups of populations.

TA programmes include follow-up of progress in the management and professional practices of their direct beneficiaries but not of their results for the populations potentially concerned.

Although evaluations have been conducted<sup>105</sup>, the fact that indicators relating to their expected outcomes on targeted populations have not been designed upfront precludes any assessment of their impact.

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<sup>105</sup> Evaluations have been conducted for 6 interventions out of the 25 selected. See Annex 15.



This absence of assessment of the benefits to the populations is detrimental to the credibility of the assistance and may lead to perverse situations where activities are pursued or undertaken on the basis of their “implementation performance” rather than on the results they achieve.

#### 4.4 Instruments adopted to finance Commission interventions

This set of Conclusions focuses on the different modalities used by the Commission under MEDA II. It points to the unclear rationale underlying their selection (Conclusion 8), and highlights a number of strong and weak aspects of the use of budget support in the region (Conclusions 9 & 10), technical assistance (Conclusion 11), and use of Commission funds by the EIB (Conclusions 12).

<b>Conclusion 8 - Insufficient explanation of the rationale behind the choice of support modalities</b>	
<b>At the level of individual interventions, the rationale behind the use of an instrument (TA, BS, twinning and funds made available to the EIB) is seldom explicit and there is no demonstration that the one chosen is the most suitable for the objective pursued.</b>	
<i>Based on: EQ2, EQ3, EQ4, EQ5, EQ6, EQ7, EQ10, EQ11</i>	<i>Leading to recommendations: R1.2, R3.3</i>

The Commission has deployed a comprehensive set of instruments: TA, BS, twinning and funds made available to the EIB. Whereas in some cases the reason is obvious, in general the rationale explaining the choices made is not explicit..

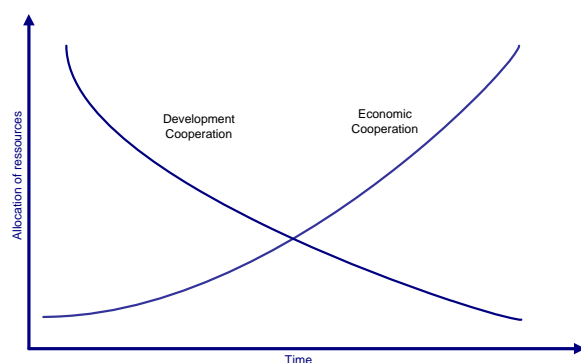
In countries where TA and BS modalities are available, large sector interventions have been supported with one or the other without demonstration that they were the most suitable. For instance, in Egypt it is not clear why in two parallel interventions in support of trade capacity-building, one (TEP-A) is a TA programme whereas the other (TEP-B) is a BS - and why not *vice versa* or a single BS.

The rationale for using EIB loans or Commission grants is also unclear. For instance, transport infrastructure like the “Rocade méditerranéenne” are financed with Commission grants, whereas other infrastructure project are funded with EIB loans.

Given the nature of the region, there has been a mix of developmental measures and activities that are closer to economic cooperation. Not much attention seems to have been devoted to the appropriateness of the instruments and the type of cooperation. It is also an issue of consistency and coherence with MS programmes. Some MS may intervene exclusively with loans in areas where the Commission (the budget of which is funded by the same MS) is providing grants.

Indeed, the extreme diversity of political and economic situations in the MEDA countries and their levels of income put them in an intermediate situation:

- they are not poor countries in which a poverty reduction strategy paper constitutes the backbone of government policy that can only be conducted with the full financial support of the international community,
- nor are they high-income OECD countries with which the cooperation would be strictly economic. They all fall, to varying degrees, between the development and economic cooperation stages.



In an ideal world, progress in the direction of the Barcelona objectives should gradually mean less development cooperation and more economic cooperation, as illustrated by the chart.

### Conclusion 9 - Positive aspects of the introduction of BS

**The move from TA to BS has been a major feature in implementation of the MEDA II Regulation. It was intended to support comprehensive structural and sector reforms rather than specific sets of activities. It contributed to the formulation, implementation and acceleration of reforms that were nationally owned and regarded as important by the Commission.**

*Based on: EQ6, EQ3, EQ7, EQ11*

*Leading to recommendations: R1.4, R3.1, R3.2*

Four countries benefiting from the BS modality received more than 50% of the MEDA II resources using this modality. The financial resources released through the BS, evidently welcomed by the partners, have not been their main factor of attractiveness for MPC governments which were often already putting far more extensive financial resources into their reform programmes and would have done so even in the absence of the Commission. The move to BS rather brought considerable advantages in terms of quality and continuity of the policy dialogue between the Commission and each beneficiary country, and in terms of rapidity of disbursement and simplification of administrative procedures.

