

**Report on the meeting of the
Committee on Economic and Financial Affairs,
Social Affairs and Education
Egypt 22–23 October 2010**

- The Committee held its 8th. Meeting in Cairo on 22-23 October 2010. The meeting was attended by delegations from Spain, Turkey, Algeria, Australia, Latvia, Bulgaria, Hungary, the European Union, Palestine, Morocco and Egypt, as well as Dr. Ahmed Masa'ada, Secretary General of the Union for the Mediterranean (UfM), and the representatives of the Egyptian Foreign Minister, the Egyptian Minister of Trade and Industry and the Egyptian Minister of Transport, and the Egyptian Minister of International Cooperation.
- The Committee prepared a questionnaire and distributed among its members its members to assess what has been achieved and look to the future of the Euro-Mediterranean cooperation, and what we need of policies, institutions and initiative to transform the Mediterranean basin to a common region of prosperity and economic progress.

Three topics were discussed in this meeting:

- UfM Projects: Assessment and Vision for the Future.
- Establishing a Euro-Mediterranean Development Bank.
- The Euro-Mediterranean Transport Network.

The Committee's most important recommendations and proposals in light of the discussions on the three topics were as follows:

The first topic, UfM Projects: Assessment and Vision for the Future:

- 1) The Committee emphasized the lesson learned from the experience of Euro-Mediterranean cooperation over the past years, that is the negative impact of the failure to resolve the Palestinian-Israeli conflict on all attempts of cooperation between the north and south of the Mediterranean.
 - In light of the deadlock of negotiations and Israel's continued settlement policy, the Committee emphasized that this situation threatens to derail any progress in the areas of Euro-Mediterranean cooperation.
 - The committee therefore called for further efforts and action to achieve peace, to resume direct negotiations and to stop building settlements in order to establish two Palestinian and Israeli states.
- 2) The Committee stressed the importance of the role played by the Secretariat of the Union for the Mediterranean, which undertakes launching following up and the implementing of the UfM projects as well as searching for financial resources needed for implementation.
 - The Committee reviewed the achievements of the Secretariat during the past months since inception. The Secretariat prepared its work program for 2011 and guidelines for projects that will be implemented and the draft budget for 2011.
 - However, the Committee observed a significant decline in the positions of the member states - especially from the European side - in the process of funding for the secretariat and non-adoption of the budget, which prevents the Secretariat from discharging its expected responsibilities.
 - As highlighted by the Secretary-General of the Union for the Mediterranean, the Secretariat proposed a budget worth 14.5

million Euros, but after several rounds of discussion with the Committee of senior officials, no agreement has been reached on the nature of the program of work required and the limits of the proposed budget. The ambitious work program has been reduced significantly, the budget has also been cut by half of what has been proposed, which could lead to the inability of the Secretariat to achieve the desired level.

- The Committee recommended and asked its members to work with their national parliaments and the European Parliament, to support and assist the Secretariat financially and politically.
- 3) The Committee reviewed the projects of the Union for the Mediterranean made by the States initially, approximately 270 projects covering six priority sectors, which was approved at the Paris summit, namely:
- Removing the pollution in the Mediterranean.
 - Linking marine and land transport.
 - Civil protection.
 - Alternative energies and the Mediterranean Solar Plan.
 - The Mediterranean Business Development Initiative.

The overwhelming proportion of these projects (70%) will be implemented in the southern Mediterranean countries.

- 4) The Committee emphasized that the most important challenges facing the implementation of these projects is to provide funding to them. Studies indicate that there is a need to provide a total investment of €25 billion.
- 5) The Committee reviewed several successful initiatives that can muster a fair amount of actual funding, such as:

- a) The soft loan of \$ 750 million provided by the World Bank's Clean Technology Fund and a credit mechanism worth € 5 billion established by each of the European Investment Bank (EIB), the French Development Agency (AFD) and the German Development Bank (KfW). Both the soft loan and the credit mechanism mentioned here aim to finance solar energy projects.
- b) The Inframed Fund to finance basic infrastructure projects with initial funding of €400 million, aiming to reach €1 billion in 2011. This Fund has been created by three institutions from France, Italy and the EIB, as well as two companies from Egypt and Morocco.
- c) The successful Alexandria Meeting on Finance, 30 April 2009, to finance Mediterranean region projects, which was hosted and headed by Egypt and attended by representatives of international and regional companies and financing institutions. The Meeting declared the availability of more than € 24 billion to finance development projects in the region.
- 6) The Committee emphasized that the launching of the Union for the Mediterranean (UfM) coincided with many crisis faced by the international community, such as energy and food crisis and an unprecedented financial crisis. These crises resulted in signs of change in the balance of economic forces and increasing opportunities for the economic power to move towards the east instead of west.
- 7) The Committee confirmed that these changes open up the opportunity to enhance cooperation between the north and south of the Mediterranean for the integration of human potential and natural resources to establish an economic bloc capable of competing on the international scene.