In particular, this system worked well when:

- it supported reforms the partner was already engaged in or reforms which the partner could be persuaded to implement. In this regard the quality of the policy dialogue and the magnitude and quality of the resources the Delegations could devote to it were very

important. The benefits of involvement of other donors in the policy dialogue also proved very substantial in allowing a combination, for instance, of the technical expertise of the Bretton Woods Institutions and the political credibility and leverage of the Commission;

- the partner was sufficiently ready to appreciate the implications of BS *vis-à-vis* the traditional TA approach and convinced of its advantages. The dialogue at the preparation stage of budget support is essential not only to agreement on the reforms to be supported but also to explaining to the partner the implication of BS and to convincing it that it is the best option. Differences between the good performance of BS interventions in Tunisia, or public administration reform in Morocco, and the more problematic implementation of the Health BS in Egypt, can largely be explained by insufficient information on and understanding of the beneficiary in the latter case.

It may be added that the “negotiated” dimension of BS (the matrix of conditionalities) has been a positive factor in ensuring ownership since it clarified, sometimes after very long negotiations, the mutual commitment of the partner and the Commission to the supported interventions.

Finally, the adoption of BS in the four MPC has brought about progress on the principles of the Paris Declaration in terms of ownership, alignment and harmonisation.

### **Conclusion 10 - The monitoring of BS interventions permitted to encourage and assess the reform process.**

**BS interventions conducted under MEDA II have generally focused on monitoring the good implementation of the reforms supported. This proved effective and was appreciated by the partner because it gave visibility and credibility to its reforms.**

*Based on: EQ6, Annex 5*

*Leading to recommendations: R1.4, R1.10, R2.3, R3.6*

A characteristic of BS MEDA II interventions is that the conditions for disbursement are based on negotiated conditions related to the process of implementation of the reforms rather than on their outcomes. There are many reasons: Government preference, World Bank influence in interventions to which it contributes, the difficulty of defining measurable outcomes within the time span of the intervention, and so on. As explained in the development of Conclusion 6 and in the answer to Evaluation Question 6, this approach has proved a powerful instrument in monitoring BS and for some interventions it was welcomed by the partner who could use it to strengthen the credibility and acceptability of its reforms.

It remains to observe that it also raised several issues:

- In development interventions, such as support to the health sector in Egypt, indicators of outcomes would have permitted better assessment of the benefits to the targeted populations ;

- The monitoring of BS interventions focused on the process and the adoption of reforms more than on the assessment that once implemented they had achieved their intended outcomes. For instance, the support to the fiscal system in Morocco was accompanied by strict conditionalities on measures to adopt (removal of exemptions, adaptation of rates, etc.) but no indicator verifies the achievement of the main goals, namely improved mobilisation of fiscal resources and greater neutrality of taxation. However, the use of BS took place in a context of partnership involving a continuity in the dialogue that goes beyond the duration of a single intervention and includes a joint assessment of the impact of the reforms.
- Internal and external shocks (political changes, rapidly rising commodity prices, credit crunches) require adaptation of the pace of the reforms to achieve the intended results. These adaptations are then a source of contentious discussion on the disbursement of a tranche;
- Not all stakeholders are involved in negotiation of the conditionalities. If they are not convinced that the process is leading to the intended outcomes they will not support it and will undermine its acceptability. For instance, it could be observed during this evaluation that private sector operators were not sufficiently associated in the design of some systemic interventions targeted at improving the business environment.

### **Conclusion 11 – Large technical assistance programmes proved difficult to implement for accompanying reforms**

**In countries where budget support was not possible large assistance programmes proved difficult to implement for accompanying reforms.**

*Based on: EQ3, EQ5, EQ11*

*Leading to recommendations: R2.3, R3.4*

In countries where the Commission could not use budget support, the interventions have been mainly financed through traditional TA programmes. Generally, these programmes financed large interventions in all the fields supported by the MEDA II Regulation and aimed at supporting the partners' reforms. They experienced difficulties in implementation which could in some occurrences lead to important decommitments. They also proved difficult to implement for accompanying reforms. These two drawbacks are attributable to the institutional set-up of these programmes and their inherent characteristics<sup>106</sup>.

TA programmes often proved unable to disburse the full commitment over three years (D+3 rule) owing to lengthy procurement and approval procedures reflecting their large scale. Generally, they suffered from significant slippage in implementation, especially during the start-up phase which proved time-consuming. Moreover, the discrepancy between the absorption capacity of the partners and the size of the programmes further constrained

<sup>106</sup> See EQ11 for more details and for examples.

implementation. Other impediments such as lack of ownership and rigid Commission procedures also played a major role.

TA programmes do not allow the Commission to start and conduct a policy dialogue with the partners on the reforms to be supported, for two main reasons: on the one hand, TA programmes are characterized by their relative short implementation period whereas reforms are built into medium-to-long-term political agendas; on the other, the discontinuity between interventions, in terms both of objectives and time-scale, is another constraint. Indeed, the closure phase of a programme is not linked to the start-up phase of the other, and two programmes implemented successively often have completely distinct objectives, even when the results of the first have not been achieved.

**Conclusion 12 – Commission funds managed by the EIB have been effective in complementing both Commission and EIB interventions but their disbursement has been slow and it was difficult for the Commission to coordinate their implementation with its own activities.**

**The three sources of funds made available by the Commission to be managed by the EIB have achieved their intended goal of creating a bridge between the EIB banking activities and the economic and development objectives of the cooperation of the Commission with the MPC.**

**The risk capital facility proved a useful contribution to the strengthening of selected financial market institutions and private sector enterprises. However, the disbursement of the funds suffered from delays and it was difficult for the Commission to coordinate their implementation with its own activities.**

**Interest subsidies facilitated investments in natural resources but their disbursement rate was low, and the TA facility generally improved the quality of the EIB loans.**

*Based on: EQ3, EQ7, EQ9, EQ10, EQ11,  
Annex 6: 21\_R\_FEMIP*

*Leading to recommendations: R3.5*

Within its Euromed Mandate, the EIB intervened with own resources and in its capacity to provide long-term finance. It lent more than €6.5bn to the MPCs over the MEDA II period. Moreover the Commission has made available to the EIB, under the MEDA II Regulation, three categories of resources: the TA facility, interest rate subsidies and the Risk Capital Facility. The object was to constitute a bridging of EIB banking activities with the cooperation interventions of the Commission. This has been successful.

The TA facility has strengthened the complementarity between some Commission programmes and EIB loans. It has allowed the EIB to make TA available to its borrowers with a view to improving the management and performance of its investment projects. This kind of TA is not included in the programmatic approach (NIP) of the Commission. It is close to the project and any interaction with the Commission is often limited to

authorisation to use the facility. This was not an issue in practice as in a majority of cases it relates to sector-specialised TA in which the EIB has substantial experience. Users have expressed strong satisfaction with the quality of this TA. When the EIB is lending for “softer” activities such as rehabilitation of the health sector in a country, there is a need for TA that is more distant from the project and closer to strategic and policy issues relating to the sector. The Commission may have a comparative advantage in that sort of TA. There is obviously a grey zone requiring a more concerted approach between the Commission and the EIB on the delivery of TA associated with large-scale lending in the social sectors.

Many Commission programmes in the water and environment sectors are also supported by EIB loans that benefited from an interest subsidy. It is not possible to demonstrate that the corresponding investments would not have taken place or would have been reduced in the absence of this incentive, nor that the reduction in costs was transferred to the final users of the utilities, but there are positive indications in this direction. The main problems encountered have been a low disbursement rate for the interest rate subsidy facility.

Regarding RCF, the amounts available for the period 2000-2006 were fully committed within the N+1 constraint in operations that so far have proved financially viable. The consumption of the committed funds by the beneficiaries (financial intermediaries, investment funds) is however slow.

In the context of this evaluation, a specific RCF operation has been investigated in depth. It proved an interesting contribution to the development of a so-far quasi non existing segment of the local financial markets. The RCF used and strengthened market mechanisms and permitted a substantial leverage effect with a reasonable level of risk-taking by the provider of the funds. In this case the latter is the Commission, but the EIB also bears some risk since it devotes considerable resources to identifying projects, managing them, and participating in the governing bodies of the investment funds or financial intermediaries with a view to improving their governance and so forth. However, it is not possible to derive a general conclusion from this single example.

More generally, the EIB operated the RCF in such a way as to identify operations involving several operators from the MPC and the European countries. In that sense it was a MEDA II instrument that succeeded in fostering a regional transfer of professional know-how and good practice, although on a scale that remains marginal given the limited resources available to the facility.