The Second Topic: Establishing a Euro-Mediterranean Development Bank

Over several meetings, the Committee on Economic Affairs, Social Affairs and Education discussed this issue and formed a working group to study it. The last meeting of the Committee was held in Cairo on 22 October 2010. **The Committee has reached a final outcome as follows:**

- 1) Supporting the establishment of a financial institution dedicated to the Union for the Mediterranean (UfM) to stimulate and fund its projects.
- 2) The long-term goal is to create a Euro-Mediterranean Development Bank, but achieving this goal requires a long time and considerable funding that is difficult to provide at this stage due to constraints and pressures experienced by the general budgets of our countries.

Consequently, the Committee supports the establishment of a dedicated financial institution (Subsidiary) of the European Investment Bank (EIB). The EIB will be the major shareholder to benefit from its experience and solvency in financing major projects such as infrastructure projects.

- 3) Countries' contributions to the capital of this institution, whether from public budgets or through public institutions, should be on a voluntary basis.
- 4) The capital contribution should be opened to countries and entities from outside the Mediterranean region, such as the Arab Gulf States, the World Bank and the African Development Bank.
- 5) The new institution will not replace the Facility for Euro-Mediterranean Investment and Partnership (FEMIP). The FEMIP is currently providing funding for bilateral and regional projects within the framework of the European Neighborhood Policy (ENP) through soft loans, and the European Commission bears the expenses of loan guarantee.

Transforming the FEMIP into a bank will set the profitability standard in the first place in the rules of lending, thus the southern Mediterranean countries will lose the advantage of getting soft loans.

- 6) There should be a joint ownership of the new financial institution and a genuine partnership in its management between north and south.
- 7) The goal of the new institution will not be to provide loans only, but also to provide grants, technical support and assistance services to companies. The new institution will play a dual role: the role of a development bank in financing development processes through loans, and the role of a body that provides technical assistance, training and funding for public projects that do not generate a direct profit.
- 8) The scope of the new institution should include funding for the private sector, especially long-term loans, SMEs and labor force training and rehabilitation projects, as well as providing assistance to existing companies to grow and encouraging the establishment of new projects.
- 9) The new institution should develop a new Entrepreneurial Rating System differs from the present rating system that use past data of an enterprise to extrapolate its future performance. The new Rating System studies the competitive position of the enterprise compared to its competitors. If the enterprise has advantages that qualify it to gain better competitive position, the system should provide it with services to help improving its competitive position and rating.
- 10) Increasing the available FEMIP funding of soft loans and grants allocated for the southern Mediterranean countries, which currently stands at € 10.7 billion for the period 2007-2013, to meet their growing financing needs and achieve a balance between eastern Europe and southern Mediterranean.
- 11) The Committee agreed to the findings of the high-level Working Group formed by President Sarkozy to "Assess the opportunity of creating a dedicated bank for financing co-development in the Mediterranean".

12) The Committee identified the reasons for establishing a financial institution for the UfM as follows:

- a. Poor funding provided by the FEMIP in the Mediterranean region. Over the period 2002-2008, FEMIP has financed 125 projects, essentially in the energy and transport sectors, for a total amount of €8.5 billion, while the EIB has allocated for Eastern European Countries applying for entry to the European Union and potential applicant countries. (Turkey, Croatia, Albania, Bosnia-Herzegovina, Montenegro) €1.8 billion over 2001-2008, mainly in Turkey (€9.6 billion).
- b. The levels of lending available to the Mediterranean region do not meet the huge funding needs of the UfM projects, especially in the area of infrastructure.
 - i. The estimates of financing infrastructure projects gave a figure of between \$150 and \$300 billion over the next ten years.
 - ii. The estimates of the Mediterranean Solar Plan (MSP):
 1. The financing requirement has been estimated at about €50 billion.
 2. The total amount available is €10 billion.
 3. There is a shortfall of at least €40 billion.
- c. Despite their importance, there are financial services not available in the region such as long-term financing (more than 5 years), providing technical and marketing support for SMEs and financing of innovation projects. The new institution should provide such services.
- d. The new institution would be the UfM financial agency with a goal of creating a beneficial partnership for both the north and south of the Mediterranean. Investing in financing development in the south, with its dynamic population, economic potential and expectations of high sustainable growth rates, will ensure

Europe to achieve development level necessary to enable it to compete with other blocs.

- 13) In case the PA-UfM Bureau approved the establishment of a UfM financial institution, and in light of the support of the European Parliament and several national parliaments to this proposal, I suggest to raise our proposal to the UfM Summit scheduled to be held in Barcelona this month. This would express our political support for the establishment of this important institution.

The Third Topic: the Euro-Mediterranean Transport Network:

- The need for the European governments' support for regular maritime lines between the ports of north and south of the Mediterranean. These lines do not achieve economic operation at the beginning and you need support to ensure their continuation.
- The necessity of harmonization of legislation between UfM countries in the field of multimodal transport in the absence of liberalization of trade in services so far. For example, any Egyptian truck cannot complete its journey to Italy or any European country after leaving the ship with Egyptian registration plates and driving license of its driver.
- The Committee confirms that ports and infrastructure in most countries are primarily owned by the State due to national security considerations, while the role of the private sector is limited to manage and operate the stations within these ports.
- The need to use modern technology and improved management in the north to help the southern Mediterranean countries in promoting and upgrading their existing transport system.

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