## 5 Recommendations

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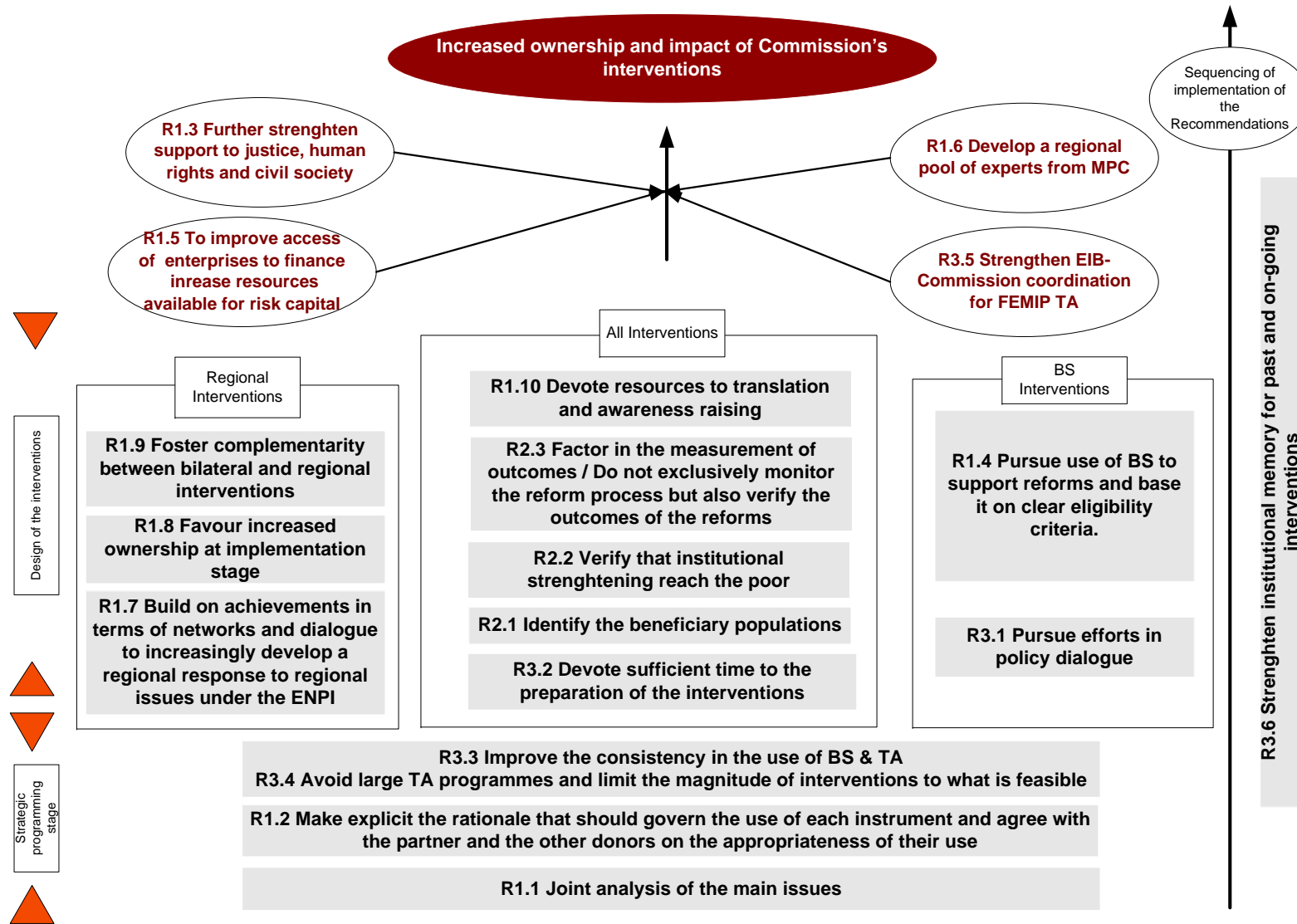
The following Recommendations are based on the foregoing Conclusions and are formulated with a view to remedying observed deficiencies or highlighting those good practices of which general application, replication or further improvement could lead to greater impact of the Commission cooperation with the MPC within the framework of the ENPI Regulation. The latter is replacing the MEDA instrument and is the main financial instrument supporting the ENP. The Barcelona process, complemented by a set of AA, still provides the overall policy framework for the multilateral cooperation of the Commission with the MPC.

The Recommendations are structured in the following three groups in descending order of importance:

- Priority 1 Improving the collective ownership of the Barcelona process and maximising the contribution of the Commission's cooperation to its objectives (R1.1 to R.1.10)
- Priority 2 Ensuring that the benefits of the cooperation reach the people (R2.1 to R2.3)
- Priority 3 Improving the design and implementation of Commission interventions (R3.1 to R3.6)

All Recommendations aim at being practical and specify to whom they address: the Commission Services at headquarters, Delegations, partner institutions, and so on. They are cross-referenced to the Conclusions underlying them.

A schematic representation of the Recommendations (see diagram below) presents a sequencing of implementation to facilitate their incorporation in the programming, design and implementation of the Commission's cooperation with the MPC.





## Priority 1: Recommendations for improving the ownership and impact of the Barcelona Process

The Recommendations of this group address the issues highlighted in this evaluation: the difficulty of stimulating regional cooperation that addresses crucial regional issues and, consequently, the limited progress in achievement of the Barcelona objectives. The Barcelona process has been the reference point for the cooperation but the realisation of its objectives, in particular in their regional “Mediterranean” dimension, has been constrained by the political tensions of the region. The following Recommendations are a mixture of strategic measures and more immediately operational proposals for strengthening the MPCs’ ownership of the process and boosting the impact of the cooperation supporting it.

### ***R1.1 Promote joint analysis of the main issues facing the MEDA region and of the most appropriate policies for addressing them.***

*Based on: C1, C3, C4*

*Responsibility: MEDA partners to organise the network; Commission Services at Headquarters to define the funding modalities, Delegations and MPC to define the work programme.*

The MEDA region is confronted with a range of problems in all the areas covered by the Barcelona process. Many are common to the partners and specific to the region. They concern the economy (using regional integration to stimulate the competitiveness and insertion of the MPC into the global economy; analysis of economic and social aspects of migrations, etc.), social issues (developing regional cohesion, development in the rural areas, etc.), management of natural resources (water, pollution, coastal defences, etc.) and others. There is a need for a better understanding and analysis of these problems. This process of reflection must be developed and shared by the MPC. A number of scientific and research institutions exist on both sides of the Mediterranean and produce useful material. They should be encouraged to organise networks maintaining a permanent level of scientific knowledge on a series of themes important for the region and for policy-making.

The MEDA II mid-term evaluation already recommended the creation of a MEDA research centre capable of undertaking diagnostic studies comparable to those of the WB with a view to strengthening the expertise of DG RELEX and EuropeAid. The present Recommendation puts more emphasis on the development and sharing of a “Mediterranean” knowledge, and thus favouring the creation of a research network, ideally coordinated by an institution from the Southern side of the Mediterranean basin. At the request of the Mediterranean partners this network could benefit from Commission funding to conduct permanent or occasional research that would be used for preparing and assessing policies supported by the Commission.

<b><i>R.1.2 In order to improve the efficiency and consistency in the use of aid instruments (BS, TA, twinning, loans, grants, etc) make explicit the rationale that should govern the use of each of them and agree with the partner and the other donors on the appropriateness of their use.</i></b>	
<i>Based on: C1, C8</i>	<i>Responsibility: Commission Services in coordination with EU MS, the EIB and the MPC</i>

This evaluation has emphasized the variety of situations in the MPC, the wide spectrum of interventions covering basic development needs, promotion of systemic policy reforms, or the strengthening of a buoyant and competitive productive basis. Conclusions 1 and 8 have shown that the Commission has responded by deploying, justifiably, a wide range of aid instruments, but the rationale behind their use was neither always clear nor consistent across countries of intervention. The problem arises mostly with the use of BS versus TA and the use of loans and grants for infrastructure and support to private sector development.

The recommendation implies four types of actions:

1° The Commission, in close cooperation with the Member States and the EIB, should undertake a strategic study on the use of different aid modalities and instruments (TA, BS, interest subsidies, loans, grants, etc.) to address development issues in order to determine rational criteria for using and blending specific instruments.

2° Based on the previous point the Commission should provide guidance to its services in charge of preparing interventions on the rationale that should govern the use of one instrument preferably to others. Without being excessively prescriptive these guidelines should be clearly spelled out and shared across all services responsible for aid delivery.

3° The programming documents of interventions should always make explicit the rationale underlying the choices made. The existence of the guidelines mentioned under 2° should make this relatively easy and straightforward.

4° Agree with other donors, particularly those of the EU (Member States and EIB) on the appropriateness of the instrument selected for specific interventions. This is particularly relevant for the use of loans and grants since currently situations can occur where some MS may intervene exclusively with loans in areas where the Commission (the budget of which is funded by the same MS) is providing grants.

It is expected that the adoption of this recommendation would increase the efficiency of the interventions and ensure a consistent response to similar needs in different countries.

***R1.3 Further strengthen support to justice, democratisation and human rights and foster the development of the Civil Society.***

*Based on: C2, C5*

*Responsibility: Commission services in Delegations and at headquarters.*

In line with the ENPI objective of promoting political reforms across the Neighbourhood, the Commission should reinforce its support to democratisation and human rights as it is a crucial factor in the sustainability of the results achieved in the economic and social fields.

Under the ENPI the Association Agreements concluded between the Commission and each MPC remain the overall bilateral policy framework for the programming of Community assistance priorities. The Commission should further exploit the leverage of the AA in reinforcing dialogue with the partners on these issues.

Under MEDA II, the resources allocated to justice, democratisation and human rights, and to the development of the Civil Society, constituted a marginal part of the MEDA II envelope. These fields are also supported by other financial and non-financial instruments within regional cooperation, but the Commission should still devote more resources to these issues with the ENPI.

***R1.4 Given the effectiveness of BS to accompany and stimulate reforms in the partner countries the use of this instrument should be further increased provided it is based on an explicit rationale and meets strict eligibility criteria.***

*Based on, C1, C4, C7, C9, C10*

*Responsibility: Commission Services at Headquarters, in close coordination with the EIB and EU MS*

This evaluation has repeatedly highlighted the fact that the increased recourse to budget support has been successful in improving the quality of the dialogue with the partner and in supporting its efforts to engage into essential policy and institutional reforms. The analysis of the findings of the evaluation has shown that the favourable factors behind this positive role of budget support are:

- the continuity of the policy dialogue it permits,
- the flexibility and the freedom of manoeuvre it offers to the partner for implementing its reforms once the objectives and the contents of the policies are agreed,
- the negotiations of conditions before the launching of the intervention and a clear agreement on how these conditions will be verified;
- the effective coordination and cooperation with other donors, notably IMF and development banks in terms of the policy dialogue, the negotiation of the conditionalities and the assessment of their realisation, and the additional leverage this gives to the Commission's interventions.

This recommendation logically suggests to pursue efforts in this direction and to further use the BS modality to encourage reforms. In order to avoid excessive risks it is, however, important, that the provision of BS is envisaged only when strict eligibility criteria are satisfied. In this regard it is a welcome development that article 15.2.e of the ENPI

regulation provides that Community assistance may be used “for sectoral or general budget support if the partner country’s management of public spending is sufficiently transparent, reliable and effective, and where it has put in place properly formulated sectoral or macroeconomic policies approved by its principal donors, including, where relevant, the international financial institutions”. Assessment of this criterion is indispensable before engaging into a BS intervention and must be pursued throughout the whole implementation.

This recommendation is complementary to R1.2 in order to improve the rationale underlying the selection of an instrument and to optimize the mix of instruments proposed to address a particular situation.

The recommendation must also be closely linked to R2.3 in order to ensure not only a sound implementation of reforms but also the verification that the reforms benefit the targeted population and reach their intended goals.

<b><i>R1.5 In order to improve private enterprises (and particularly SME’s) access to finance, increase the resources available for risk capital investment.</i></b>	
<i>Based on, C1, C7, C12</i>	<i>Responsibility: Commission Services at Headquarters, in close coordination with the EIB and EU MS</i>

Access to finance for private enterprises, especially SME and micro-enterprises, remains a severe constraint in the MPCs. Although Mediterranean banks may have, on average, sufficient capital and liquidity, they are extremely risk adverse, largely due to a large proportion of non-performing loans.

As economies are opening and the business environment is improving the development of the private sector requires increasingly operational capital that most MPC financial markets are not yet able to provide. There is therefore an important unsatisfied demand for risk capital by the MPC’s enterprises and a lack of capacity of the local financial sectors to meet it. This requires in depth reforms of the financial sector. Such reforms are addressed by the donors including important interventions (BS and TA) of the Commission.

The evaluation has shown that the provision of risk capital by the EIB could contribute positively to an improved management and governance of financial intermediaries as well as increasing the risk capital available to enterprises. The EIB is already the largest risk capital investor amongst international financial institutions in the region.

Therefore, this recommendation, in line with those already formulated by a Commission Staff Working Document<sup>107</sup>, suggests to increase the resources available for risk capital investment.

It should be noted that this does not necessarily require an increase of the resources made available by the Commission to the EIB through the Risk Capital Facility, but can be funded out of the reserves of the EIB by increasing the Special FEMIP Envelope reserve<sup>108</sup>.

***R.1.6 Develop a regional pool of experts from the MPC.***

*Based on: C3*

*Responsibility: Commission Services at Headquarters*

There is abundant local expertise of high quality in all MEDA countries. The Commission has been justifiably encouraging the use of local experts in its supported programmes. In a majority of cases this is a reality. However, the local experts involved in a technical assistance programme are generally from the country in which the programme is implemented working alongside international experts from the EU. In order to increase the ownership of regional interventions during implementation and the regional sharing of know-how, it is recommended to develop a regional pool of experts from the MPC that could be mobilised for the implementation of bilateral and regional programmes.

***R.1.7 With the ENPI regional programme, build on achievements in terms of networks and dialogue to increasingly develop a regional response to the regional crucial issues.***

*Based on: C3*

*Responsibility: Commission Services at Headquarters.*

The Conclusions highlighted the difficulty encountered by the Commission in stimulating a regional cooperation that addresses crucial regional issues. The Commission's approach to regional cooperation under MEDA II promoted dialogue and established networks between the EU and all MPC. The various fora created constitute a platform for collectively addressing regional issues. Under the ENPI the Commission should continue to build on these achievements and with the MPC design regional programmes that directly address the challenges of the region. This would further the achievement of the Barcelona objectives.

<sup>107</sup> Commission Staff Working Document. Accompanying document to the Communication of the Commission to the Council. Assessment of the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) and Future Options. Com(2006)592 Final.

<sup>108</sup> The SFE is a guarantee mechanism (from the Commission) that constitutes a special reserve to back up EIB own resources invested in higher risk operations.

<b><i>R.1.8 Favour increased ownership of regional interventions at implementation stage.</i></b>	
<i>Based on: C3, C6</i>	<i>Responsibility: Commission Services at Headquarters. Delegations of the European Commission in partnership with the MPC.</i>

Calls for proposals have been used in many regional programmes. The process has generated a certain frustration as institutions from the North of the Mediterranean have proved more experienced and professional in preparing proposals. As a result these programmes are always led by institutions from the MS whereas the MPC partners consider they are regarded as second rank partners and there is no national MPC institution to take over the programmes. Therefore in order to ensure stronger ownership of the beneficiary during the implementation of regional interventions, the Commission should:

- introduce positive discrimination favouring inclusion of or leadership by institutions from the South in the networks; this could, for instance, facilitate inclusion of provision of a professional assistant to support a lead institution if the latter is from a MPC;
- favour a more active role for the implementing partners in identifying in the proposal an institution (governmental or not) from the South capable of continuing the programme activities after the end of the intervention. That institution should be involved in implementation of the proposal. This would remedy certain situations observed, for instance, in the cultural area, where no national institution was prepared and resourced for continuation of the often excellent work done by the project partners.

<b><i>R1.9 Foster complementarity between bilateral and regional interventions.</i></b>	
<i>Based on: C3</i>	<i>Responsibility: Commission Services at Headquarters. Delegations of the European Commission in partnership with the MPC.</i>

The evaluation stressed that there is scope for improvements in complementarity between bilateral and regional cooperation. Indeed, bilateral and regional interventions often have no common interface and are usually implemented in parallel without mutually strengthening linkages.

To foster complementarity between the two approaches, an exchange of information and provision of interfacing between regional and bilateral programmes in the same subject area is recommended. Regional programmes should provide for establishment of a platform to organise exchanges of information on their activities, including those that are ongoing, and those being implemented in the various bilateral programmes in the same sector.

***R.1.10 Ensure that sufficient resources are made available for translation and awareness raising.***

*Based on: C10*

*Responsibility: Delegations*

The language issue is one that appeared repeatedly in this evaluation. It related to a variety of situations: translation into Arabic of matrices of conditions for the disbursement of BS tranches, almost complete exclusion of the Arabic language in the Heritage programme, and so on. It is therefore recommended that sufficient financial provision is included in projects to cover translation into and use of the local languages.

**Priority 2: Recommendations to ensure that the benefits of the cooperation reach the target populations.**

This group of Recommendations is based on several Conclusions highlighting that the Commission's assistance has been generally focused on institutional strengthening rather than on targeted population groups. This strategy is undoubtedly commendable since it consists of starting with the prerequisites: developing the enabling institutional framework capable of implementing policies and delivering services to the community. However, it is also important to ensure that the strengthened capacity and the improved conditions of economic activity are effectively benefiting the people, in particular the poor and the vulnerable, or the economic operators, depending on the nature of the project. This second set of Recommendations is highly complementary to the first in the sense that it is ultimately the benefits to the people that will justify the Barcelona process and promote its ownership by the MPC.

***R.2.1 Identify the populations that should benefit from the interventions and include provisions for ensuring that they do so.***

*Based on: C6, C7*

*Responsibility: Delegations, in partnership with the MPC*

Even if interventions are focused on institutional building, they should ensure that the benefits reach the people. It is therefore important in each intervention to identify which are the targeted populations, that is those that should theoretically be the main final beneficiaries of the interventions, and to use this information to compile results indicators. (cf. R. 2.3)

As an example, EIB interest rate subsidies constitute a benefit that should be transferred to the users of the services of the utility companies that contracted concessional loans. In this case the "customers" of the utility companies are the targeted population. The EIB should be asked to verify that the reduced borrowing costs have been passed on in a reduction in user charges or in an improvement in the services provided to the final users.

This Recommendation is valid for TA programmes and sector policy support programmes but cannot realistically be applied to macro-economic reforms.

<b><i>R.2.2 In interventions targeted on institutions delivering social and utility services to the public, ensure that the benefits of the institutional strengthening reach the poor.</i></b>	
<i>Based on: C6</i>	<i>Responsibility: Delegations, in partnership with the MPC</i>

The Commission should ensure, in its interventions targeted on institutions delivering social and utility services to the public, that institutional strengthening explicitly includes a pro-poor dimension. For instance, measures aiming at easing the access to public services for the more vulnerable or introducing positive discrimination in favour of the poor should be factored into Commission interventions at the design stage.

The support for policies aiming at poverty reduction to help achieve the United Nations Millennium Development Goals is an area of cooperation for Community assistance under the ENPI Regulation. This Recommendation is therefore in line with the ENP.

<b><i>R.2.3 Factor measurement of outcomes better into the design of Commission interventions. Do not exclusively monitor the reform process but also verify the outcomes of the reforms. Conduct ex post evaluations to assess the impact of the interventions.</i></b>	
<i>Based on: C7, C10, C11</i>	<i>Responsibility: Delegations, in partnership with the MPC</i>

The Commission should factor measurement of results into the design of its interventions.

In BS operations, the current practice in the MEDA is to monitor the process of the reforms. As explained in the analysis of Evaluation Question 6, this has justification and merit, particularly in the case of interventions supporting large complex sets of systemic reforms, to which they contribute with only a small fraction of the total resources engaged by the partner country and other donors. Nevertheless, even in those cases indicators of outcomes are necessary to ensure that the reforms implemented and the changes they produce are leading to the intended benefits. This is indispensable for verifying the appropriateness of the reforms supported. In the case of SBS supporting core development policies such as basic health and education, for instance, indicators of outcomes should always be the rule.

*Ex post* evaluations should be conducted more systematically with a view to assessing the outcomes and the extent to which the efficiency gains by the direct beneficiaries have been passed on to their “customers” or final beneficiaries.



### Priority 3: Recommendations for improving the preparation and design of interventions

These Recommendations are often self-explanatory. They are meant to strengthen existing good practice or redress weaknesses in the preparation of the Commission's interventions.

#### ***R.3.1 Pursue existing efforts in the area of policy dialogue and devote maximum time and resources to it.***

*Based on: C4, C9*

*Responsibility: Commission Services at Headquarters and Delegations, partners' institutions*

The quality and continuity of the policy dialogue with the partner have been of paramount importance for the success of BS interventions. It is, however, time- and resource-consuming and in many cases the apparent simplification of management associated with BS has not been translated into reduced tasks for the Commission's programme managers including those in the Delegations. There is abundant evidence of a direct and positive relationship between the quality and the magnitude of the resources a Delegation can invest in this dialogue and successful implementation of BS interventions.

#### ***R.3.2 Allow more time for the analysis underlying the technical preparation of interventions: conduct ex ante impact assessment, jointly with the partner; take account of the partner's perceptions.***

*Based on: C9*

*Responsibility: Delegations, in partnership with MPC*

The technical preparation of interventions (BS and TA) is crucial for their successful implementation. In the BS interventions in which they were involved, the Bretton Woods Institutions brought in appreciated technical expertise. However, in many cases insufficient technical preparation undermines ownership by the partner if it is not convinced of the benefits of the reforms involved or fears unexpected side-effects. For large interventions supporting major reforms it is recommended that an *ex ante* impact assessment be conducted systematically together with the partner.

This recommendation is obviously complementary to Recommendations R.1.1 and R.1.5 which aim at strengthening MPC analytical capacity and expertise.

***R.3.3 Improve consistency in the use of the budget support instrument vis-à-vis traditional TA programmes and maintain coherence between objectives and allocated means.***

*Based on: C8*

*Responsibility: Commission staff in charge of programming at Headquarters and in Delegations*

Budget support is recommended by the Commission, provided the partner country is eligible, and that it is in line with the objectives of the Paris Declaration. It does not, however, exclude alternative modalities. It is a specific modality with distinct inherent comparative advantages. It is well suited to accompanying reforms through a policy dialogue, less so to transferring professional or managerial know-how. The experience of BS in the MPC is positive in terms of its contribution to major reforms.

TA projects and programmes provide inputs to conduct a number of pre-defined activities in a particular sector. They are not the ideal instrument for promoting policy reforms.

These respective characteristics should be kept in mind when designing interventions.

In countries not eligible for BS, the obligation to concentrate the NIP on a limited number of focal sectors has given rise to very large TA programmes that proved extremely difficult to manage. One reason is their excessive scope, particularly insofar as they attempt to influence the direction of sector policies.

The Commission should therefore favour the BS modality in support of reforms. In that respect, the efforts it has already undertaken in terms of policy dialogue with the partners should be pursued and accorded sufficient time and resources.

***R.3.4 Avoid large TA programmes and limit the magnitude of the interventions to what is feasible within the deadlines.***

*Based on: C11*

*Responsibility: Delegations*

This Recommendation applies to large TA programmes. In many cases they proved almost impossible to manage within the deadlines imposed by the N+3 rule. This was usually the case when they involved the elaboration, prior to other activities, of a sector master plan or other document relating to the sector policy. In some cases the Commission has had to disengage funds.

To avoid such situations it is recommended that TA programmes are designed so that they can realistically be conducted within the time frame of their financing agreement. As a practical rule this means that TA programmes above 5-10 million euros should be avoided. Experience shows that for larger programmes the implementation of the PIU and the initial phases of organisation of the TA absorb so much efforts that the time remaining to conduct the activities that are the very object of the programme is too limited.

This recommendation is linked to R3.3 and implies that TA should be essentially used for capacity building and transfer of professional and managerial know-how, not to support large reforms.

<b><i>R.3.5 Strengthen EIB-Commission coordination at programming and implementation stages for FEMIP TA involving strategic sector policy aspects.</i></b>	
<i>Based on: C12</i>	<i>Responsibility: Delegations and EIB staff</i>

The use by the EIB of the FEMIP TA facility should be complementary to the Commission assistance as it is meant to improve the performance of EIB loans by improving preparation procedures or strengthening the partner's capacity and governance. As the facility is very close to the project it is generally managed by the EIB but always with Commission approval.

In the case of investments in the social sectors, for instance health, the TA required to strengthen a loan may be more distant from the project and be mobilised to clarify the sector's master plan or even adapt the legislation. This also falls within the competence of the Commission. It is recommended that in such instances the EIB adopts a programmatic approach that is more coordinated with that of the Commission and that the TA is jointly managed by the Commission and the EIB or at least that it is closely coordinated between the two organisations.

<b><i>R.3.6 Strengthen institutional memory of past and ongoing interventions.</i></b>	
<i>Based on: C10</i>	<i>Responsibility: Delegations and Headquarters</i>

The absence of institutional memory has been a source of difficulty in the management of some interventions, for instance where it was necessary to understand or interpret the rationale for a particular condition in a BS intervention. The recommendation is that reliable records be kept and disseminated so as to improve the overall management of the cooperation.